

2.1 A drill on the nature of a transaction

State whether or not each of the following events fits the double entry definition of a transaction, giving reasons. (Observe that not every interesting event is a transaction.)

1. a firm pays wages of £50 cash

a transaction – movement of money

2. a farmer buys a cow for £1 000

a transaction – movement of money

3. a farmer's cow gives birth to a calf worth £300

not a transaction – no movement of money or promise

4. a firm buys a machine for £10 000

a transaction – movement of money

5. goods worth £5 000 are destroyed in a fire

not a transaction – no movement of money or promise

6. a person finds a £10 note in the street

a transaction – movement of money

7. a person inherits gold and jewellery worth £25 000

not a transaction – no movement of money or promise

8. an uncle promises to give his nephew £20 000 in three years' time

debatable. There is certainly a promise to pay, moving between the uncle and the nephew, but the question is why the promise was given, and whether the uncle can or will change his mind. If this is a 'businesslike' promise then it could or even should, be recorded as a transaction. If it is just a vague statement of intention, then it should not be recorded as a transaction

9. a mother promises to pay the bank if her son fails to repay his overdraft
debatable. There is certainly a promise moving from the mother to the bank, and there is little doubt that the bank could and would enforce the promise if the son did not repay the overdraft. On the other hand, the promise only comes into effect if/when the son fails to repay the overdraft, and until that time there is no way of knowing the value involved in the transaction.

Accountants would probably not record any transaction unless/until it became likely that the mother would have to pay the bank, and the amount payable could be estimated.

10. an oil company discovers oil reserves worth £10 billion
not a transaction – no movement of money or promise