

LECTURE EXAMPLE (SOLUTION)

STEP 1:

GAIN $\Rightarrow$ more cash

LOSE $\Rightarrow$ owes £5000 capital to owner

$$\text{ASSETS} - \text{LIABILITIES} = \text{CAPITAL} + \text{PROFIT} - \text{DRAWINGS}$$

$$\text{BANK } 5000 = 5000$$

STEP 2:

GAIN $\Rightarrow$ more stock

LOSE $\Rightarrow$ less cash

$$\text{ASSETS} - \text{LIABILITIES} = \text{CAPITAL} + \text{PROFIT} - \text{DRAWINGS}$$

$$\text{BANK } 4000 = 5000$$

STOCK 1000

STEP 3:

GAIN $\Rightarrow$ more stock

LOSE $\Rightarrow$ creditor of £600

$$\text{ASSETS} - \text{LIABILITIES} = \text{CAPITAL} + \text{PROFIT} - \text{DRAWINGS}$$

$$\text{BANK } 4000 - \text{CREDITOR } 600 = 5000$$

STOCK 1600

STEP 4:

GAIN $\Rightarrow$ more cash

LOSE $\Rightarrow$ less stock

$$\text{N.B. profit} = 2000 - 1600 \\ = \underline{\underline{400}}$$

$$\begin{array}{lcl} \text{ASSETS} - \text{LIABILITIES} = & \text{CAPITAL} + \text{PROFIT} - \text{DRAWINGS} \\ \text{Bank } 6000 - \text{Creditors } 600 = & 5000 + 400 \\ \text{Stock nil} & \\ & \Downarrow \quad \Downarrow \\ & 5400 \quad 5400 \end{array}$$

STEP 5:

GAIN : withdrawal of capital is a drawing

LOSE : less cash

$$\begin{array}{lcl} \text{ASSETS} - \text{LIABILITIES} = & \text{CAPITAL} + \text{PROFIT} - \text{DRAWINGS} \\ \text{Bank } 5900 - \text{Creditors } 600 = & 5000 + 400 - 100 \\ & \Downarrow \quad \Downarrow \\ & 5300 \quad 5300 \end{array}$$

SALES

£
2000

PURCHASES

(1600)

400

BANK

5900

CREDITORS

(600)

5300

CAPITAL

5000

PROFIT

400

DRAWINGS

(100)

5300
