

8.1 A drill to practise the analysis of one-way transactions and involuntary liabilities

Show how each of the following situations could be recorded in the form of a transaction within the double entry system.

1. a restaurant business pays £1 400 cash to a gangster for 'protection'

IN	protection	£1 400	
OUT	cash		£1 400

2. a firm wins a prize of £500 for ethical advertising

IN	bank (or cash)	£500	
OUT	prize-winning achievement (or just 'prize')		£500

3. a firm gives £1 000 cash as a gift to a political party

IN	political contribution	£1 000	
OUT	cash		£1 000

4. a lottery company pays a prize of £20 million in cash

IN	winning ticket	£20m	
OUT	cash		£20m

5. a firm pays a parking fine of £60 in cash

IN	'fine' (input = reason for payment OUT)	£60	
OUT	cash		£60

6. a firm receives a prize of £5 000 for environmental awareness

IN	cash	£5 000	
OUT	prize (output = reason for receipt IN)		£5 000

7. a parcel delivery business pays £50 cash as compensation to a customer for damaging a parcel.

IN	compensation (= reason for payment OUT)	£50	
OUT	cash		£50

8. a business receives a cheque for £1 000 in settlement of an insurance claim

IN	bank	£1 000	
OUT	insurance settlement		£1 000

9. a firm is tricked into buying worthless goods for £1 000 cash

IN	purchases (or fraud?)	£1 000	
OUT	cash		£1 000

10. a firm sells a worthless second-hand car for £2 000 cash

IN	cash	£2 000	
OUT	sales		£2 000

11. (a) a firm is found guilty of infringing health and safety regulations, and ordered to pay a penalty of £2 000

IN	penalty	£2 000	
OUT	promise/liability to pay penalty		£2 000

- (b) the firm pays the penalty by cheque

IN	promise to pay penalty	£2 000	
OUT	bank		£2 000

12. (a) a firm receives a tax assessment showing a liability to pay tax of £700

IN	tax assessment	£700	
OUT	promise/liability to pay tax		£700

(b) the firm pays the tax by cheque

IN	promise to pay tax	£700	
OUT	bank		£700

13. a business is broken into and £1 800 cash is stolen from the safe

IN	theft	£1 800	
OUT	cash		£1 800

14. a charity receives a donation of £250 in cash

IN	cash	£250	
OUT	donation (= reason for receipt of money)		£250

15. a business is found to have been negligent and ordered to pay damages of £750 to the victim

IN	negligence or damages	£750	
OUT	promise/liability to pay victim		£750