

Worked Solutions: Double Entry Accounting Practice Worksheet

This document provides step-by-step worked solutions for the expanded practice worksheet. It covers ledger postings, journal entries, trial balances, adjustments, suspense account corrections, control accounts, and conceptual answers.

O Level Solutions

Q1. Journal entries for transactions

- a) Bought goods for cash \$500 Journal entry: Dr Purchases (or Inventory) \$500 | Cr Cash \$500
- b) Sold goods on credit to Ali \$300 Journal entry: Dr Ali (Accounts Receivable) \$300 | Cr Sales \$300
- c) Paid rent \$100 Journal entry: Dr Rent Expense \$100 | Cr Cash \$100
- d) Received \$200 from Ali Journal entry: Dr Cash \$200 | Cr Ali (Accounts Receivable) \$200

Q2. T-accounts and balances

Post the transactions to T-accounts (Dr on left, Cr on right) and calculate closing balances: Cash: Dr: Opening balances if any, + Received from Ali \$200 Cr: Bought goods \$500, Paid rent \$100 Closing cash effect (from these transactions only): Dr 200 - Cr (500+100)= -400 → Net decrease \$400 (i.e., more cash paid than received). Ali (Accounts Receivable): Dr: Sold on credit \$300 Cr: Received from Ali \$200 Closing balance (Dr) = \$100 (Ali still owes \$100). Purchases: Dr: \$500 Closing Dr balance \$500. Sales: Cr: \$300 Closing Cr balance \$300. Rent Expense: Dr: \$100 These balances can then be carried to a trial balance.

Q3. Trial Balance

Given balances: Cash \$1,000 (Dr), Purchases \$500 (Dr), Sales \$700 (Cr), Capital \$800 (Cr), Rent \$100 (Dr), Ali \$300 (Dr). Calculate totals: Debits = Cash 1,000 + Purchases 500 + Rent 100 + Ali 300 = 1,900 Credits = Sales 700 + Capital 800 = 1,500 This trial balance is UNBALANCED. Difference = Debits - Credits = \$400. To temporarily balance the trial balance, introduce a Suspense Account (Credit) of \$400. However, the correct approach is to search for errors that caused the difference (omitted transaction, mispostings, arithmetic errors).

A Level Solutions

Q1. Adjusting journal entries

a) Accrued electricity bill \$400 Journal entry: Dr Electricity Expense \$400 | Cr Electricity Payable (Accrued Expenses) \$400

b) Depreciation on machinery 10% of cost (\$10,000) Depreciation = $\$10,000 \times 10\% = \$1,000$ Journal entry: Dr Depreciation Expense \$1,000 | Cr Accumulated Depreciation (Machinery) \$1,000

c) Bad debts \$200 and increase provision 5% on remaining debtors (\$4,000) - Write-off bad debts: Dr Bad Debts Expense \$200 | Cr Debtors (Accounts Receivable) \$200 - Increase provision: 5% of 4,000 = \$200. If provision needs increasing by \$200: Dr Provision for Doubtful Debts Expense (P&L;) \$200 | Cr Provision for Doubtful Debts (Balance Sheet) \$200

Q2. Suspense account corrections (journal entries)

a) Sales account overcast by \$500 (Sales recorded \$500 too high): Correcting entry: Dr Sales \$500 | Cr Suspense Account \$500 b) Discount allowed of \$50 posted to Discount Received (wrong side): Discount allowed should be an expense (Dr Discount Allowed), but was posted to Discount Received (Cr). To correct: Correcting entry: Dr Discount Received \$50 | Cr Discount Allowed \$50 After posting these corrections, the Suspense account will reveal the remaining discrepancy (if any) and should be cleared by finding the original errors.

Q3. Trading and Profit & Loss Account (short solution)

Given: Sales \$10,000; Purchases \$6,000; Closing Stock \$2,000; Wages \$1,000; Rent \$500. Cost of Goods Sold (COGS) = Purchases - Closing Stock (assuming opening stock = 0) = $6,000 - 2,000 = \$4,000$ Gross Profit = Sales - COGS = $10,000 - 4,000 = \$6,000$ Net Profit = Gross Profit - (Wages + Rent) = $6,000 - (1,000 + 500) = \$4,500$ Presentation (short): Trading A/c: Sales 10,000 | COGS 4,000 → Gross Profit 6,000 Profit & Loss A/c: Gross Profit 6,000 | Expenses 1,500 → Net Profit 4,500

Q4. Debtors Control Account

Debtors Control Account movement: Opening balance (Dr) = \$5,000 Add: Credit sales = \$8,000 → 13,000 Less: Receipts = \$6,000 → 7,000 Less: Bad debts = \$200 → 6,800 (closing balance Dr) Therefore, Closing Debtors = \$6,800 (Dr). The control account should agree with the total of individual debtors' ledger balances.

AP Solutions

Q1. Journal entries and postings

- a) Owner invests \$5,000 Dr Cash \$5,000 | Cr Owner's Capital \$5,000
- b) Buy equipment \$2,000 cash Dr Equipment (Asset) \$2,000 | Cr Cash \$2,000
- c) Take a bank loan \$3,000 Dr Cash \$3,000 | Cr Bank Loan (Liability) \$3,000
- d) Pay salaries \$800 Dr Salaries Expense \$800 | Cr Cash \$800

Q2. How to prepare an adjusted trial balance (method)

Given adjustments: Accrued salaries \$100; Prepaid insurance \$200. Method: 1. Start with the unadjusted trial balance (list of all ledger balances). 2. Apply adjustments as journal entries: - Accrued salaries: Dr Salaries Expense \$100 | Cr Salaries Payable \$100 (this increases expenses and creates a liability) - Prepaid insurance: If insurance was paid in advance, reduce Insurance Expense and show a Prepaid Insurance asset. Journal: Dr Prepaid Insurance \$200 | Cr Insurance Expense \$200 (or if adjusting from expense to asset depending on initial posting). 3. Post adjustments to ledger balances and compile the adjusted trial balance with new balances. Ensure Debits = Credits.

Q3. Closing entries (worked)

Given: Revenues \$4,000; Expenses \$2,500; Drawings \$1,000. Net income = Revenues - Expenses = 1,500 Closing procedure: 1. Close revenue to Income Summary (or P&L; Clearing): Dr Revenues \$4,000 | Cr Income Summary \$4,000 2. Close expenses to Income Summary: Dr Income Summary \$2,500 | Cr Expenses \$2,500 3. Close Income Summary to Capital (net income): Dr Income Summary \$1,500 | Cr Capital \$1,500 4. Close drawings to Capital: Dr Capital \$1,000 | Cr Drawings \$1,000 After these entries, revenue, expense and drawings accounts should have zero balances; capital is adjusted for net income and drawings.

Q4. Transparency explanation (short)

Double entry accounting ensures transparency by providing a full audit trail: every entry has a matching debit and credit. External stakeholders (investors, lenders, regulators) can trace figures in financial statements back to source documents and ledger entries, improving trust and accountability.

IB Solutions

Q1. Ethical importance (sample answer)

Accurate double entry records are ethically important for global corporations because they ensure honesty in reporting, prevent misrepresentation of performance, and protect stakeholder interests. Ethics in accounting reduce the risk of fraud, enable fair market valuations, and support compliance with international reporting standards (e.g., IFRS).

Q2. Strategic decision-making (sample answer)

Double entry accounting supports strategic decisions by providing reliable financial data — profitability, liquidity, and solvency metrics. Managers use accurate ledgers and financial statements to evaluate product lines, price strategies, and investment decisions. For multinational firms, consolidated accounts built on double entry records enable comparisons across subsidiaries and jurisdictions.

Q3. Consequences of poor bookkeeping

Poor bookkeeping can erode investor confidence, lead to regulatory penalties, inflate perceived profits, and cause poor strategic choices. For public companies, inaccurate records may trigger audits, stock price declines, and legal action.

Q4. Short report: corporate governance

Double entry accounting underpins corporate governance by creating accountability in financial reporting. Internal controls, segregation of duties, and reconciliations rely on double entry mechanics to detect anomalies. Transparent accounting practices support board oversight and effective risk management.