

Solutions

2.1

- (a) Asset: controlled resource from a past event.
- (b) Liability: present obligation to transfer resources.
- (c) Equity: the funders' residual claim – not income.
- (d) Income: earned increase in economic benefit.
- (e) Expense: cost of sales consumed to earn the revenue.

2.2

- Cash +900 (asset) and a £900 obligation to deliver (liability).
- Income requires the work to be earned; delivery is next month.
- The deposit is deferred income – a liability until delivery.

2.3

- Equipment +8,000, cash –5,000, payables +3,000.
- A: cash 27,000 + equipment 14,000 + inventory 2,800 = 43,800.
- L = 19,000 + 3,000 = 22,000; E = 21,800 unchanged.
- Tie: 22,000 + 21,800 = 43,800 ✓.

3.1

- Assets: cash 14,000 + receivables 500 + equipment 7,000 + materials 200 = 21,700.
- Liabilities: equipment payable 7,000.
- Profit = 2,500 – 400 = 2,100; equity = 12,600 contributed (12,000 cash + 600 materials paid pre-opening) + 2,100 = 14,700.
- Tie: 7,000 + 14,700 = 21,700 ✓.
- The trap: the £600 belongs in equity as a contribution and in assets at its unused £200 – expensing the whole 600 while also holding the 200 breaks the tie by exactly 200.

3.2

- A double effect moves two or more elements by amounts that preserve the equation, so both sides stay level by construction.
- Errors must therefore be specification or posting errors: a wrong element, a one-sided posting, a missing entry.
- Hence the trial balance and reconciliations – not the balance sheet – are the error-detection layer.