

## Mock Exam One AAT L2 Introduction to Bookkeeping

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## Assessment information:

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

- This assessment contains 11 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.
- The total number of marks for this assessment is 100 .
- Read every task carefully to make sure you understand what is required.
- 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 state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 10057.
- 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.
- Mathematical rounding should be applied where appropriate.


## Scenario

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

- Businesses use a variety of bookkeeping systems.
- Double entry takes place in the general ledger.
- The VAT rate is $20 \%$.


## Task 1 (10 marks)

This task is about manual and digital bookkeeping systems.
(a) Identify each document used for each of the descriptions shown below.

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

Document:

Remittance advice

Cheque book stub

Credit note

Statement of account

Accounts are to be opened for two new suppliers. Supplier account codes include six digits. The first three letters of the supplier name, followed by the three digit sequential number that represents the number of supplier accounts created. The last supplier account code created is shown in the table below.
(b) Enter the account codes for each of the two new suppliers in the table below.

| Supplier | Supplier <br> account code |
| :--- | :---: |
| Acer Solvents | ACE233 |
| Bigger Glues |  |
| Dredd Flumes |  |

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

The coding system used for supplier accounts is $\square$
Picklist: Alphabetical, Alphanumerical, Numerical.
(d) Identify whether the following statements regarding digital bookkeeping systems are true or false.

| Statement | TRUE | FALSE |
| :--- | :---: | :---: |
| Digital systems can save time and reduce errors <br> compared to a manual book keeping system. | $\square$ | $\square$ |
| Errors can occur in a digital book keeping and manual <br> book keeping system. | $\square$ | $\square$ |

A sales invoice to a credit customer which includes VAT has been omitted from a digital bookkeeping system.
(e) Identify ONE consequence of this error.

| Consequence |  |
| :--- | :---: |
| The total amount owed by credit customers would be overstated | $\square$ |
| Sales income of the business would be overstated | $\square$ |
| The error will be detected when a customer statement is sent to the <br> credit customer. | $\square$ |
| VAT due on the sales invoice omitted will be understated. | $\square$ |

Task 2 (10 marks)
This task is about principles of double-entry bookkeeping.
A business has the following assets and liabilities.

| Assets and liabilities | $\mathbf{£}$ |
| :--- | :---: |
| 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 |

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

| Assets | Liabilities | Capital |
| :--- | :--- | :--- |
|  |  |  |

An owner of a business deposited $£ 10,000$ of their own personal money into their business bank account.
(b) How are the elements of the accounting equation effected by this transaction.
(3 marks)
Tick ONE box for each row.

|  | Increase | Decrease | No change |
| :--- | :---: | :---: | :---: |
| Assets | $\square$ | $\square$ | $\square$ |
| Liabilities | $\square$ | $\square$ | $\square$ |
| Capital | $\square$ | $\square$ | $\square$ |

The transactions below have been entered into the receivables ledger control account with the effect of either increasing or decreasing this asset balance for money owed to the business from credit customers.
(c) Identify the opposite effect of each receivables ledger control transaction. You should ignore VAT.
(4 marks)

| Transaction in the receivables ledger control account | Opposite effect to the <br> receivables ledger <br> control account |
| :--- | :---: |
| Credit notes sent to credit customers for discounts allowed |  |
| Sales invoices sent to credit customers |  |
| Cheques received from credit customers to settle amounts owed |  |
| Dishonoured cheque returned by the bank that was sent from a credit customer |  |

Picklist: Increase assets, Decrease assets, Increase liabilities, Decrease liabilities, Increase income, Decrease income, Increase expenses, Decrease expenses.

End of Task

Task 3 (10 marks)
This task is about processing customer invoices or credit notes and entering in daybooks. 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.

|  | $£$ |
| :--- | :---: |
| 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.

Sales daybook

| Date <br> $20 X X$ | Details | Invoice <br> number | Total <br> $£$ | VAT <br> $£$ | Net <br> $£$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $20-\mathrm{Apr}$ | 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.
$£$ $\square$

Task 4 (10 marks)
This task is about processing receipts from customers. A cheque for $£ 2,539$ has been received from MZ Ltd which they incorrectly state is in full settlement of their account on $31^{\text {st }}$ March. The customer's account in the receivables ledger is shown below.
MZ Ltd

| Date <br> 20XX | Details | Amount <br> $£$ | Date <br> 20XX | Details | Amount <br> $£$ |
| :--- | :--- | ---: | :--- | :--- | :--- |
| 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 |  |  |  |

(a) Select which THREE transactions that are still outstanding by circling on the transactions below.

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

A payment has been received from a credit customer for a sales invoice due. The customer has incorrectly calculated a prompt payment discount which was allowed on the sale invoice.

| Customer | Prompt <br> payment <br> discount | Invoice <br> amount <br> $£$ | Amount paid by <br> the customer <br> $£$ |
| :--- | :---: | :---: | :---: |
| ECHO Systems | $2.5 \%$ | $£ 6,345.00$ | $£ 6,154.65$ |

(b) Complete the following statement.

The customer incorrectly calculated a prompt payment discount and has $\square$
Picklist: Overpaid the invoice, Underpaid the invoice.

A credit note has been prepared by QAR limited using a goods returned note sent from a customer. Both these documents are shown below. The credit note relates to goods returned by Marco Limited on 2 May 20XX.
(c) Identify any discrepancies on the credit note by clicking on each left hand box shown below and then an appropriate right hand box to select an answer.


## End of Task

## Task 5 (10 marks)

This task is about processing supplier invoices or credit notes and entering in daybooks.
The following invoice and purchase order relates to goods received from WR Limited.
Purchase order

(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.


Price of goods

Incorrectly shown on
the invoice

The invoice below has been received from JAC Ltd.

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

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

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.

(c) Complete the following statement.
(1 mark)
A credit note from a supplier to reverse purchase invoice amounts, due to a prompt payment discount would be recorded in the $\square$

Picklist: Purchase Returns Day Book, Discounts Received Day Book, Discounts Allowed Day Book

## Task 6 (10 marks)

This task is about processing payments to suppliers.
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 payables ledger. Shown below is the account of MAR Limited in the payables 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.

Statement of account


MAR Limited

| Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ | Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ |
| :--- | :--- | ---: | :--- | :--- | ---: |
| 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.
$£ \quad \square$

This is the account of ZAR Plc in the payables 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 <br> $\mathbf{2 0 X X}$ | Details | Amount <br> $\boldsymbol{£}$ | Date <br> $\mathbf{2 0 X X}$ | Details | Amount <br> $\mathbf{£}$ |
| :---: | :--- | ---: | ---: | :--- | ---: |
| 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

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

## $£$

$\square$
-

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


Invoice

26 Hall Street, London, WL3 12YZ.

VAT registration number 820688901
nvoice No 1293

To: BB Limited
Account code: BB002

Dated: 27 May 20XX
Invoice

|  |  |
| :---: | :---: |
|  |  |
| VAT registration number 845999099 |  |
| Invoice No 0098228 |  |
| To: BB Limited |  |
|  | Dated: 27 Ma |
|  | $\varepsilon$ |
| 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.

|  | TRUE | FALSE |
| :--- | :---: | :---: |
| The amount BB Limited must pay to ABC Ltd after <br> the prompt payment discount would be $£ 399.84$. | $\square$ | $\square$ |
| The latest ABC Ltd must be paid by BB Ltd to take <br> advantage of the PPD would be the 1 June 20XX. | $\square$ | $\square$ |
| The amount BB Limited must pay to IP Ltd after the <br> prompt payment discount would be $£ 28.80$. | $\square$ | $\square$ |
| The latest IP Ltd must be paid by BB Ltd to take <br> advantage of the PPD would be the 4 June 20XX. | $\square$ | $\square$ |

Task 7 (8 marks)
This task is about processing transactions in the cash book.
The two transactions shown below have been received by a business and are ready to be entered in the cash book.

- 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.
Cash book - debit side

| Details | Cash <br> $£$ | Bank <br> $£$ | VAT <br> $£$ | Trade <br> receivables <br> $£$ | Cash sales <br> $£$ | Other <br> $£$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Balance b/f | 990 | 8332 |  |  |  |  |
| Interest received |  | 58 |  |  |  | 58 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| 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)
£

The credit side of the cash book shows total bank payments during the month were £13,940.
(c) 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)
$£$ $\square$

End of Task

Task 8 (6 marks)
This task is about processing transactions in the petty cash book.
A business restores a petty cash imprest level of $£ 250.00$ on the first day of each month. Two petty cash vouchers are shown below. PC Voucher No: 34 has already been entered in the petty cash book. PC Voucher No: 35 has been received and is ready to be entered in the petty cash book for the month.

Petty cash voucher


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'.
(6 marks)
Debit side

| Date <br> $20 X X$ | Details | Amount <br> $£$ | Date <br> $20 X X$ | Details | Amount <br> $£$ | VAT <br> $£$ | Postage <br> $£$ | Stationery <br> $£$ | Miscellaneous <br> $£$ |
| :--- | :--- | :---: | :---: | :--- | :---: | :---: | :---: | :---: | :---: |
| 1 May | Balance b/f | 250.00 | 7 May | Post office | 10.20 |  | 10.20 |  |  |
|  |  |  | 19 May | Stationery | 30.96 | 5.16 |  | 25.80 |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Totals | 250.00 |  | Totals | 250.00 |  |  |  |  |

Picklist: Balance c/f, Balance b/f, Stationery, Tea and coffee, Postage, Miscellaneous, VAT.

Task 9 (6 marks)
This task is about processing recurring entries.
A new transaction has been arranged by a business.
Today's date is 3 March 20X8. The business has arranged for an amount of $£ 2,400$ to be paid by standing order for the repayment of a business loan over the next six months to a bank. There is no VAT on this transaction. The payment is to be made on the second day of each month, starting on the $2^{\text {nd }}$ day of next month.
Complete the table shown below to set up the recurring entry.

| Transaction type | Bank |
| :--- | :--- |
| General ledger code |  |
| Net amount |  |
| VAT amount | GBP Pounds |
| Currency |  |
| First run on |  |
| Last run on |  |
| Interval |  |

Pick list for general ledger code: 2891 VAT, 2976 Bank Loan, 2392 Cash.
Picklist for net amount: £400, £2,000, £2,400, £2,880.
Picklist for VAT amount: $0, £ 400, £ 480$.
Picklist for first run and last run: 2 March 20X8, 2 April 20X8, 2 May 20X8, 2 June 20X8, 2 July 20X8, 2 August 20X8, 2 September 20X8, 2 October 20X8.

Picklist for interval: Daily, Weekly, Monthly, Bi-Monthly.

Task 10 (10 marks)
This task is about transferring data from the books of prime entry.
These are totals of a cash book at the end of the month. The cash book is used as a book of prime entry and is part of the general ledger.

| $\begin{gathered} \text { Cash } \\ £ \end{gathered}$ | $\begin{gathered} \text { Bank } \\ £ \end{gathered}$ | VAT | Trade receivables £ | Cash sales £ | $\begin{gathered} \text { Cash } \\ £ \end{gathered}$ | $\begin{gathered} \text { Bank } \\ £ \end{gathered}$ | $\begin{gathered} \text { VAT } \\ £ \end{gathered}$ | Trade payables £ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 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.
(10 marks)


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

Task 11 (10 marks)
This task is about totalling and balancing ledger accounts.
The following accounts were in the general ledger at the last day of May.
Payables 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.
(10 marks)

| Account name | Balance b/d <br> at 1 June <br> $£$ | Debit | Credit | Total shown in both <br> the debit and credit <br> columns <br> $£$ |
| :--- | :---: | :---: | :---: | :---: |
| Payables ledger control |  | $\square$ | $\square$ |  |
| Bank charges |  | $\square$ | $\square$ |  |
| Fixtures and fittings |  | $\square$ | $\square$ |  |
| Capital |  | $\square$ | $\square$ |  |

## End of Task



## Revision Notes

## Invoices

An invoice is a dated document that lists goods delivered or services performed, including the amount due and any value added tax (VAT) if applicable.

## Credit notes

A credit note is a negative or 'reverse' invoice, it shows that a customer does not have to pay the full amount of an invoice due.

## Calculating VAT amounts

- $1 / 5 x$ the net amount (excluding VAT) $=$ the VAT amount.
- $1 / 6 \times$ the total amount (including VAT) $=$ the VAT amount.


## The 'rounding down' rule for VAT

When a business supplies goods or services, the VAT amount may not always work out as a neat figure in pounds and pence. In such cases VAT is normally 'rounded down' to the nearest penny, not rounded up.

## Types of discount

## Bulk discounts

A bulk discount is a discount available on the item price of the product when you buy more than a certain quantity (volume).

## Trade discount

Trade discounts could be offered to customers (buyers) based on their status, amounts they spend, or the frequency of how often they purchase goods from the seller. Trade discounts encourage trade and allow the buyer to make a profit by reselling the goods at a higher price.

Trade and bulk discounts are deducted at the time the invoice is prepared to work out the net amount to be shown on an invoice, this is because these discounts are 100\% certain. Always deduct trade and bulk discounts from the net amount to be shown on an invoice, then calculate the VAT amount.

## Prompt payment discounts (PPD)

A prompt payment discount (PPD) may also be called an early payment discount or a cash discount. It is a reduction from the total amount of an invoice due (including VAT) in order to incentivise the buyer to pay an invoice earlier.

Prompt payment discounts (PPD) are not deducted at the time the invoice is prepared because it is not $100 \%$ certain whether the PPD will be taken. A PPD is therefore calculated on the full amount of the invoice due, including VAT. If a PPD is taken then a credit note will be issued by the seller and the customer's account balance updated for the credit note amount.

## The day books (also called books of 'original' or 'prime entry')

Day books keep a record of a business's past transactions. In a manual bookkeeping system the day books will complete the first entries in the accounting system for transactions such as invoices, credit notes, bank receipts and payments. The details from these documents are recorded every day, hence the term 'day books' or books of 'prime entry', meaning of first importance.
At the end of each accounting period the day books are totalled (amounts added up) and the summary amounts posted to the general ledger accounts using a double entry system. Transactions recorded in the day books are also used to update the receivables ledgers (customer accounts for credit sales) and payables ledgers (supplier accounts for credit purchases).
The day books (also called books of 'original' or 'prime entry')

- Sales Day Book (SDB records sales invoices issued to credit customers).
- Sales Returns Day Book (SRDB records credit notes to reverse sales invoices issued to credit customers, due to goods returned or disputes with customers).
- Discounts Allowed Day Book (DADB records credit notes to reverse sales invoices, due to prompt payment discounts allowed for customers, if settling sales invoices early).
- Purchase Day Book (PDB records purchase invoices issued from credit suppliers).
- Purchase Returns Day Book (PRDB records credit notes received from suppliers to reverse purchase invoices issued from credit suppliers, due to goods returned or disputes with suppliers).
- Discounts Received Day Book (DRDB records credit notes received from suppliers to reverse purchase invoices, due to prompt payment discounts received from suppliers, if settling purchase invoices early).
- Cash Book (CB records all cash and bank transactions for the business).
- Petty Cash Book (PCB records very small cash transactions for the business).
- Journal Book (JN records any postings made to the general ledger for accounting adjustments that are not recorded in any other day book, such as to correct errors and omissions).


## The general ledger

The five financial elements can be represented by general ledger accounts when recording business transactions, these are assets, liabilities, capital, income and expenses.

## Assets

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

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


## Liabilities

Present obligations of the business arising from past events and in future money will be paid out by the business to settle outstanding balances.

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


## Capital

The residual interest (whatever is left) from the assets of the business after deducting all liabilities of the business. The balance of assets less liabilities (net assets) represents what is owed by the business to the owner of the business. A drawings account also records any money taken from the business by the owner. A drawings account is kept separate to the capital account because it provides more information.

## Income

Money earned or received by the business from the sale of goods or services, or from other investments and income sources.

- Cash sales (sales that were for cash, not on credit).
- Credit sales (sales that were on credit).
- Rent received from rental of business premises.
- Bank interest received.
- Discounts received (prompt payment discounts) from suppliers.


## Expenses

Costs incurred or paid for by the business in the normal course of trade, such as the cost of goods purchased for resale and other expenses consumed.

- Cash purchases (purchases that were for cash, not on credit).
- Credit purchases (purchases that were on credit).
- Rent payments for business premises.
- Premises insurance, light and heat.
- Staff wages.
- Motor vehicle running costs.
- Advertising and marketing.
- Depreciation (an expense for the wear and tear, or fall in value of long-term assets used by the business, such as for machines, computers and motor vehicles).
- Bank interest and bank charges.
- Discounts allowed (prompt payment discounts) to credit customers.
- Accountancy and legal services.

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

## The double entry system and dual effect

The general ledger is a double-entry accounting system, whereby ledger accounts are kept to record all the financial elements needed to produce a statement of profit or loss (reporting general ledger account balances for 'income' and 'expenses') and a statement of financial position (reporting general ledger account balances for 'assets', 'liabilities' and 'capital').

Accounting transactions recorded in a general ledger system require a corresponding and opposite entry every time a transaction is entered into the system. Debit (left hand side) entries made should always be equal to credit (right hand side) entries made, and so amounts posted as debits and credits must always agree.

## DEAD CLIC

Don't get clouded in the double entry logic, ledgers are just balances kept for the five financial elements and you are either 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. DEAD CLIC is an acronym that defines elements of the financial statements and indicates whether each element would be overall a debit or credit balance. It can be used for determining the correct debit or credit balance that would exist in a ledger account, but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease a ledger account balance.

## DEAD CLIC

| Debit | Credit |
| :--- | :--- |
| Expenses | Liabilities |
| Assets | Income |
| Drawings | Capital |


| The elements | Natural state | Increase balance <br> (as per the <br> natural state) | Decrease balance <br> (opposite to <br> natural state) |
| :--- | :---: | :---: | :---: |
| Income | Credit | Credit | Debit |
| Expenses | Debit | Debit | Credit |
| Assets | Debit | Debit | Credit |
| Liabilities | Credit | Credit | Debit |
| Capital | Credit | Credit | Debit |

## Coding ledger accounts

Ledgers normally contain a set of numbered (coded) accounts that will be used to make entries and track financial transactions. Each ledger account would have its own unique ledger code for example, general ledger expenses could use code '0980' to represent advertising expenses and code '0981' to represent motor vehicle expenses.

## Examples of cost codes

- Numerical (numbers only)
- Alphabetical (letters only)
- Alpha-numerical (mixture of letters and numbers)


## Different types of code:

- General ledger codes
- Customer account codes
- Supplier account codes
- Product codes


## The trial balance

A 'trial balance' (a 'trial of balances') as the name suggests is an accounting statement where all debit and credit balances from the general ledger (a double-entry system) are shown together to test their equality. The receivables and payables ledgers are independent from the general ledger 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 receivables and payables ledger control accounts which are general ledger accounts shown in the trial balance. Exam tasks will not require you to prepare a trial balance for a business but its purpose must be understood.

In a double entry system whenever a debit entry is made, a corresponding credit entry of equal amount is also made in a general ledger (double entry) system. When all general ledger accounts are totalled and balanced the trial balance will test the accuracy of the double entry process.

## The accounting equation

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

Total Assets (debits) - Total Liabilities (credits) = Capital (a 'credit' balance remaining).
The three rearrangements of the accounting equation are shown below.

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


## The receivables ledger

When a significant amount of detailed information is needed for credit sales transactions made to customers of a business, then a subsidiary ledger is commonly used. Subsidiary ledgers are kept when there is a large amount of transaction information that needs to be recorded, a subsidiary ledger avoids large volumes of transactions that would otherwise be recorded in the general ledger.
The 'receivables ledger' is also called the 'sales ledger' and also called 'trade receivables', it represents ledgers kept for each customer account, including the total balance owed by each customer to be 'received' by the business. It is a breakdown of the total amount of receivables that would be included in the general ledger.
The receivables ledger is not part of the double entry general ledger system, it is maintained separately and independently. The receivables ledger records the detailed transaction history for all credit customers of the business, which would include sales invoices, credit notes and money received from each credit customer.
The general ledger account that represents the total amount owed by credit customers of a business is the receivables ledger control account (RLCA), it contains only a summarised total amount posted for all credit customers of a business and does not give a detailed transactions history for each credit customer.
The day books (books of prime entry) will post all the detailed transactions recorded such as invoices and credit notes, to the receivables ledger account of each credit customer. At the end of each month the totals (summary) from the day books will be posted to the receivables ledger control account in the general ledger and each customer account in the receivables ledger will be totalled and balanced.

## Posting day books to the general ledger

| Credit Customers | Total Amount | VAT Amount | Net Amount |
| :--- | :---: | :---: | :---: |
| Sales Day Book (SDB) | DR <br> Receivables Ledger <br> Control | CR <br> VAT | CR <br> Sales |
| Sales Returns Day Book (SRDB) | CR <br> Receivables Ledger <br> Control | DR <br> VAT | DR <br> Sales Returns |
| Discounts Allowed Day Book (DADB) | CR <br> Receivables Ledger <br> Control | DR <br> VAT | Discounts Allowed |

## The payables ledger

When a significant amount of detailed information is needed for credit purchases made from suppliers to a business, then a subsidiary ledger is commonly used. Subsidiary ledgers are kept when there is a large amount of transaction information that needs to be recorded, a subsidiary ledger avoids large volumes of transactions that would otherwise be recorded in the general ledger.
The 'payables ledger' is also called the 'purchases ledger' and also called 'trade payables', it represents ledgers kept for each supplier account, including the total balance owed to each supplier to be 'payable' by the business. It is a breakdown of the total amount of payables that would be included in the general ledger.
The payables ledger is not part of the double entry general ledger system, it is maintained separately and independently. The payables ledger records the detailed transaction history for all credit suppliers to a business, which would include purchase invoices, credit notes and money paid to each credit supplier.
The general ledger account that represents the total amount owed to credit suppliers by a business is the payables ledger control account (PLCA), it contains only a summarised total amount posted for all credit suppliers to a business and does not give a detailed transactions history for each credit supplier.
The day books (books of prime entry) will post all the detailed transactions they have recorded such as invoices and credit notes, to the payables ledger account of each credit supplier. At the end of each month the totals (summary) from the day books will be posted to the payables ledger control account in the general ledger and each supplier account in the payables ledger will be totalled and balanced.

## Posting day books to the general ledger

| Credit Suppliers | Total Amount | VAT Amount | Net Amount |
| :---: | :---: | :---: | :---: |
| Purchases Day Book (PDB) | CR <br> Payables Ledger <br> Control | DR <br> VAT | DR <br> Purchases |
| Purchases Returns Day Book (PRDB) | DR <br> Payables Ledger <br> Control | CR <br> VAT | Purchases Returns |
| Discounts Received Day Book (DRDB) | DR <br> Payables Ledger <br> Control | CR <br> VAT | Discounts Received |

## The cash book

A cash book records transactions for both the bank account and the cash account (physical notes and coins, not kept in a bank account). Two amount columns are kept side by side to record transactions for both bank and cash receipts and payments.

A cash book keeps further analysis columns to record the reasons for each bank or cash amount received or paid. A cash book can have as many analysis columns as the business requires and there is no hard or fast rules how the analysis columns are labelled. Analysis columns for cash receipts and payments allow easier postings to be made from the cash book to the receivables, payables and general ledger.

The cash or bank account is treated as an 'asset' of a business because cash or money held in a bank account is owned by the business and so following DEAD CLIC principles for double entry logic, to increase an asset balance, you would debit cash or bank for receipts and to decrease an asset balance, you credit cash or bank for payments. In a cash book therefore, debit entries are made for money received (increasing the asset balance) and credit entries made for money paid (decreasing the asset balance).

## Analysing cash book receipts

Total amounts received (including VAT) are recorded in the cash or bank columns on the debit (left hand) side of a cash book. Analysis columns would then record (by credit entries) where each amount recorded was received from, for example VAT amounts, trade receivables (credit customers paying invoices), cash sales and bank interest received.

Cash sales are sales earned from customers that were not on credit. Cash sales are not recorded in the sales day book or a receivables ledger (these systems are only for credit purchases) and for this reason, cash sales must have any VAT amount recorded in the cash book using a VAT analysis column. The net sales amount and VAT amount from a cash sale must therefore be further analysed in the cash book.

Sale of goods on credit to customers are recorded in a sales day book (including the VAT amount on each sales invoice) and receivables ledger and for this reason, money received from credit customers do not have any VAT amount recorded in the VAT analysis column of a cash book.

## Analysing cash book payments

Total amounts paid (including VAT) are recorded in the cash or bank columns on the credit (right hand) side of a cash book. Analysis columns would then record (by debit entries) where each amount recorded was paid to, for example VAT amounts, trade payables (payments to credit suppliers), cash purchases and other expenses.

Cash purchases are purchases made from suppliers that were not on credit. Cash purchases are not recorded in the purchases day book or a payables ledger (these systems are only for credit purchases) and for this reason, cash purchases must have
any VAT amount recorded in the cash book using a VAT analysis column. The net purchases amount and VAT amount from a cash purchase must therefore be further analysed in the cash book.

Purchase of goods on credit from suppliers are recorded in a purchases day book (including the VAT amount on each purchase invoice) and payables ledger and for this reason, money paid to credit suppliers do not have any VAT amount recorded in the VAT analysis column of a cash book.

In a manual book keeping system the cash book at the end of each period will be totalled and the total summary amounts posted to general ledger accounts. Posting only the summarised total amounts to the general ledger saves allot of time by avoiding duplicating entries which have already been made in the cash book and reduces the risk of further errors made.

A business can use a variety of bookkeeping systems therefore if exam tasks require you to demonstrate journal postings for a cash book, it should make clear in the task information what type of bookkeeping system is used.

If a cash book is not treated as part of the double entry (general ledger) system and kept only as a book of prime entry, then all the summarised totals of a cash book are posted to the general ledger at the end of each period, including journal postings made to the cash and bank general ledger accounts.

| Transaction | Total Amount in the cash and <br> bank columns of a cash book | VAT and Net Amounts in the <br> analysis columns of a cash book |
| :--- | :---: | :---: |
| Money received | DR Bank or DR Cash | CR VAT and Net amounts |
| Money paid | CR Bank or CR Cash | DR VAT and Net amounts |

If a cash book is treated as part of the double entry (general ledger) system and kept also as a book of prime entry, then only the summarised totals of the VAT and net amounts in the analysis columns of a cash book are posted to the general ledger at the end of each period, excluding any journal postings to the cash and bank general ledger accounts. The reason is that the cash book also serves as part of the double entry system and therefore bank and cash have already been updated, but the postings are still required for the other side of the double entry that has not been completed at the end of each period.

## The petty cash book

Petty cash is a small amount of money kept in an office or workplace to pay for 'petty' (meaning small or trivial) transactions. Petty cash should be kept securely in a cash tin (locked away) and a nominated member of staff responsible for reimbursing expenses from the cash tin for items such as staff travel costs, tea, coffee or small amounts of stationery purchased by the business.

A petty cash book is a day book (book of prime entry) and is used to record small cash transactions and the balance of any money kept in a cash tin or locked away in a safe. A petty cash book looks very similar to a cash book and likewise records money paid in (debit entries) and money paid out (credit entries). Petty cash is an 'asset' (cash is owned by a business), following the double entry principle using DEAD CLIC an asset account is debited to increase the balance (cash receipts) and credited to decrease the balance (cash payments).

Any money received for petty cash would increase the 'asset' balance and would be 'debited' on the receipts side of the petty cash book. Any money received would normally be from the bank account whereby money is withdrawn from the bank to top up the petty cash balance (the double entry would be DR Petty cash and CR Bank).

## Types of imprest system

An imprest system replenishes a cash balance 'to a fixed amount' for example topping up the float (balance) to $£ 250.00$ whenever replenishment occurs. If the float is currently $£ 34.55$ then the amount topped up would be $£ 215.45$ ( $£ 250.00-£ 34.55$ ) to restore the balance to a fixed amount of $£ 250.00$. Top ups are for variable amounts each time and restoring the float to a fixed balance of $£ 250.00$.
A non-imprest system replenishes a cash balance 'by a fixed amount' for example topping up the float by $£ 250.00$ whenever replenishment occurs. If the float is currently $£ 34.55$ then the amount topped by $£ 250.00$, will increase the balance to $£ 284.55$ ( $£ 250.00+£ 34.55$ ). Top ups are for fixed amounts each time ( $£ 250.00$ ) and restoring the float to a variable balance, £ $£ 84.55$ in this case.

The total amounts paid from petty cash (including VAT) would decrease the 'asset' balance and these entries 'credited' on the payments side of the petty cash book. VAT and net analysis columns would then record where each amount was paid to for example, the VAT amount and the net amounts for stationery, tea/coffee, flowers etc.

In a manual book keeping system the petty cash book at the end of each period will be totalled and the total summary amounts posted to general ledger accounts. Posting only the summarised total amounts to the general ledger saves allot of time by avoiding duplicating entries which have already been made in the petty cash book and reduces the risk of further errors made.

## Types of book keeping system

A business can use a variety of bookkeeping systems therefore if exam tasks require you to demonstrate journal postings for a petty cash book, it should make clear in the task information what type of bookkeeping system is used.

If a petty cash book is not treated as part of the double entry (general ledger) system and kept only as a book of prime entry, then all the summarised totals of a petty cash book are posted to the general ledger at the end of each period, including journal postings made to the petty cash general ledger account.

| Transaction | Total Amount column of a <br> petty cash book | VAT and Net Amounts in the <br> analysis columns of a petty <br> cash book |
| :--- | :---: | :---: |
| Money received | DR Petty Cash | CR Bank |
| Money paid | CR Petty Cash | DR VAT and Net amounts |

If a petty cash book is treated as part of the double entry (general ledger) system and kept also as a book of prime entry, then only the summarised totals of the VAT and net amounts in the analysis columns of a petty cash book are posted to the general ledger at the end of each period, excluding any journal postings to the petty cash general ledger account. The reason is that the petty cash book also serves as part of the double entry system and therefore has already been updated in the general ledger, but postings are still required for the other side of the double entry that has not been completed at the end of each period.

## Digital accounting systems

The term digital system refers to a computerised system that can store, process and communicate information in a digital form. It is increasingly common for accounting records to be kept digitally on a computer, tablet, smart phone or cloud-based application. Most businesses now use electronic filing to submit VAT returns and keep digital business records.

Digital systems are considered less time consuming and less error prone than maintaining a manual book keeping system. Accounting software (a digital system) automatically completes the transfer of data from the day books to the general, receivables and payables ledgers. However the existence of various versions of accounting software and support of multiple users can still lead to significant errors and poor communication of information in a digital system.

## Processing recurring entries

Recurring means occurring again periodically or repeatedly. Recurring entries are regular transactions that appear in the accounts of a business. They are receipts or payments that are repeated and processed periodically e.g. every week or every month. Setting up recurring entries in a system allow time to be saved and there is less risk of any errors or omissions from transactions if repeated frequently.

## Characteristics of recurring entries

- A receipt or payment that is repeated periodically.
- Entries made to the same ledger accounts each period.
- The amount can be fixed or it can vary for each period.
- Entries can exist in a digital (automated) or manual accounting system.


Task 1 - Solutions (10 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 <br> supplier that their invoice has been paid. | Remittance advice |
| A form or letter sent by a seller to a buyer, as <br> evidence of a reduction in sales. | Credit note |
| A piece of paper left in a cheque book after a <br> cheque has been written and taken out. | Cheque book stub |
| Shows invoices to and payments from the customer <br> during a specified time period and an ending <br> balance. | Statement of account |

(b) Enter the account codes for each of the two new suppliers in the table below.
(2 marks)

| Supplier | Supplier <br> account code |
| :--- | :---: |
| Acer Solvents | ACE233 |
| Bigger Glues | BIG234 |
| Dredd Flumes | DRE235 |

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

The coding system used for supplier accounts is Alphanumerical.
(d) Identify whether the following statements regarding digital bookkeeping systems are true or false.
(2 marks)

| Statement | TRUE | FALSE |
| :--- | :---: | :---: |
| Digital systems can save time and reduce errors <br> compared to a manual book keeping system. | $\checkmark$ | $\square$ |
| Errors can occur in a digital book keeping and manual <br> book keeping system. | $\checkmark$ | $\square$ |

(e) Identify ONE consequence of this error.

| Consequence |  |
| :--- | :---: |
| The total amount owed by credit customers would be overstated | $\square$ |
| Sales income of the business would be overstated | $\square$ |
| The error will be detected when a customer statement is sent to the <br> credit customer. | $\square$ |
| VAT due on the sales invoice omitted will be understated. |  |

When a sales invoice is issued to a credit customer the dual effect is that sales income earned will increase and the balance owing by credit customers would increase (an asset). The double entry posting for a credit sale including VAT is to DR receivables ledger control account (asset increases), CR VAT (liability increases to pay VAT due on the sale) and CR sales (income earned increases).
If a sales invoice has been omitted from a digital bookkeeping system (or even a manual book keeping system), the effect would be that amounts owed from credit customers would be understated and sales income for the business would be understated. Also no VAT posting is made, so the VAT liability owing to HMRC will be understated. Just because a customer statement is sent to a customer does not mean that the error will be detected.

Task 2 - Solutions (10 marks)
(a) Show the accounting equation by inserting the appropriate figures. Enter all figures as positive values.

| Assets | Liabilities | Capital |
| :---: | :---: | :---: |
| 46,653 | 24,454 | 22,199 |


| Assets and liabilities | $\mathfrak{y}$ |  |
| :--- | :---: | :---: |
| 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
Total liabilities
Capital = Assets - Liabilities

| 46,653 |
| :---: |
| 24,454 |
| 22,199 |

(b) How are the elements of the accounting equation effected by this transaction.
(3 marks)
Tick ONE box for each row.

|  | Increase | Decrease | No change |
| :--- | :---: | :---: | :---: |
| Assets | $\checkmark$ | $\square$ | $\square$ |
| Liabilities | $\square$ | $\square$ | $\square$ |
| Capital | $\square$ | $\square$ | $\square$ |

The dual effect of the transaction is that the bank account (an asset) would increase by $£ 10,000$ and the capital account (capital, money owed by the business to the owner) would also increase by $£ 10,000$. There would be no change in liabilities. Double entry would be DR bank (increase this asset) and CR capital (increase capital).
(c) Identify the opposite effect of each receivables ledger control transaction. You should ignore VAT.
(4 marks)

| Transaction in the receivables ledger control account | Opposite effect to the <br> receivables ledger <br> control account |
| :--- | :--- |
| Credit notes sent to credit customers for discounts allowed | Increase expenses |
| Sales invoices sent to credit customers | Increase income |
| Cheques received from credit customers to settle amounts owed | Decrease assets |
| Dishonoured cheque returned by the bank that was sent from a credit customer |  |

- Credit notes would reduce amounts owing by credit customers in the receivables ledger control account. They would also increase expenses for discounts allowed. Double entry would be DR discounts allowed (increase expenses) and CR receivables ledger control account (reduce this asset).
- Sales invoices would increase amounts owing by credit customers in the receivables ledger control account. They would also increase income for sales earned. Double entry would be DR receivables ledger control account (increase this asset for money owed by credit customers) and CR Sales (increase income).
- Cheques received from credit customers would reduce amounts owing by credit customers in the receivables ledger control account. They would also increase the bank account for the money received. Double entry would be DR bank (increase this asset) and CR receivables ledger control account (reduce this asset).
- A dishonoured cheque returned by the bank. This is the opposite to a cheque received from a credit customer. It would increase amounts owing by credit customers in the receivables ledger control account (having taken off the cheque payment and reducing amounts owed by credit customers in the first place). This would also decrease the bank account for the money returned. Double entry would be DR receivables ledger control account (increase this asset) and CR bank (decrease this asset).

Task 3 - Solutions (10 marks)
(a) Calculate the amounts to be included in the invoice.

|  | $£$ |
| :--- | ---: |
| 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 | $300 \times £ 5.70$ | $1,710.00$ |
| Net amount after discount | $£ 1,710 \times 0.915^{* *}$ | $1,564.65$ |
| VAT | $£ 1564.65 \times 20 \%{ }^{*}$ | 312.93 |
| Total | $£ 1564.65+£ 312.93$ | $1,877.58$ |

- ** $8.5 \%=0.085$ (8.5 / 100)
- $1-0.085=0.915$
- $0.915 \times £ 1,710=£ 1564.65$
- Alternatively work out $8.5 \%$ of $£ 1710=0.085 \times £ 1710=£ 145.35$ (value of trade discount).
- £1710-£145.35=£1564.65
* VAT of $20 \%=20 / 100=0.2$
- $0.2 \times £ 1564.65=£ 312.93$
- Alternatively find $1 / 5$ of net amount $=1 / 5 \times £ 1564.65=£ 312.93$
- $1 / 5$ represents $20 \%$ as a fraction.
(b) What will be the amounts entered into the sales daybook when the invoice in (a) is completed.

Sales daybook

| Date <br> $20 X X$ | Details | Invoice <br> number | Total <br> $£$ | VAT <br> $£$ | Net <br> $£$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $20-\mathrm{Apr}$ | MZ Ltd | 1298 | $1,877.58$ | 312.93 | $1,564.65$ |

- Total is the gross amount (inclusive of VAT)
- Net amount excluded 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.
(3 marks)
$£$ 1,821.25


## Workings:

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


## Additional notes on discounts:

- Bulk and trade discounts are deducted first from the list price of the goods.
- The net amount is calculated after bulk and trade discounts have been deducted and hence these discounts are not shown in the net amount for an invoice. The VAT is therefore calculated on an invoice net amount after bulk and trade discounts have been deducted.
- Prompt payment discounts (PPD) are applied once payment has been made for an invoice within the agreed 'early or prompt payment' terms. The original invoice will be kept the same and a credit note issued to the customer for the net, VAT and total amount of the PPD taken. The receivables ledger of the customer would also be updated.

Task 4 - Solutions (10 marks)
(a) Select which THREE transactions that 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 <br> 20XX | Details | Amount <br> £ | Date <br> 20XX | Details | Amount |
| :--- | :--- | :---: | :---: | :--- | ---: |
| Q1-Mar | Bal b/f | 520 | 01-Mar | Credit note 120 | 160 |
| 05-Mar | Invoice 1137 | 369 | O5-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 <br> 20XX | Details | Amount <br> $£$ | Date <br> 20XX | Details | Amount <br> $£$ |
| :--- | :--- | ---: | :--- | :--- | ---: |
| 01-Mar | Bal b/f | 520 | 01-Mar | Credit note 120 | 160 |
| 05-Mar | Invoice 1137 | 369 | 05-Mar | Bank | 360 |
| 45-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 |  |  |  |

## (b) Complete the following statement.

The customer incorrectly calculated a prompt payment discount and has Underpaid the invoice.

- $£ 6,345.00 \div 100 \% \times 2.5 \%=£ 158.63$ PPD.
- $£ 6,345.00-£ 158.63$ PPD $=£ 6,186.38$ due to be paid.
- $£ 6,154.65$ was paid by the customer and therefore they have underpaid the invoice.

An alternative way to calculate the amount due is that $100 \%$ of the invoice is outstanding and a $2.5 \%$ PPD is to be applied. $100 \%-2.5 \%=97.5 \%$ due. $97.5 \% \times$ $£ 6,345.00=£ 6,186.38$ due to be paid.
(c) Identify any discrepancies on the credit note by clicking on each left hand box shown below and then an appropriate right hand box to select an answer.
(5 marks)


Task 5 - Solutions (10 marks)
(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.

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

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

Purchase daybook

| Date 20XX | Details | Invoice <br> number | Total <br> $£$ | VAT <br> $£$ | Net <br> $£$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 20 May | JAC Ltd | 3422 | 50.80 | 8.46 | 42.34 |

(c) Complete the following statement.

A credit note from a supplier to reverse purchase invoice amounts, due to a prompt payment discount would be recorded in the Discounts Received Day Book.

Task 6 - Solutions (10 marks)
(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.

Statement of account

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

## £6910.

The supplier account has been totalled and balanced to help with understanding. Payable ledger accounts keep all transactions to do with credit suppliers. Though the payables ledger is not part of the general ledger (so no double entry actually takes place), it follows the same double entry principle as a liability. 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 payments to suppliers, or credit notes from suppliers which will reduce the liability at the end of the period. This now finds the balance c/d at the end of the period.

MAR Limited

| Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ | Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ |
| :--- | :--- | ---: | :--- | :--- | ---: |
| 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.
(2 marks)
£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 payments to suppliers, or credit notes from suppliers which will reduce the liability at the end of the period. This now finds the balance c/d at the end of the period.

ZAR PIC

| Date <br> $\mathbf{2 0 X X}$ | Details | Amount <br> $\boldsymbol{£}$ | Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ |
| :--- | :--- | ---: | :--- | :--- | ---: |
| 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 | $\mathbf{1 , 3 2 0}$ | 26 May | Invoice 232 | 353 |
| 31 May | Balance c/d | $\mathbf{2 , 2 1 5}$ | 31 May | Invoice 288 | 3,522 |
|  |  |  |  |  |  |
|  |  | 16,344 |  |  | 16,344 |

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

|  | TRUE | FALSE |
| :--- | :--- | :--- |
| The amount BB Limited must pay to ABC Ltd after <br> the prompt payment discount would be £399.84. | $\square$ |  |
| The latest ABC Ltd must be paid by BB Ltd to take |  |  |
| advantage of the PPD would be the 1 June 20XX. |  |  |

Prompt payment discounts (PPD) are applied to the total amount of an invoice including VAT.

## Workings (IP Ltd):

- $2 \%$ discount if payment received within 8 days of date of invoice.
- $2 \%=0.02(2 / 100)$
- $£ 408.00 \times 0.02=£ 8.16$ (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 ( $98 \%$ of the total amount $x £ 408.00$ ) =£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.
- $3 \%=0.03(3 / 100)$
- $£ 960.00 \times 0.03=£ 28.80$ (the amount of total prompt payment discount).
- $£ 960.00-£ 28.80=£ 931.20$ to be settled to the supplier.

Alternatively, $1-0.03=0.97,0.97(97 \%$ of the total amount $x £ 960.00)=£ 931.20$ 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).

Task 7 - Solutions (8 marks)
(a) Make the necessary entries in the cash book and total each column.
(6 marks)

- For each receipt you need to record the total amount 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 into 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 $100 \%$ ). $£ 528 \div 120 \% \times 20 \%=$ VAT $£ 88$. Alternatively, $20 \% / 120 \%=1 / 6$ as a fraction. $1 / 6 \times £ 528=$ VAT $£ 88$. The remaining amount of the cash sale is recorded as cash sales ( $£ 528$ total received less £88 VAT) $=£ 440$.
- For credit customers settling balances outstanding (ASR Plc in this case), the amount of VAT 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 enter only the total in the cash or the bank total column and the other total amount entered as trade receivables (customers who owe you money).

Cash book - debit side

| Details | Cash <br> $£$ | Bank <br> $£$ | VAT <br> $£$ | Trade <br> receivables <br> $£$ | Cash sales <br> $£$ | Other <br> $£$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| 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.
£1253.
Cash

| Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ | Date <br> 20XX | Details | Amount <br> $\boldsymbol{£}$ |
| :---: | :--- | ---: | :--- | :--- | ---: |
| 1 May | Balance b/f | 990 |  | Payments | 265 |
|  | Receipts | 528 | 31 May | Balance c/f | $\mathbf{1 , 2 5 3}$ |
|  |  | 1,518 |  |  | 1,518 |

Cash is an 'asset' and therefore the balance brought forward (b/f) at the beginning of the month is on the debit side. All total receipts are debited to cash (increasing the asset) and payments credited to cash (decreasing the asset). The above 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 total amounts on the debit and credit side and find the greatest of the 2 total amounts, in this case the largest of the 2 total amounts is $£ 1,518$ total on the debit side. Bring the total of $£ 1,518$ over to the credit side and take away any reductions on the credit side (payments of $£ 265$ ). This should leave $£ 1,253$ as a balance on the credit side, to ensure the 2 total amounts agree to $£ 1,518$.

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

| Date <br> $\mathbf{2 0 X X}$ | Details | Amount <br> $\boldsymbol{£}$ | Date <br> $\mathbf{2 0 X X}$ | Details | Amount <br> $\boldsymbol{£}$ |
| :--- | :--- | ---: | ---: | :--- | :---: |
| 1 May | Balance b/f | 8,332 |  | Payments | 13,940 |
|  | Receipts | 3,458 |  |  |  |
| 31 May | Balance c/f | $\mathbf{2 , 1 5 0}$ |  |  |  |
|  |  | 13,940 |  |  | 13,940 |

Bank is normally an 'asset' and therefore the balance brought forward (b/f) at the beginning of the month is on the debit side. All total receipts are debited to bank (increasing the asset) and payments credited to bank (decreasing the asset). The above 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 total amounts on the debit and credit side and find the greatest of the 2 total amounts, in this case the largest of the 2 total amounts is $£ 13,940$ on the credit side. Bring the total amount of $£ 13,940$ over to the debit side and take away any reductions on the debit 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 total amounts agree to $£ 13,940$. Remember also the $£ 2,150$ is c/f on the debit side to 'balance' the 2 total amounts of $£ 13,940$, but overall it is a credit balance (it has more credit than debit entries in the ledger account), so at the start of the next month (1 June) it will be brought forward (b/f) as a credit balance (liability). The bank is a liability (credit balance) and is overdrawn.

Task 8 - Solutions (6 marks)
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'.
(6 marks)

| it side Credit side |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & \text { Date } \\ & \text { 20XX } \end{aligned}$ | Details | $\begin{gathered} \text { Amount } \\ £ \end{gathered}$ | $\begin{aligned} & \text { Date } \\ & 20 X X \end{aligned}$ | Details | $\underset{£}{\text { Amount }}$ | $\begin{gathered} \text { VAT } \\ £ \end{gathered}$ | Postage £ | Stationery £ | Miscellaneous £ |
| 1 May | Balance b/f | 250.00 | 7 May | Post office | 10.20 |  | 10.20 |  |  |
|  |  |  | 19 May | Stationery | 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 is on the debit side. All total receipts are debited to petty cash (increasing the asset) and payments credited to petty cash (decreasing the asset). In most cases receipts of petty cash will only include reimbursement of the petty cash float (normally from the bank).

To find the VAT amount for Tea and coffee you have $£ 11.96$ representing $120 \%$ (if you added $20 \%$ VAT to the net amount as $100 \%$ ). $£ 11.96 \div 120 \% \times 20 \%=$ VAT $£ 1.99$. Alternatively, $20 \% / 120 \%=1 / 6$ as a fraction. $1 / 6 \times £ 11.96=$ 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 total amounts (column called 'Amount') on the debit and credit sides and find the greatest of the 2 total amounts, in this case the largest of the 2 total amounts is £250 on the debit side (the cash float brought forward at the beginning of the month). Bring the total amount of $£ 250$ over to the credit side. This was already completed for you in the task. Now take away any reductions (entries) on the credit side (payments total $£ 53.12$ ). This should leave $£ 196.88$ ( $£ 250-£ 53.12$ ) as a balance on the credit side (balance c/f), to ensure the 2 total amounts agree to $£ 250$. The petty cash book is now totalled and balanced.

Remember the $£ 196.88$ is carried forward ( $\mathrm{c} / \mathrm{f}$ ) on the credit side to 'balance' the 2 total amounts of $£ 250$, but overall it is a debit balance (there is more debit entries than credits entries), so at the start of the next month (1 June) it will be brought forward (b/f) as a debit balance (because petty cash is an asset).

Task 9 - Solutions (6 marks)
Complete the table shown below to set up the recurring entry.

| Transaction type | Bank |
| :--- | :--- |
| General ledger code | 2976 Bank Loan |
| Net amount | 2400 |
| VAT amount | 0 |
| Currency | GBP Pounds |
| First run on | 2 April 20X8 |
| Last run on | 2 September 20X8 |
| Interval | Monthly |

Task 10 - Solutions (10 marks)
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 <br> $£$ | Debit | Credit |
| :--- | :---: | :---: | :---: |
| Trade receivables | 4699 | $\square$ | $\square$ |
| VAT | 67 | $\checkmark$ | $\square$ |
| Trade payables | 7824 | $\checkmark$ | $\square$ |
| Cash purchases | 335 |  | $\square$ |

The cash book is used as a book of prime entry and is part of the general ledger. This means that the transactions have already been entered for cash and bank in the general ledger with the effect of either increasing or decreasing the asset of cash or bank. At the end of the month only the total amounts in the analysis columns of the cash book therefore need posting to the general ledger.

- Cash or Bank is treated as an 'asset' and therefore DEBIT entries record total amounts for money received and CREDIT entries record total amounts for money paid.
- Since the DEBIT entries for money received has been made to the cash and bank accounts in the general ledger, then only the double entry for the other side needs to be posted (credited to the general ledger), which is trade receivables only in this case.
- Since the CREDIT entries for money paid has been made to the cash and bank accounts in the general ledger, then only the double entry for the other side needs to be posted (debited to the general ledger), which is VAT, trade payables and cash purchases in this case.

Task 11 - Solutions (10 marks)
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 <br> at 1 June <br> $£$ | Debit | Credit | Total shown in both the <br> debit and credit <br> columns <br> $£$ |
| :--- | :---: | :---: | :---: | :---: |
| Payables ledger control | 28,177 | $\square$ | $\checkmark$ | 63,433 |
| Bank charges | 278 | $\checkmark$ | $\square$ | 278 |
| Fixtures and fittings | 26,200 | $\checkmark$ | $\square$ | 26,200 |
| Capital | 77,000 | $\square$ | $\checkmark$ | 77,000 |

## Workings:

Payables 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 | $\mathbf{2 8 , 1 7 7}$ |

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 |  |  |  |

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 |

## Totalling and balancing ledger accounts

1. Look at both sides of the ledger account and find the side that has the biggest total amount on either the debit or credit side.
2. Add up the 'total' of all entries on the side that has the biggest total amount and place this 'total' amount on both sides of the ledger account.
3. Add up the entries on the side of the ledger account that has the smallest total amount.
4. The difference between the total amount and the entries made on the side that has the smallest total amount, is the balance carried down (c/d) at the end of the period.
5. The balance carried down (c/d) is entered on the side of the ledger account that had the smallest total amount, so that the totals entered on either side of the ledger account should now agree. This as an arithmetical control and considered good practice in manual ledger accounting.

The balance carried down (c/d) is a balancing figure to ensure that the total amounts on both sides of the ledger account agree at the end of the accounting period. The true debit or credit balance will be brought down (b/d) on the opposite side to where the balance is carried down (c/d).

In your exam the balance b/d is always recorded on the $1^{\text {st }}$ (beginning) of the month and the balance c/d is always recorded at the end of the month $30^{\text {th }} / 31^{\text {st }}$ (ignoring the month of February). Exam tasks may also refer to the balance carried down (c/d) as the balance carried forward (c/f) and refer to the balance brought down (b/d) as the balance brought forward (b/f).

