MarZar

Mock Exam One
AAT L2 Bookkeeping Transactions

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This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject. They are produced by expert AAT tutors to ensure real AAT exam style and real AAT exam standard tasks and ensure the best chance of success.

All practice assessments are relevant for the current syllabus.

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Mock Exam One
AAT L2 Bookkeeping Transactions

1

Assessment information:

You have **1 hour and 30 minutes** to complete this practice assessment.

This assessment contains **10 tasks** and you should attempt to complete **every** task.
Each task is independent. You will not need to refer to your answers to previous tasks.
Read every task carefully to make sure you understand what is required.

The standard rate of VAT is 20%.

Where the date is relevant, it is given in the task data.
Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions say otherwise.

You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 100 57

You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.

The tasks in this assessment are set in different business situations where the following apply:

- All businesses use a manual bookkeeping system.
- Double entry takes place in the general ledger. Individual accounts of trade receivables and trade payable are kept in the sales and purchases ledgers as subsidiary accounts.
- The cash book and petty cash book should be treated as part of the double entry system unless the task instructions state otherwise.
- The VAT is 20%.

Task 1 (12 marks)

A sales invoice is being prepared for goods supplied as shown in a customer order below:

Customer order

MZ Ltd
Order number 9587
Please supply: 20 April 20XX
300 units of product WHZ
@ £5.70 each less 8.5% trade discount

(a) Calculate the amounts to be included in the sales invoice.

(4 marks)

	£
Net amount before discount	
Net amount after discount	
VAT	
Total	

- -

(b) What will be the amounts entered into the sales daybook when the invoice in (a) is completed?

(3 marks)

Sales daybook

Date 20XX	Details	Invoice number	Total £	VAT £	Net £
20-Apr	MZ Ltd	1298			

- -

(c) A prompt payment discount offer of 3% for payment within 15 days is being considered for MZ Ltd. What will be the amount that MZ Ltd would pay if they took up the prompt payment discount offer for the invoice above?

(2 marks)

£ [   ]

A cheque for £2,539 has been received from MZ Ltd which they incorrectly state is in full settlement of their account 31st March. The customers account in the sales ledger is shown below.

MZ Ltd

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
01-Mar	Bal b/f	520	01-Mar	Credit note 120	160
05-Mar	Invoice 1137	369	05-Mar	Bank	360
15-Mar	Invoice 1150	590	16-Mar	Credit note 132	165
20-Mar	Invoice 1169	1580	25-Mar	Credit note 141	250
29-Mar	Invoice 1198	2580			

(d) Select which THREE transactions are still outstanding by circling on the transactions below. (3 marks)

Transactions
Bal b/f   Invoice 1137   Invoice 1150   Invoice 1169   Invoice 1198
Credit note 120   Bank   Credit note 132   Credit note 141

End of Task

Task 2 (9 marks)

The following invoice and purchase order relates to goods received from WR Limited.

Purchase order

WR Limited

26 Hall Street, Wingleford, WL4 4YV.

Purchase order:

To: BB Limited   Account code: BBC018

Date: 11 May 20XX

15 crates of product DBZ @ £17.35 per crate.

A 10% trade discount will be applied to the above price quoted.

Terms of payment: 2% prompt payment discount if paying within 7 days.

Invoice

WR Limited

26 Hall Street, Wingleford, WL4 4YV.

VAT registration number 123 6790 01

INVOICE No: 000231

To: BB Limited   Account code: BBC018

Dated: 18 May 20XX

	£
15 crates of product DBZ @ £7.35 per crate	110.25
VAT @ 20%	22.05
Total	132.30

Payment terms: Within 30 days of invoice date shown.

(a) Identify any discrepancies on the invoice by clicking on each left hand box and then the appropriate right hand box. You can remove a line by clicking on it.

(4 marks)

VAT rate		Not shown on the invoice
Trade discount		
Payment terms		Correctly shown on the invoice
Price of goods		
		Incorrectly shown on the invoice

The invoice below has been received from JAC Ltd.

Invoice

JAC Ltd
VAT registration number 166 6788 01
INVOICE No: 3422

To: BB Limited

Dated: 20 May 20XX

	£
20 bottles of JY Fluid	42.34
VAT @ 20%	8.46
Total	50.80

Payment terms: Within 30 days of invoice date shown.

(b) Record the invoice in the appropriate daybook by:

- **Selecting the correct daybook title and**
- **Making the necessary entries.**

(5 marks)

Picklist for daybook title:	Sales daybook, Sales returns daybook, Purchase daybook, Purchase returns daybook, Discounts received daybook, Discounts allowed daybook.

Picklist for daybook details:	JAC Ltd, BB Ltd.

	⬇				

Date 20XX	Details	Invoice number	Total £	VAT £	Net £
20 May	⬇	3422			

End of Task

Task 3 (9 marks)

It is the policy of BB Limited to check supplier statements of account when they are received and to only include in a payment to a supplier, those transactions that are shown in the suppliers account in the purchases ledger. Shown below is the account of MAR Limited in the purchases ledger and a statement of account received from them.

(a) Place a tick next to the three items in the statement of account that should not be included in the payment because they are missing from the suppliers account.

(3 marks)

Statement of account

MAR Limited

9 Long Road, Longsea, SW4 9GA.

To: BB Limited   Dated: 31 May 20XX

STATEMENT OF ACCOUNT

Date 20XX	Invoice/ credit note number	Details	Amount £	Not to be included in payment
8 May	Invoice 1650	Goods	490	☐
9 May	Invoice 1651	Goods	526	☐
11 May	Invoice 1654	Goods	60	☐
11 May	Credit Note 659	Goods returned	340	☐
12 May	Credit Note 660	Goods returned	341	☐
26 May	Invoice 1659	Goods	535	☐
29 May	Invoice 1688	Goods	6,566	☐
30 May	Invoice 1691	Goods	780	☐

MAR Limited

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
9 May	Bank	4,522	1 May	Balance b/d	4,522
11 May	Credit Note 659	340	8 May	Invoice 1650	490
12 May	Credit Note 660	341	26 May	Invoice 1659	535
			29 May	Invoice 1688	6,566

(b) What will be the amount paid to MAR Ltd.

(1 mark)

£ [ ]

This is the account of ZAR Plc in the purchases ledger of BB Limited, the credit note shown below has been received from the supplier but not yet entered into their account.

ZAR Plc

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
20 May	Bank	12,469	1 May	Balance b/d	5,135
21 May	Credit Note 32	340	18 May	Invoice 149	7,334
			26 May	Invoice 232	353
			31 May	Invoice 288	3,522

Credit note

ZAR Plc

26 Hall Street, Wingleford, WL4 4YV.

VAT registration number 123 6790 01

Credit note No: 36

To: BB Limited   Account code: BB008

Dated: 31 May 20XX

	£
Return of 7 Product AGs @ £169.00 per unit	1,100.00
VAT @ 20%	220.00
Total	1,320.00

Payment terms: Net monthly account

(c) What will be the amount paid to ZAR Plc once the credit note has been entered into their account? (1 mark)

£ [   ]

Two invoices below have been received on 27 May 20XX from credit suppliers who offer a prompt payment discount.

Invoice

IP Ltd 26 Hall Street, London, WL3 12YZ.

VAT registration number 820 6889 01

Invoice No 1293

To: BB Limited   Account code: BB002

Dated: 27 May 20XX

	£
10 x Product code CC01 @ £34	340.00
VAT @ 20%	68.00
Total	408.00

Payment terms: 2% discount if payment received within 8 days of date of invoice.

Invoice

ABC Limited 4 Chapel Street, Leicester, LE4 4AD.

VAT registration number 845 9990 99

Invoice No 0098228

To: BB Limited

Dated: 27 May 20XX

	£
50 Product C03 @ £16.00	800.00
VAT @ 20%	160.00
Total	960.00

Terms: 3% discount if payment received within 5 days of date of invoice.

(d) Show whether the following statements about the supplier invoices are TRUE or FALSE.

(4 marks)

	TRUE	FALSE
The amount BB Limited must pay to ABC Ltd after the prompt payment discount would be £399.84.	☐	☐
The latest ABC Ltd must be paid by BB Ltd to take advantage of the PPD would be the 1 June 20XX.	☐	☐
The amount BB Limited must pay to IP Ltd after the prompt payment discount would be £28.80.	☐	☐
The latest IP Ltd must be paid by BB Ltd to take advantage of the PPD would be the 4 June 20XX.	☐	☐

End of Task

Task 4 (15 marks)

The three transactions shown below have been received by a business and are ready to be entered in the cash book.

- 1 May – Bank interest received of £58. There is no VAT on bank interest.
- 3 May – A remittance advice was received from ASR Plc a credit customer, for £3,400 including VAT in final settlement of their April 20XX account.
- 7 May – A cash sale of £528 including VAT was made for goods supplied to BON Limited.

(a) Make the necessary entries in the cash book and total each column.

(11 marks)

Cash book - debit side

Details	Cash £	Bank £	VAT £	Trade receivables £	Cash sales £	Other £
Balance b/f	990	8332				
⇵						
⇵						
⇵						
Totals						

Picklist: ASR Plc, BB Limited, Bank interest, Sales, Trade receivables, VAT, BON Limited.

The credit side of the cash book shows total cash payments during the month were £265.

(b) Using your answer in part (a), calculate the closing cash balance.

(1 mark)

£ [   ]

(c) Using your answer in part (b) complete the following sentence.

(1 mark)

The balance carried forward on 31 May 20XX will be on the [⬇] side.

Picklist: Debit, Credit.

- -

The credit side of the cash book shows total bank payments during the month were £13,940.

(d) Using your answer in part (a), calculate the closing bank balance. Use a minus sign if your calculations indicate an overdrawn bank balance, e.g. -123.

(1 mark)

£ [   ]

- -

(e) Using your answer to part (d) complete the following sentence.

(1 mark)

The balance carried forward on 31 May 20XX will be on the [⬇] side.

Picklist: Debit, Credit.

- -

End of Task

Task 5 (15 marks)

BB Limited restores a petty cash imprest level of £250.00 on the last day of each month.

Two petty cash vouchers shown below have been received and are ready to be entered in the petty cash book for the month.

Petty cash voucher

> **PC Voucher No: 34**
> **Date:** 19 May 20XX
>
> **Description**
>
> Pens and A4 Paper, £30.96 including VAT.

Petty cash voucher

> **PC Voucher No: 35**
> **Date:** 22 May 20XX
>
> **Description**
>
> Tea and coffee, £11.96 including VAT.

Make the necessary entries in the petty cash book shown below for the above petty cash vouchers (some entries have already been recorded). Your entries must include date and details. You also need to total and balance the petty cash book for the end of the month. For date entries you need to include only the day and the month for example '7 May 20XX' would be entered as '7 May'.

(15 marks)

Debit side   Credit side

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £	VAT £	Postage £	Stationery £	Miscellaneous £
1 May	Balance b/f	250.00	7 May	Post office	10.20		10.20		
				⇩					
				⇩					
				⇩					
	Totals	250.00		Totals	250.00				

Picklist: Balance c/f, Balance b/f, Pens and A4 paper, Tea and coffee, Postage, Miscellaneous, VAT.

End of Task

Task 6 (12 marks)

These are the totals of a discounts allowed day book at the end of the month.

Discounts allowed daybook

Details	Total £	VAT £	Net £
Totals	1,338	223	1,115

(a) Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

(6 marks)

Account name	Amount £	Debit	Credit
⬇	1,338	☐	☐
⬇	223	☐	☐
⬇	1,115	☐	☐

Picklist: Purchases ledger control, Purchases returns, Sales, Sales returns, VAT, Purchases, Sales ledger control, Discounts allowed, Discounts received.

These are the totals of a sales day book at the end of the month.

Sales daybook

Details	Total £	VAT £	Net £
Totals	33,588	5,598	27,990

(b) Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

(6 marks)

Account name	Amount £	Debit	Credit
⬇	33,588	☐	☐
⬇	5,598	☐	☐
⬇	27,990	☐	☐

Picklist: Purchases ledger control, Purchases returns, Sales, Sales returns, VAT, Purchases, Sales ledger control, Discounts allowed, Discounts received.

End of Task

Task 7 (12 marks)

These are totals of a cash book at the end of the month.

Cash book

Cash £	Bank £	VAT £	Trade receivables £	Cash sales £	Cash £	Bank £	VAT £	Trade payables £	Cash purchases £
340	12,382	0	4,699	0	340	12,382	67	7,824	335

Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

(12 marks)

Account name	Amount £	Debit	Credit
⬇		☐	☐
⬇		☐	☐
⬇		☐	☐
⬇		☐	☐

Picklist: Bank, Cash, VAT, Trade receivables, Cash sales, Trade payables, Cash purchases.

End of Task

Task 8 (12 marks)

The following accounts were in the general ledger at the last day of May.

Purchase ledger control

Date	Details	Amount	Date	Details	Amount
30 May	Bank	35,256	1 May	Balance b/d	6,711
			30 May	Purchases	56,722

Bank charges

Date	Details	Amount	Date	Details	Amount
1 May	Balance b/d	223			
14 May	Bank	55			

Fixtures and fittings

Date	Details	Amount	Date	Details	Amount
1 May	Balance b/d	25,600			
31 May	Bank	600			

Capital

Date	Details	Amount	Date	Details	Amount
			1 May	Balance b/d	76,000
			17 May	Journal	1,000

Record the totals and balance of each general ledger account in the table shown below by:

- **inserting the balance brought down at 1 June.**
- **showing whether the balance brought down will be a debit or credit balance, and**
- **inserting the total that will be shown in both the debit and credit columns after the account has been balanced.**

(12 marks)

Account name	Balance b/d at 1 June £	Debit	Credit	Total shown in both the debit and credit columns £
Purchase ledger control		☐	☐	
Bank charges		☐	☐	
Fixtures and fittings		☐	☐	
Capital		☐	☐	

End of Task

Task 9 (12 marks)

Below are the general ledger accounts of a business's completed trial balance.

Transfer each amount to the debit or credit column of the trial balance and total the trial balance shown below. Do not enter figures with decimal places in the trial balance and do not enter a zero into unused cells.

(12 marks)

Account name	Amount	Debit	Credit
Drawings	17,000		
Sales	63,778		
Shop expenses	3,678		
Shop equipment and fittings	36,200		
Purchases	15,399		
Capital	25,593		
Inventory	5,500		
Sales ledger control	3,156		
Staff wages	11,000		
Purchases ledger control	2,562		
	Totals:		

End of Task

Task 10 (12 marks)

(a) Identify each document used for each of the descriptions shown below.

(4 marks)

Description	Document
A letter sent by a customer to a supplier to inform the supplier that their invoice has been paid.	
A form or letter sent by a seller to a buyer, as evidence of a reduction in sales.	
A piece of paper left in a cheque book after a cheque has been written and taken out.	
Shows invoices to and payments from the customer during a specified time period and an ending balance.	

Document:

Remittance advice

Cheque book stub

Credit note

Statement of account

(b) Show whether each transaction will be classified as capital expenditure, capital income, revenue expenditure or revenue income by placing the appropriate classification against each transaction in the table shown below. You can use each classification more than once.

(4 marks)

Transaction	Classification
Purchases of goods for resale.	
Sale of a motor vehicle used in the business.	
Investment made into the business by the owner.	
Sale of inventory by the business.	

Classification:

Revenue expenditure

Capital expenditure

Revenue income

Capital income

A business has the following assets and liabilities.

Assets and liabilities	£
HMRC liability	6,375
Payroll liability	1,288
Computer equipment	9,594
Inventory	3,367
Cash in the bank	7,892
Sales ledger control	25,800
Purchases ledger control	16,791

(c) Show the accounting equation by inserting the appropriate figures. Enter all figures as positive values.

(4 marks)

Assets	Liabilities	Capital

- -

End of Task

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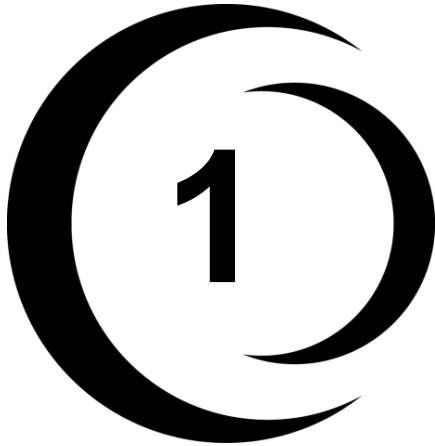
Mock Exam One - Solutions

AAT L2 Bookkeeping Transactions

Task 1 (12 marks)

(a) Calculate the amounts to be included in the invoice.

(4 marks)

	£
Net amount before discount	1,710.00
Net amount after discount	1,564.65
VAT	312.93
Total	1,877.58

Workings:

	£	£
Net amount before discount	300 x £5.70	1,710.00
Net amount after discount	£1,710 x 0.915**	1,564.65
VAT	£1564.65 x 20%*	312.93
Total	£1564.65 + £312.93	1,877.58

- **8.5% = 0.085 (8.5 / 100)
- 1 – 0.085 = 0.915
- 0.915 x £1,710 = £1564.65
- Alternatively work out 8.5% of £1710 = 0.085 x £1710 = £145.35 (value of trade discount).
- £1710 - £145.35 = £1564.65

* VAT of 20% = 20/100 = 0.2
- 0.2 x £1564.65 = £312.93
- Alternatively find 1/5 of net amount = 1/5 x £1564.65 = £312.93
- 1/5 represents 20% as a fraction.

(b) What will be the amounts entered into the sales daybook when the invoice in (a) is completed?

(3 marks)

Sales daybook

Date 20XX	Details	Invoice number	Total £	VAT £	Net £
20-Apr	MZ Ltd	1298	1,877.58	312.93	1,564.65

Total is the gross amount (inclusive of VAT)
Net amount doesn't include VAT (exclusive of VAT)

(c) A prompt payment discount offer of 3% for payment within 15 days is being considered for MZ Ltd. What will be the amount that MZ Ltd would pay if they took up the prompt payment discount offer for the invoice above?

(2 marks)

£ | 1,821.25

Workings:

- 3% = 0.03 (3/100)
- £1877.58 x 0.03 = £56.33 – amount of total prompt payment discount
- £1877.58 - £56.33 = £1821.25
- Alternatively
- 1-0.03 = 0.97
- 0.97 x £1877.58 = £1821.25

Additional notes on discounts:

- Bulk and trade discounts are deducted first from the list price.
- The net amount is after bulk and trade discounts and hence these discounts are not shown on the invoice.
- The prompt payment discount is only applied once payment has been made for the invoice and is never applied to the figures on the original invoice.
- The prompt payment discount is recorded separately in the discounts allowed daybook (for customer / sales invoices) and discount received daybook (for supplier / purchase invoices). The net, VAT and gross amounts are shown in the discounts allowed and discount received daybooks.

(d) Select which THREE transactions are still outstanding by circling on the transactions below. (3 marks)

Transactions				
Bal b/f	Invoice 1137	Invoice 1150	Invoice 1169	**Invoice 1198**
Credit note 120	Bank	**Credit note 132**	**Credit note 141**	

Workings:

This is a tricky question!

- Firstly, look at the earlier balances. The balance b/f of £520 and the credit note of £160 gives a net amount owing of £360. This is the amount of the bank payment. Therefore, these items are matched.

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
01-Mar	Bal b/f	520	01-Mar	Credit note 120	160
05-Mar	Invoice 1137	369	05-Mar	Bank	360

- Then by 'trial and error' (there is no other way), see what makes up the figure for the cheque received £2539. It is made up of the 3 invoices (Invoice numbers 1137, 1150, 1169) £369 + £590 + £1580 = £2539
- The remaining items are the outstanding transactions

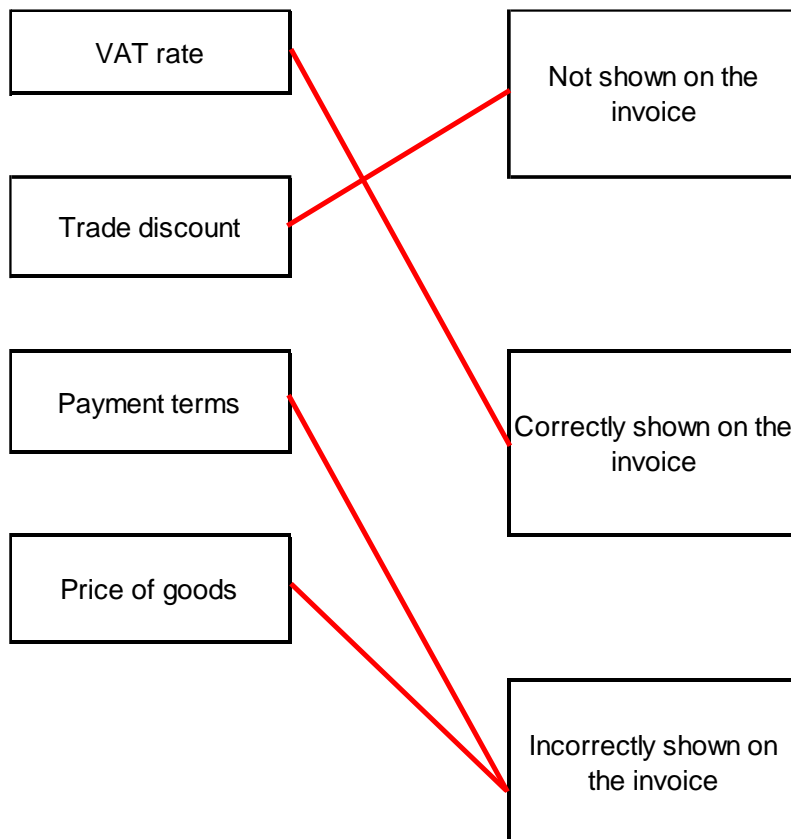| Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
01-Mar	Bal b/f	520	01-Mar	Credit note 120	160
05-Mar	Invoice 1137	369	05-Mar	Bank	360
15-Mar	Invoice 1150	590	16-Mar	Credit note 132	165
20-Mar	Invoice 1169	1580	25-Mar	Credit note 141	250
29-Mar	Invoice 1198	2580			

Task 2 (9 marks)

Your syllabus expects you to check the accuracy of supplier invoices and credit notes. Other documents to use may include: quotations including discounts, purchase orders, goods received notes, delivery notes, goods returned notes.

Discrepancies found may include:

- non-delivery of goods
- incorrect type or quantity of goods
- incorrect calculations
- incorrect discounts (trade, bulk and prompt payment)
- incorrect dates and terms of payment

(a) Identify any discrepancies on the invoice by clicking on each left hand box and then the appropriate right hand box. You can remove a line by clicking on it.

(4 marks)

(b) Record the invoice in the appropriate daybook by:

- **Selecting the correct daybook title and**
- **Making the necessary entries.**

(5 marks)

Purchase daybook

Date 20XX	Details	Invoice number	Total £	VAT £	Net £
20 May	**JAC Ltd**	3422	**50.80**	**8.46**	**42.34**

Task 3 (9 marks)

This task of your exam will be about preparing payments to suppliers.

Students need to know:

- The records and documents to use: purchases ledger account, invoices and credit notes (including discounts and VAT), statement of account.
- The information to take into account: agreed payment terms.

Students need to be able to:

- Identify discrepancies between the supplier's statement of account and the purchases ledger account: timing differences, wrong amounts, missing transactions, duplicated transactions
- Calculate payments due to suppliers, including PPD.

(a) Place a tick next to the three items in the statement of account that should not be included in the payment because they are missing from the suppliers account.

(3 marks)

Statement of account

MAR Limited

9 Long Road, Longsea, SW4 9GA.

To: BB Limited   Dated: 31 May 20XX

STATEMENT OF ACCOUNT

Date 20XX	Invoice/ credit note number	Details	Amount £	Not to be included in payment
8 May	Invoice 1650	Goods	490	☐
9 May	Invoice 1651	Goods	526	☑
11 May	Invoice 1654	Goods	60	☑
11 May	Credit Note 659	Goods returned	340	☐
12 May	Credit Note 660	Goods returned	341	☐
26 May	Invoice 1659	Goods	535	☐
29 May	Invoice 1688	Goods	6,566	☐
30 May	Invoice 1691	Goods	780	☑

(b) What will be the amount paid to MAR Ltd.

(1 mark)

£6910.

The supplier account has been totalled and balanced to help with understanding. Purchase ledger accounts keep all transactions to do with credit suppliers. Though the purchase ledger is not part of the general ledger (so no double entry actually takes place), it follows the same double entry principle. The balance b/d is on the credit side (a liability) at the start of the period, so begin with the balance b/d, now add all invoices to this amount, this would be the total liability outstanding to the supplier. Now deduct any bank payments to, or credit notes from the supplier which will reduce this liability at the end of the period. This now finds the balance c/d at the end of the period.

MAR Limited

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
9 May	Bank	4,522	1 May	Balance b/d	4,522
11 May	Credit Note 659	340	8 May	Invoice 1650	490
12 May	Credit Note 660	341	26 May	Invoice 1659	535
31 May	**Balance c/d**	**6,910**	29 May	Invoice 1688	6,566
		12,113			12,113

(c) What will be the amount paid to ZAR Plc once the credit note has been entered into their account? (1 mark)

£2215.

The invoice not included has been recorded below to help with understanding. The supplier account has also been totalled and balanced. The balance b/d is on the credit side (a liability) at the start of the period, so begin with the balance b/d, now add all invoices to this amount, this would be the total liability outstanding to the supplier. Now deduct any bank payments to, or credit notes from the supplier which will reduce this liability at the end of the period. This now finds the balance c/d at the end of the period.

ZAR Plc

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
20 May	Bank	12,469	1 May	Balance b/d	5,135
21 May	Credit Note 32	340	18 May	Invoice 149	7,334
30 May	**Credit Note 36**	**1,320**	26 May	Invoice 232	353
31 May	**Balance c/d**	**2,215**	31 May	Invoice 288	3,522
		16,344			16,344

(d) Show whether the following statements about the supplier invoices are TRUE or FALSE.

(4 marks)

	TRUE	FALSE
The amount BB Limited must pay to ABC Ltd after the prompt payment discount would be £399.84.	☐	✅
The latest ABC Ltd must be paid by BB Ltd to take advantage of the PPD would be the 1 June 20XX.	✅	☐
The amount BB Limited must pay to IP Ltd after the prompt payment discount would be £28.80.	☐	✅
The latest IP Ltd must be paid by BB Ltd to take advantage of the PPD would be the 4 June 20XX.	✅	☐

Prompt payment discounts (PPD) are applied to the total amount of the invoice including VAT. Since it is about credit being settled, then the % discount will be applied to the total of the invoice to be paid.

Workings (IP Ltd):

- 2% discount if payment received within 8 days of date of invoice.
- 2% = 0.02 (2/100)
- £408.00 x 0.02 = £8.16 (the amount of total prompt payment).
- £408.00 - £8.16 = £399.84 to be settled to the supplier.

Alternatively, 1-0.02 = 0.98, so 0.98 x £408.00 = £399.84 to be settled to the supplier.

For the final date (deadline) to be eligible for a PPD remember one simple rule add the number of days to the invoice date shown (27 May 20XX + 8 days = 4 June 20XX).

Workings (ABC Limited):

- 3% discount if payment received within 5 days of date of invoice.
- 3% = 0.03 (3/100)
- £960.00 x 0.03 = £28.80 (the amount of total prompt payment discount).
- £960.00 - £28.80 = £931.20 to be settled to the supplier.

Alternatively, 1-0.03 = 0.97, 0.97 x £960.00 = £931.20 to be settled to the supplier.

For the final date (deadline) to be eligible for a PPD remember one simple rule add the number of days to the invoice date shown (27 May 20XX + 5 days = 1 June 20XX).

Since the above PPDs have not yet been applied to the original invoice, the purchase daybook overstates the purchase value and therefore the amount of the PPD (a credit note issued for it by the supplier), is then recorded in the discounts received daybook.

Task 4 (15 marks)

In this exam task you will entering receipts and payments into a two column analysed cash book

Students need to know:

- The format of the cash book: date, details, cash, bank, analysis columns (including VAT)
- The documents to use: direct debit/standing order schedule, remittance advice (including BACS), paying in slip, cheque stub, cash receipt, receipts and payments listing.

Students need to be able to:

- Calculate VAT amounts from net and total figures
- Make entries in the cash book and present totals and balances: column totals, balance carried down, balance brought down, debit balance, credit balance, date and details.

(a) Make the necessary entries in the cash book and total each column.

(11 marks)

- For each receipt you need to record the total entered into either the cash or bank column as a receipt.
- Cash sales (BON Ltd) would not have been entered in the sales day book where VAT on credit sales is recorded. Cash sales are entered in the cash book (the total in the cash or the bank total column) and any VAT on cash sales entered in the VAT column. Total cash sales from BON Limited was £528 including VAT at 20%. To find the VAT amount you have £528 representing 120% (if you added 20% VAT to the net amount of 100%). £528 ÷ 120% x 20% = VAT £88. Alternatively, 20%/120% = 1/6 as a fraction. 1/6 x £528 = VAT £88. The remaining amount of the cash sale is recorded as cash sales (£528 total received less £88 VAT) = £440.
- Credit customers settling balances outstanding (ASR Plc in this case), the amount of VAT on the credit sale would have already been recorded in the sales day book when the sales invoice was raised. To include VAT in the cash book as well, would be double counting (so we don't do it). Receipts from credit customers, unlike cash sales, you only enter the total in the cash or the bank total column and the other amount entered as trade receivables (customers who owe you money).

Cash book - debit side

Details	Cash £	Bank £	VAT £	Trade receivables £	Cash sales £	Other £
Balance b/f	990	8332				
Bank interest		58				58
ASR Plc		3400		3400		
BON Limited	528		88		440	
Totals	1518	11790	88	3400	440	58

(b) Using your answer in part (a), calculate the closing cash balance.

(1 mark)

£1253.

DEAD CLIC

Don't get clouded in the double entry logic, ledgers are balances kept for the five elements of the financial statements and we are increasing or decreasing these balances according to the rules of double entry.

Important double entry terminology

DEAD CLIC defines what is the 'normal balance' or the natural state for a T account (general, sales or purchase ledger account).

DEAD CLIC is an acronym which gives the elements of financial statements and whether each element would be a debit or credit balance overall within a double entry ledger system. It can be used for determining the correct debit or credit balance but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease an account balance.

DEAD CLIC

Debit	Credit
Expenses	Liabilities
Assets	Income
Drawings	Capital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

The balance c/d is only a balancing figure to ensure both sides of the ledger account agree at the end of the period. The true debit or credit balance is brought down (b/d) on the opposite side to the balance carried down (c/d). The balance b/d is on the 1st (beginning) of the month and the balance c/d is at the end of the month 30th/31st (ignoring February).

Totalling and balancing ledger accounts

1. Look at both sides of the ledger account and find the side which has the biggest total amount (debits or credits).
2. Add up the 'total' of all the entries on the side that has the biggest total amount and put this 'total' amount on both sides of the ledger account.
3. Add up all the entries on the side of the ledger account that had the smallest total amount.
4. Work out on the side that had the smallest total amount, the difference between the total amount entered and the other entries made on this side. This is the balance carried down (c/d) at the end of the period.
5. The balance c/d is entered on the side of the ledger account that had the smallest total amount to ensure that both total amounts entered on either side of the ledger account agrees. This as an arithmetical control and considered good practice in manual ledger accounting.

The balance c/d is only a balancing figure to ensure both sides of the ledger account agree at the end of the period. The true debit or credit balance is brought down (b/d) on the opposite side to the balance carried down (c/d). The balance b/d is on the 1st (beginning) of the month and the balance c/d is at the end of the month 30th/31st (ignoring February).

Cash is an 'asset' and therefore the balance brought forward (b/f) at the beginning of the month in on the debit side. All total receipts are debited to cash (increasing the asset) and payments credited to cash (decreasing the asset). The below T account demonstrates what happened in the task for further understanding. To find the closing balance at the end of the month (the balance carried forward or 'c/f'), add up both totals on the debit and credit side and find the greatest of the 2 totals, in this case the largest of the 2 totals is £1,518 total on the debit side. Bring also the total of £1,518 over to the credit side and take away any reductions on this side (payments of £265). This should leave £1,253 as a balance on the credit side, to ensure the 2 totals agree to £1,518.

Remember also the £1,253 is c/f on the credit side to 'balance' the 2 totals of £1,518 but overall is a debit balance (it has more debits than credits), so at the start of the next month (1 June) it will be b/f as a debit balance (asset).

Cash

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 May	Balance b/f	990		Payments	265
	Receipts	528	**31 May**	**Balance c/f**	**1,253**
		1,518			1,518

(c) Using your answer in part (b) complete the following sentence.

(1 mark)

The balance carried forward on 31 May 20XX will be on the **Credit** side.

(d) Using your answer in part (a), calculate the bank balance. Use a minus sign if your calculations indicate an overdrawn bank balance, e.g. -123.

(1 mark)

£-2150.

Bank is normally an 'asset' and therefore the balance brought forward (b/f) at the beginning of the month in on the debit side. All total receipts are debited to bank (increasing the asset) and payments credited to bank (decreasing the asset). The below T account demonstrates what happened in the task for further understanding. To find the closing balance at the end of the month (the balance carried forward or 'c/f'), add up both totals on the debit and credit side and find the greatest of the 2 totals, in this case the largest of the 2 totals is £13,940 total on the credit side. Bring also the total of £13,940 over to the debit side and take away any reductions on this side (Balance b/f £8,332 + Receipts £3,458). This should leave £2,150 as a balance on the debit side, to ensure the 2 totals agree to £13,940. Remember also the £2,150 is c/f on the debit side to 'balance' the 2 totals of £13,940, but overall it is a credit balance (it has more credits than debits in the ledger account), so at the start of the next month (1 June) it will be b/f as a credit balance (liability). The bank is a liability and is overdrawn.

Bank

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 May	Balance b/f	8,332		Payments	13,940
	Receipts	3,458			
31 May	**Balance c/f**	**2,150**			
		13,940			13,940

(e) Using your answer to part (d) complete the following sentence.

(1 mark)

The balance carried forward on 31 May 20XX will be on the **Debit** side.

Task 5 (15 marks)

For this task you would be expected to enter receipts and payments into an analysed petty cash book. You need to know the format of the petty cash book: date, details, amount, analysis columns (including VAT) and the documents to use: cash receipt, petty cash voucher.

This could include:

- Calculating VAT amounts from net and total figures.
- Making entries in the petty cash book for reimbursement, using the imprest and non-imprest systems.
- To total and balance the petty cash book. You need to be able to present totals and balances: column totals, balance carried down, balance brought down, debit balance, credit balance, date and details.

Make the necessary entries in the petty cash book shown below for the above petty cash vouchers (some entries have already been recorded). Your entries must include date and details. You also need to total and balance the petty cash book for the end of the month. For date entries you need to include only the day and the month for example '7 May 20XX' would be entered as '7 May'.

(15 marks)

Debit side   Credit side

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £	VAT £	Postage £	Stationery £	Miscellaneous £
1 May	Balance b/f	250.00	7 May	Post office	10.20		10.20		
			19 May	Pens and A4 paper	30.96	5.16		25.80	
			22 May	Tea and coffee	11.96	1.99			9.97
			31 May	Balance c/f	196.88				
	Totals	250.00		Totals	250.00	7.15	10.20	25.80	9.97

Petty cash is an 'asset' and therefore the balance brought forward (b/f) at the beginning of the month in on the debit side. All total receipts are debited to petty cash (increasing the asset) and payments credited to cash (decreasing the asset). In most cases the total receipts would only include reimbursement of the cash float (normally from the bank).

To find the VAT amount for stationary you have £30.96 representing 120% (if you added 20% VAT to the net amount of 100%). £30.96 ÷ 120% x 20% = VAT £5.16. Alternatively, 20%/120% = 1/6 as a fraction. 1/6 x £30.96 = VAT £5.16. The remaining amount of the payment is recorded as stationary (£30.96 total paid less £5.16 VAT) = £25.80.

To find the VAT amount for Tea and coffee you have £11.96 representing 120% (if you added 20% VAT to the net amount of 100%). £11.96 ÷ 120% x 20% = VAT £1.99. Alternatively, 20%/120% = 1/6 as a fraction. 1/6 x £11.96 = VAT £1.99. The remaining amount of the payment is recorded as miscellaneous (£11.96 total paid less £1.99 VAT) = £9.97.

To find the closing balance at the end of the month (the balance carried forward or 'c/f'), add up both totals (column called 'Amount') on the debit and credit side and find the greatest of the 2 totals, in this case the largest of the 2 totals is £250 total on the debit side (the cash float brought forward at the beginning of the month). Bring also the total of £250 over to the credit side. This has already been completed for you in the petty cash book.

Now take away any reductions on the credit side (payments totalling £53.12). This should leave £196.88 as a balance on the credit side (balance c/f), to ensure the 2 totals agree to £250. You have now totalled and balanced the petty cash book.

Remember also the £196.88 is c/f on the credit side to 'balance' the 2 totals of £250 but overall is a debit balance (there is more debits than credits), so at the start of the next month (1 June) it will be b/f as a debit balance (it is an asset).

Task 6 (12 marks)

For this exam task you must be able to do the following:

Enter supplier invoices and credit notes into books of prime entry

Students need to know:

- the books of prime entry: purchases, purchases returns and discounts received daybooks

- the columns within books of prime entry: supplier name, supplier account code, total, VAT, net, analysis (including product code).

Students need to be able to:

- calculate VAT amounts from net and total figures

- calculate total and net amounts from the VAT figure

- make entries in books of prime entry

- total columns in books of prime entry

Enter sales invoices and credit notes into books of prime entry

Students need to know:

- the books of prime entry: sales, sales returns and discounts allowed daybooks

- the columns within books of prime entry: customer name, customer account code, total, VAT, net, analysis (including product codes).

Students need to be able to:

- calculate VAT amounts from net and total figures

- calculate total and net amounts from the VAT figure

- make entries in books of prime entry

- total columns in books of prime entry

Day books (the books of 'original' or 'prime entry')

The books of prime entry keep a record of a business's transactions e.g. invoices, credit notes and bank transactions and are used to generate entries within the general ledger as part of a double entry bookkeeping system. In a manual system these are the day books of first entry occurring every day for accounting transactions, before the day books are totalled and the totals then posted to the general ledger accounts.

Accounting software completes the transfer of data from the books of prime entry to the general, sales and purchases ledgers automatically, however your exam tasks will be in the context of a manual book keeping system. You need to be able to transfer data from the books of prime entry (day books) to the relevant accounts in the general, sales or purchases ledgers.

Day books (the books of 'original' or 'prime entry')

- Sales Day Book (SDB records sales invoices sent to credit customers).

- Sales Returns Day Book (SRDB records credit notes given to reverse sales invoices sent to credit customers, due to goods returned from or disputes by customers).

- Discounts Allowed Day Book (DADB records credit notes given to reverse sales invoices sent to credit customers, due to prompt payment discounts allowed to settle their invoices earlier).

- Purchase Day Book (PDB records purchase invoices received from credit suppliers).

- Purchase Returns Day Book (PRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to goods returned to or disputes with suppliers).

- Discounts Received Day Book (DRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to prompt payment discounts allowed received by suppliers to settle purchase invoices earlier).

- Cash Book (CB bank and cash transactions) record all other cash and bank transactions of the business.

- Petty Cash Book (PCB records very small cash transactions of the business).

- Journal Book (JN records postings made to the general ledger for the correction of errors or omissions, and for period end adjustments that are not recorded in any of the other day books).

Double entry tips:

DEAD CLIC defines what is the 'normal balance' or the natural state for a T account (general, sales or purchase ledger account).

DEAD CLIC is an acronym which gives the elements of financial statements and whether each element would be a debit or credit balance overall within a double entry ledger system. It can be used for determining the correct debit or credit balance but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease an account balance.

DEAD CLIC

Debit	**C**redit
Expenses	**L**iabilities
Assets	**I**ncome
Drawings	**C**apital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

(a) Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

(6 marks)

Account name	Amount £	Debit	Credit
Sales ledger control	1,338	☐	☑
Discounts allowed	1,115	☑	☐
VAT	223	☑	☐

The sales ledger control is a summary of all postings made from the sales daybooks and cashbook and summarises the total amounts owing from credit customers. It will always include the VAT amount when entries are made in the general ledger account

(a good tip for your exam), since it records amounts owed by customers, so this should always be the total amount outstanding including VAT whenever transactions are posted from the daybooks.

The sales ledger control is an 'asset' since it is something of value owned by the business. So, if the business has given discounts allowed to customers, (reducing the amount they owe), then we need to reduce the amount of this asset, you CREDIT an asset to reduce its balance in the general ledger.

If you know the £1,338 is the figure that includes VAT (the largest amount always given) then CREDIT the sales ledger control. This is all credits now made and since total debits must equal total credits, then you have two debits still left to post. A DEBIT will be made to discounts allowed (an 'expense' of the business) increasing expenses for the period. A DEBIT will also be made to VAT (normally a 'liability' of the business), this reduces the liability to pay VAT. VAT on sales will increase the liability to pay VAT (sales invoices), so VAT on discounts allowed (credit notes issued) offsets against VAT on sales to reduce VAT payable.

(b) Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

(6 marks)

Account name	Amount £	Debit	Credit
Sales ledger control	33,588	✅	☐
Sales	27,990	☐	✅
VAT	5,598	☐	✅

The sales ledger control is an 'asset' since it is something of value owned by the business. So, if the business has sales to credit customers, (increasing the amount customers owe to the business), then we need to increase the amount of this asset, you DEBIT an asset to increase its balance in the general ledger.

If you know the £33,588 is the figure that includes VAT (the largest amount always given) then DEBIT the sales ledger control. This is all debits now made and since total debits must equal total credits, then you have two credits still left to post. A CREDIT will be made to sales ('income' of the business) increasing income for the period. A CREDIT will also be made to VAT (normally a 'liability' of the business), this increases VAT payable to HMRC.

Task 7 (12 marks)

Task 6 is about transferring data from the sales, sales returns, discounts allowed, purchases, purchase returns and discounts received day books, to the general ledgers.

Task 7 has the same focus but on the transfer of data from the cash book or petty cash book to the general ledgers. The cash book is important to a business since it helps safeguard and control its cash and banking transactions

Your assessment information at the beginning of your exam states that the cash book and petty cash book should be treated as part of the double entry system unless the task instructions state otherwise. The cash book and a bank/cash general accounts differ in a few ways. The cash book is a separate system in which more detailed cash transactions are recorded, whereas the bank/cash account is a general ledger account.

In your exam the assumption is that the cash book serves the purpose of both a book of prime entry and a general ledger account, integrated as one single system. Alternatively, in a manual book-keeping system it can be maintained separately as two different accounting systems.

This may help explain why the double entry below is only posted for the analysis columns only, not the bank or the cash columns in the cash book, the bank and cash columns already recorded within the general ledger when money is received or paid.

During the period postings are made, either DEBIT bank or cash when money is received or CREDIT bank or cash when money is paid, however the other side of the double entry is not posted until the end of the month.

It is better this way because it can save time and effort as data is entered only once, also the general ledger accounts for bank and cash can be balanced at any time to identify the existing balance. Vital for a business to do this.

Posting the other side of the double entry at the end of the period can also save time and produce fewer mistakes since all other 'analysis columns' can now be added up and summary postings made to the general ledger.

In conclusion this issue is relevant only when a manual book-keeping system is used, since computers integrate all the books of prime entry and ledgers together into one single system.

Show the entries to be made in the general ledger by choosing the appropriate account name and the debit or credit option against each amount. You may use each option more than once.

Account name	Amount £	Debit	Credit
Trade receivables	4699	☐	✔
VAT	67	✔	☐
Trade payables	7824	✔	☐
Cash purchases	335	✔	☐

- Cash or Bank is an 'asset' and therefore DEBIT money receipts and CREDIT money payments.
- Since the DEBITS for money received have been made to cash or bank, only the double entry for the other side needs to be credited which is trade receivables in this case.
- Since the CREDITS for money paid has been made to cash or bank, only the double entry for the other side needs to be debited which is VAT, trade payables and cash purchases in this case.

Task 8 (12 marks)

This exam task will be about totalling and balancing ledger accounts, you need to be able to total and balance ledger accounts (general, sales and purchases ledgers), you need to be able to identify the balance carried down or balance brought down, and whether each is a debit balance or credit balance.

DEAD CLIC

Don't get clouded in the double entry logic, ledgers are balances kept for the five elements of the financial statements and we are increasing or decreasing these balances according to the rules of double entry.

Important double entry terminology

DEAD CLIC defines what is the 'normal balance' or the natural state for a T account (general, sales or purchase ledger account).

DEAD CLIC is an acronym which gives the elements of financial statements and whether each element would be a debit or credit balance overall within a double entry ledger system. It can be used for determining the correct debit or credit balance but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease an account balance.

DEAD CLIC

Debit	**C**redit
Expenses	**L**iabilities
Assets	**I**ncome
Drawings	**C**apital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

Five elements make up the general ledger accounts and financial statements of a business.

Assets

A resource controlled by the business as a result of past events and from which future economic benefits (money) are expected to flow to the business.

- Premises, machines, motor vehicles, office equipment or furniture and fittings.
- Inventory currently for resale.
- Trade receivables (money to be 'received').
- Money in the bank.
- Cash in hand.

Liabilities

A present obligation of the business arising from past events, the settlement of which is expected to result in an outflow from the business.

- VAT owed to HMRC
- Wages owed to staff
- Bank loans and overdrafts
- Trade payables (money to be 'paid').

Capital

The residual interest (whatever is left) from the assets of the business after deducting all of its liabilities. Total assets less total liabilities is equal to capital (also called 'net assets') of the business. This balance represents what is owed and accumulated by the business to its owner. A separate account for drawings can also be maintained in the general ledger, drawings is money taken from the business by the owner and rather than reducing the owners capital account for the money taken, a drawings account is kept as a separate account because it provides more information.

Income

Money earned or received by the business from the sale of goods or services that is makes or sells (its trade), or from other investments or trade sources.

- Cash sales (sales not on credit).
- Credit sales (sales on credit).
- Rent received from ownership and rental of premises.
- Bank interest received.
- Discounts received (PPD) from paying credit suppliers early.

Expenses

Costs incurred or paid for by the business in the normal course of trade in order to earn income. The cost of goods sold and other expenses must be matched with the sales revenues earned in the same period.

- Cash purchases (inventory purchases for resale and not on credit).
- Credit purchases (inventory purchases for resale and on credit).
- Rent payments (if the business is renting a property).
- Staff wages
- Motor vehicle running costs.
- Advertising.
- Depreciation such as wear and tear or loss of value to long-term assets such as machines or motor vehicles.
- Bank interest and charges.
- Discounts allowed (PPD) to credit customers who pay early.
- Accountancy and legal services.

Income and expenses are used to work out the amount of profit the business has generated. Any profits are owed to the owner of the business and increase the capital account of the owner.

Totalling and balancing ledger accounts

1. Look at both sides of the ledger account and find the side which has the biggest total amount (debits or credits).
2. Add up the 'total' of all the entries on the side that has the biggest total amount and put this 'total' amount on both sides of the ledger account.
3. Add up all the entries on the side of the ledger account that had the smallest total amount.
4. Work out on the side that had the smallest total amount, the difference between the total amount entered and the other entries made on this side. This is the balance carried down (c/d) at the end of the period.
5. The balance c/d is entered on the side of the ledger account that had the smallest total amount to ensure that both total amounts entered on either side of the ledger account agrees. This as an arithmetical control and considered good practice in manual ledger accounting.

The balance c/d is only a balancing figure to ensure both sides of the ledger account agree at the end of the period. The true debit or credit balance is brought down (b/d) on the opposite side to the balance carried down (c/d). The balance b/d is on the 1st (beginning) of the month and the balance c/d is at the end of the month 30th/31st (ignoring February).

Record the totals and balance of each general ledger account in the table shown below by:

- **inserting the balance brought down at 1 June.**
- **showing whether the balance brought down will be a debit or credit balance, and**
- **inserting the total that will be shown in both the debit and credit columns after the account has been balanced.**

Account name	Balance b/d at 1 June £	Debit	Credit	Total shown in both the debit and credit columns £
Purchase ledger control	28,177	☐	☑	63,433
Bank charges	278	☑	☐	278
Fixtures and fittings	26,200	☑	☐	26,200
Capital	77,000	☐	☑	77,000

Purchase ledger control

Date	Details	Amount	Date	Details	Amount
30 May	Bank	35,256	1 May	Balance b/d	6,711
31 May	Balance c/d	28,177	30 May	Purchases	56,722
		63,433			63,433
			1 June	Balance b/d	28,177

Bank charges

Date	Details	Amount	Date	Details	Amount
1 May	Balance b/d	223	31 May	Balance c/d	278
14 May	Bank	55			
		278			278
1 June	Balance b/d	278			

Fixtures and fittings

Date	Details	Amount	Date	Details	Amount
1 May	Balance b/d	25,600	31 May	Balance c/d	26,200
31 May	Bank	600			
		26,200			26,200
1 June	Balance b/d	26,200			

Capital

Date	Details	Amount	Date	Details	Amount
31 May	Balance c/d	77,000	1 May	Balance b/d	76,000
			17 May	Journal	1,000
		77,000			77,000
			1 June	Balance b/d	77,000

Task 9 (12 marks)

This exam task will be about using the general ledger to extract balances and showing the column to use in the trial balance e.g. debit or credit. You need to be able to transfer balances to the initial trial balance and total and balance the initial trial balance.

A 'trial balance' (a 'trial of balances') as the name suggests is an accounting statement where all the debit and credit balances from the general ledger (a double-entry system), are shown together to test their equality. The sales ledger and purchases ledger accounts are independent from the general ledger and double entry process and are not included in a trial balance. The total money owed from credit customers or money owed to credit suppliers of the business are represented by the sales and purchases ledger control accounts which are general ledger accounts shown in the trial balance.

In a double entry system when a debit is made, a corresponding credit of equal amount is made in the general ledger system, so when all the general ledger accounts are totalled and balanced the trial balance tests the accuracy of the double entry process.

The purpose of a trial balance is to ensure that all entries made in the business's general ledger accounts are properly balanced and check the accuracy of entries made before a final set of financial accounts are produced. If the totals for debit and credit balances do not agree then errors have definitely occurred, but even if the totals for debit and credit balances do agree it does not guarantee the general ledger accounts are free from errors or omissions.

The trial balance is a 'statement of balances' not an account and it is prepared to check the arithmetical accuracy of accounting entries made.

Double entry tips:

DEAD CLIC

Debit	**Credit**
Expenses	**L**iabilities
Assets	**I**ncome
Drawings	**C**apital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

Transfer each amount to the debit or credit column of the trial balance and total the trial balance shown below. Do not enter figures with decimal places in the trial balance and do not enter a zero into unused cells.

(12 marks)

Account name	Amount	Debit	Credit
Drawings	17,000	**17,000**	
Sales	63,778		**63,778**
Shop expenses	3,678	**3,678**	
Shop equipment and fittings	36,200	**36,200**	
Purchases	15,399	**15,399**	
Capital	25,593		**25,593**
Inventory	5,500	**5,500**	
Sales ledger control	3,156	**3,156**	
Staff wages	11,000	**11,000**	
Purchases ledger control	2,562		**2,562**
	Totals:	**91,933**	**91,933**

Task 10 (12 marks)

Within this exam task you need to demonstrate an understanding of the process of recording financial transactions, this will include:

- the accounting equation: calculation of assets, liabilities and capital, dual effect of transactions
- the classification of items: assets and liabilities
- the classification of income and expenditure: capital income, capital expenditure, revenue income, revenue expenditure
- the different types of code: customer account, supplier account, product
- where to use codes: sales, sales returns and discounts allowed daybooks and purchases, purchase returns and discounts received daybooks, sales and purchases ledgers
- how to create codes: alphabetical, numerical, alphanumerical.

This exam task will also revisit some of the syllabus areas covered in earlier tasks, this will include:

- the purpose of business documents: petty cash voucher, invoice, credit note (including for PPD), remittance advice, statement of account.
- the difference between discounts offered: prompt payment, trade and bulk
- how discounts are shown on invoices: prompt payment, trade and bulk
- how to use credit notes to adjust for PPD and how PPD is recorded once taken: discounts allowed or discounts received daybook, sales or purchases ledger account, general ledger discounts allowed or received account as income or expenditure, sales or purchases ledger control account, value added tax (VAT) account.

Capital v Revenue

Your syllabus expects you to understand the classification of income and expenditure: capital income, capital expenditure, revenue income, revenue expenditure. Capital income or expenditure is more permanent and long lasting within the business typically beyond 12 months. Revenue income or expenditure is typically consumed by a business within a 12 month period.

Capital expenditure is money spent by a business to purchase 'non-current assets' (also called fixed assets). Non-current assets are assets which are used by the business beyond a 12-month period. These assets are long-term investments made and work within the business to help generate the products, services or cash that it generates.

Examples of capital expenditure

- Land and buildings.
- Manufacturing plant and equipment.
- Computer equipment.
- Office equipment.
- Furniture, fixtures, and fittings.
- Motor vehicles.

Such examples above typically last in the business beyond a 12 month period. Assets can be 'non-current assets' like all the examples above, or assets can be 'current assets', such as inventory for resale, trade receivables and cash in the bank. Current assets are the opposite to non-current assets because they normally do not last in the business beyond a 12 month period.

Revenue expenditure is the opposite to capital expenditure, that is money spent by a business on expendable items where the benefit is short lived. Revenue expenditure will give benefit to a business that does not last beyond 12 months, unlike capital expenditure. For example, if the monthly rent is paid by the business for premises, the benefit will last one month, or if a motor vehicle is filled up with petrol, the fuel would be consumed typically within a week or a few months at the most.

Examples of revenue expenditure

- Purchases of inventory for resale.
- Rent, insurance and heating of business premises.
- Motor vehicle expenses e.g. fuel, insurance and repairs.
- Staff wages.
- Advertising costs.
- Interest and bank charges paid.

In conclusion capital expenditure are 'assets' (non-current assets) and revenue expenditure are 'expenses' of a business.

The meaning of capital and revenue can also be applied to income. Capital income is permanent and long lasting in the business, income that generally would be considered as existing beyond a 12 month period in the business. Revenue income would be the opposite.

Examples of capital income

- Capital introduced by the owner of the business.
- Bank loans.
- Sale of non-current assets e.g. premises and motor vehicles.

Examples of revenue income

- Sale of goods to customers.
- Interest received on bank balances.
- Discounts received from suppliers.
- Rent received if the business rents premises it owns.

Coding

Costs are coded from original documentation received e.g. purchase invoices, credit notes, payroll data, cheque stubs and cash payments. This enables efficiency and consistency of data processing, as well as segmenting costs (or income) to help identify trends e.g. sales going up, costs going down, profits going up etc.

The general ledger would contain a set of numbered (coded) ledger accounts used to track financial transactions. Each ledger account will have its own unique code to summarise each type of asset, liability, revenue and expense, as well as the capital invested by the owner of the business. For example, expenses could use code '0980' to represent advertising expenses and code '0981' to represent motor vehicle expenses etc. Codes are also used for supplier and customer accounts in the purchases and sales ledgers of the business.

Each organisation will have its own coding structure there is no hard or fast rules how coding systems should be designed.

Examples of cost codes

- Numeric (numbers only)
- Alphabetic (letters only)
- Alpha-numeric (numbers and letters)

The accounting equation

Total **A**ssets (debit) – Total **L**iabilities (credit) = **C**apital (credit)

The accounting equation states that the sum of the business's total assets less its total liabilities would be equal to capital owed by the business to its owner. Capital is the residual interest (whatever is left) from the assets of the business after deducting all liabilities, it is a credit balance according to the rules of double entry because it represents what is owed by the business to its owner.

Fundamental to the understanding of this equation is the double entry system of accounting and the dual effect of transactions, every transaction recorded by double entry effects at least two general ledger accounts and there is a debit and credit of equal and opposite effect. Because of double entry and the dual effect the accounting equation will always hold true.

You may have to rearrange the accounting equation in exam tasks, to find a different element other than capital. All three calculations by rearrangement of the equation is shown below.

- A - L = C
- L + C = A
- A - C = L

(a) Identify each document used for each of the descriptions shown below.

(4 marks)

Description	Document
A letter sent by a customer to a supplier to inform the supplier that their invoice has been paid.	Remittance advice
A form or letter sent by a seller to a buyer, as evidence of a reduction in sales.	Credit note
A piece of paper left in a cheque book after a cheque has been written and taken out.	Cheque book stub
Shows invoices to and payments from the customer during a specified time period and an ending balance.	Statement of account

(b) Show whether each transaction will be classified as capital expenditure, capital income, revenue expenditure or revenue income by placing the appropriate classification against each transaction in the table shown below. You can use each classification more than once.

(4 marks)

Transaction	Classification
Purchases of goods for resale.	Revenue expenditure
Sale of a motor vehicle used in the business.	Capital income
Investment made into the business by the owner.	Capital income
Sale of inventory by the business.	Revenue income

(c) Show the accounting equation by inserting the appropriate figures. Enter all figures as positive values.

(4 marks)

Assets	Liabilities	Capital
46,653	24,454	22,199

Assets and liabilities	£	
HMRC liability	6,375	**Liability**
Payroll liability	1,288	**Liability**
Computer equipment	9,594	**Asset**
Inventory	3,367	**Asset**
Cash in the bank	7,892	**Asset**
Sales ledger control	25,800	**Asset**
Purchases ledger control	16,791	**Liability**

Total assets	**46,653**
Total liabilities	**24,454**
Capital = Assets - Liabilities	**22,199**