A1. Hamilton

Hamilton, a keen sailor and diver, set up a diving business as a sole trader on the 1st January 2018. He invested $20,000 of his own funds in setting up the business working as a fisherman and placed this in his business bank account on first January. He also took out a loan for $25,000 from the bank on the 1st January 2018. The loan is due to be repaid on 31 December 2028.

He bought a boat on 1st January at a cost of $30,000. Hamilton has rented a cabin on the harbour front from the 1st January at a cost of $750 per month payable on a monthly basis by cash in advance. In January he paid electricity costs of $175. He has received $2,300 in cash for sales of diving days in January. He paid himself $800 in January.

1. Which of the following is the definition of an asset?

A  The amount a lender has loaned the business
B  The amount the owner has invested in the business
C  An amount owed by the business
D  Items owned by the business

2. Which of the following is the accounting equation?

A  Assets = capital plus liabilities
B  Assets = liabilities
C  Assets = capital minus liabilities
D  Capital = liabilities

3. Which of the following statements is true?

A  To increase an asset or an expense account the account is debited
B  To increase an asset or an expense account the account is credited
C  T accounts show debits on the right hand side
D  To increase a liability or capital account the account is debited

4. What is the accounting equation effect of the introduction of $20,000 of Hamilton’s own funds?

A  Decrease assets $20,000, increase capital $20,000, nil effect on liabilities
B  Increase assets $20,000, increase capital, $20,000, nil effect on liabilities
C  Increase assets $20,000, increase capital $20,000, increase liabilities $20,000
D  Nil effect on assets, increase capital $20,000, increase liabilities $20,000
5. How should the initial $20,000 of Hamilton's own funds be recorded?

A Dr Bank $20,000, Cr Long term loans $20,000  
B Dr Bank $20,000, Cr Capital $20,000  
C Dr Short-term Loans $20,000, Cr Capital $20,000  
D Dr Capital $20,000, Cr Long term Loans $20,000

6. What is the accounting equation effect of taking out a $25,000 loan?

A Decrease assets $25,000, increase capital $25,000, nil effect on liabilities  
B Increase assets $25,000, increase capital, $25,000, nil effect on liabilities  
C Increase assets $25,000, nil effect on capital, increase liabilities $25,000  
D Nil effect on assets, increase capital $25,000, increase liabilities $25,000

7. Which of the following statements is true?

A The loan should be recorded as a long term asset  
B The loan should be recorded as a short term asset  
C The loan should be recorded as a long term liability  
D The loan should be recorded as a short term liability

8. How should the loan be recorded?

A Dr Bank $25,000 Cr Short term loans $25,000  
B Dr Bank $25,000 Cr Long term loans $25,000  
C Dr Short term loans $25,000 Cr Bank $25,000  
D Dr Long term loans $25,000 Cr Bank $25,000

9. Which of the following statement is true?

A The boat should be recorded as a Non Current Asset  
B The boat should be recorded as a Current Asset  
C The boat should be recorded as Capital  
D The boat should be recorded as Sales

10. How should the boat be recorded?

A Dr Non-current assets $30,000, Cr Short-term loans $30,000  
B Dr Non-current assets $30,000, Cr Bank $30,000 (Correct)  
C Dr Non-current assets $30,000, Cr Long-term loans $30,000  
D Dr Long-term loans $30,000, Cr Bank $30,000
11. How should the rental of the cabin on the harbour front be recorded at the end of January?

A Dr Rental Expense $750, Cr Cash $750  
B Dr Prepayments $750, Cr Rental expense $750  
C Dr Cash $750, Cr Rental Expense $750  
D Dr Prepayments $750, Cr Cash $750

12. How should the electricity costs be recorded at the end of January?

A Dr Electricity expense $175, Cr Bank $175  
B Dr Bank $175, Cr Electricity expense $175  
C Dr Sales $175, Cr Electricity Expense $175  
D Dr Electricity expense $175, Cr Sales $175

13. How would the advertising costs incurred in January appear in the financial statements?

A As a business expense  
B As a liability  
C As capital  
D As an asset

14. How should the January sales be recorded?

A Dr Bank, Cr Creditors  
B Dr Sales, Cr Bank  
C Dr Bank, Cr Sales  
D Dr Debtors, Cr Sales

15. How should Hamilton record the salary he paid himself in January?

A Dr Bank Cr Drawings  
B Dr Drawings Cr Bank  
C Dr Bank Cr Salaries  
D Dr Salaries Cr Bank

Longer questions

A2

For the business set up by Hamilton detailed in question A1 prepare the Trial Balance for Hamilton Ltd as at 31 January 2018.
A3

From the Trial Balance prepared in question A2 prepare the Statement of Profit or Loss statement for the period 1\textsuperscript{st} to 31 January 2018.

A4

From the Trial Balance prepared in question A2 prepare the Statement of Financial Position as at 31 January 2018.

A5

Explain why just because a trial balance does balance does not necessarily mean that no errors have been made. Include in your answer examples of errors that would not affect the balancing of the trial balance.