MarZar

Mock Exam One
AAT L2 Principles of Bookkeeping Controls

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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 our expert AAT tutors, giving real AAT exam style and standard tasks, that ensure the very best for exam success. All practice assessments are relevant for the current syllabus.

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Mock Exam One
AAT L2 Principles of Bookkeeping Controls

1

Assessment information:

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

- This assessment contains **8 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 80.

- 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.

Task 1 (10 marks)

This task is about using control accounts.

This a summary of transactions with credit suppliers during November.

(a) Show whether each transaction will be a debit or credit entry in the payables ledger account control.

(7 marks)

Transaction	Amount £	Debit	Credit
Balance owing as at 1 November	9,387	☐	☐
Goods purchased	54,329	☐	☐
Goods returned	5,509	☐	☐
Set off entry to the receivables ledger control	1,200	☐	☐
Discounts received	675	☐	☐
Journal credit to correct an error	440	☐	☐
Bank payments made	43,992	☐	☐

(b) Calculate the balance brought down in the payables ledger control account at 1 December and show whether it is a debit or credit balance.

(1 mark)

Amount £	Debit	Credit
	☐	☐

A VAT control account for the month of November is being prepared. The balance brought down has already been entered at the beginning of the month and the following transactions have been recorded.

VAT control account

Details	Amount £	Details	Amount £
Purchases daybook	1299	Balance b/d	2884
Bank	2884	Sales daybook	3492
		Purchases returns day book	56
Total	4183	**Total**	6432

(c) Calculate the balance brought down in the VAT control account at 1 December and show whether it is a debit or credit balance.

(2 marks)

Amount £	Debit	Credit
	☐	☐

- -

End of Task

Task 2 (10 marks)

This task is about reconciling control accounts.

These are the balances in a receivables ledger at 1 November.

Debit balances

Transactions	Amount £
Fast Traders	3,468
Hatter Ltd	2,602
MAM Plc	2,748
OSG Ltd	4,599

Credit balances

Transactions	Amount £
ABC Ltd	260
Zee Traders	250

The balance for the receivables ledger control account on 1 November has not yet been recorded. The receivables ledger control account had total debit entries amounting to £37,880 and total credit entries amounting to £26,984.

(a) Complete the reconciliation statement below by:

- **inserting the balance of the receivables ledger control account**
- **inserting the total balance in the receivables ledger**
- **calculating any difference.**

(3 marks)

Reconciliation statement	Amount £
Receivables ledger control balance	
Total balance in the receivables ledger	
Difference	

(b) Which ONE of the reasons below could explain the difference you calculated in (a).

(1 mark)

Reasons	
Goods were entered twice in the receivables ledger control account	☐
Goods returned were not entered in the receivables ledger account of a customer	☐
An irrecoverable debt was written off in the receivables ledger of a customer but omitted as an entry in the receivables ledger control account	☐

- -

You are preparing a payables ledger control account reconciliation for the month.

The current balance showing in the payables ledger control account is a credit balance of £27,042 and the total amount of all supplier account balances in the payables ledger is a credit balance of £22,044.

The payables ledger has been compared to the payables ledger control account and the following errors or omissions have been identified.

1.	The total column of the purchases daybook was undercast by £1,000. The amount posted to the payables ledger control account was £131,673 but the correct entry should have been £132,673.
2.	Purchases returns of £5,640 were credited to the payables ledger control account in error. The correct entries were made in the payables ledger accounts of suppliers.
3.	A purchase invoice for £240 from Streets Ltd was omitted from purchases daybook. The correct entry was made in the payables ledger account of this supplier.
4.	A set-off entry of £5,042 was omitted from the payables ledger account of M. Smith. The correct entry was made in payables ledger control account.
5.	Purchase returns of £120 were debited in error to the payables ledger account of Winkle Traders Ltd instead of the payables ledger account of Traders RUS Ltd.
6.	A purchase invoice was sent by a supplier for £360 in error, the correct amount on the invoice should be £3,600. The incorrect amount of £360 was posted to both the payables ledger and payables ledger control account.

(c) Using the table below show THREE adjustments that should appear in the payables ledger control account, to reconcile this balance to the payables ledger. Enter only ONE figure for each line. Do not enter zeros in unused cells. Do NOT use minus signs or brackets.

(6 marks)

Account	Dr £	Cr £
⬇		
⬇		
⬇		

Picklist: Adjustment 1, Adjustment 2, Adjustment 3, Adjustment 4, Adjustment 5, Adjustment 6

End of Task

Task 3 (8 marks)

This task is about payment methods and reconciling the cash book to the bank statement.

Organisations use different payment methods.

(a) Match each situation with the most appropriate payment method below.

(4 marks)

Situation	Method of payment
A business wants to pay a fixed amount of money at monthly intervals to pay off a bank loan.	
A business needs to make a one off payment to a supplier, but wants to postpone any withdrawals from their bank account for at least 2 working days.	
A business needs to pay for a one off high-value property transaction which must be paid at a specific future date.	
A business needs to purchase small amounts of stationary from the local stationary shop.	

Method of payment:

Bank draft

Standing order

Cheque

Cash

CHAPS

Faster Payments

(b) Complete the following sentence.

(1 mark)

The method of payment in (a) that would generally have no effect on the bank balance would be [⬇]

Picklist: Bank draft, Standing order, Cheque, Cash, CHAPS, Faster Payments.

A bank statement and a cash book for May are shown below.

Bank statement

Date 20XX	Details	Paid in £	Paid out £	Balance £
1 May	Balance b/f			8420 C
2 May	BACS		3992	4428 C
3 May	Cheque 009807		3200	1228 C
6 May	Counter credit	3489		4717 C
8 May	ECO Traders - BACS	1635		6352 C
14 May	V Ltd - Faster payment		5336	1016 C
14 May	Cheque 009812		4689	-3673 D
16 May	Cheque 009813		1139	-4812 D
24 May	Counter credit	5897		1085 C
28 May	Cheque 009815		3450	-2365 D
29 May	Bank charges		298	-2663 D
31 May	Cheque 009814		660	-3323 D
	D = Debit C = Credit			

Cash book

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/d	5220	2 May		Staff wages	3992
6 May	ASO Traders	3489	11 May	009812	W. Wren	4689
24 May	ABC Ltd	5897	12 May	009813	DF Ltd	1139
			19 May	009814	Ghol Limited	660
			24 May	009815	X Traders	3450
			29 May	009816	YTG Limited	182
		14606				14112

(c) Check the bank statement against the cash book and enter any transactions in the table below to revise the cash book at 31 May.

(3 marks)

Picklist: ECO Traders – BACS, Cheque 009812, Cheque 009813, V Ltd, Bank charges, Cheque 009807, Cheque 009815, Counter credit.

Transaction	Amount £	Debit	Credit
⬇		☐	☐
⬇		☐	☐
⬇		☐	☐

End of Task

Task 4 (12 marks)

This task is about reconciling a bank statement with the cash book.

A business bank statement for May showed an opening balance of £9,070 and a closing balance of £10,428.

The cash book below has been checked against the bank statement and the two highlighted items have been identified as unmatched. A bank reconciliation statement has been partially completed.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/f	6489	1 May	000185	Fisher Ltd	3589
8 May	NON Limited	1667	9 May		Ester Energy	1993
9 May	Mick Traders	6894	12 May	000186	DF Traders	950
19 May	X plc	4489	14 May	000187	ASBO Traders	2367
21 May	C. Wren	673	25 May	000188	D. Tom	130
28 May	D. Tom	624	26 May		ZMS Limited	885

(a) Complete the bank reconciliation as at 31 May.

Do not use a minus sign or brackets for deductions.

(4 marks)

Bank reconciliation statement	£
Balance as per bank statement	
Outstanding lodgements	
D. Tom	
Unpresented cheques	
D. Tom	
Balance as per cash book	

- -

This is a bank statement and cash book for a different business.

The cash book has already been updated. You are preparing a bank reconciliation statement at 31 October starting with the balance taken from the bank statement.

Cash book

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
7 Oct	ASBO Traders	6489	1 Oct		Balance b/f	1992
11 Oct	R Ltd	5897	12 Oct		Staff wages - BACS	1355
22 Oct	SAG Limited	6265	15 Oct	007654	SAG Limited	6265
29 Oct	Fisher Trade	5402	17 Oct	007655	CP Plc	5894
31 Oct	SXT Plc	9330	18 Oct	007656	DFX Traders	3135
			21 Oct	007657	NOS Limited	660
			29 Oct		Gas Utilities - DD	268
			30 Oct	007658	BB Ltd	1250
			31 Oct		Bank charges	155

Bank statement

Date 20XX	Details	Paid in £	Paid out £	Balance £
1 Oct	Balance b/f			-737 D
5 Oct	Cheque 007652		1255	-1992 D
7 Oct	Counter credit	6489		4497 C
11 Oct	Counter credit	5897		10394 C
12 Oct	BACS		1355	9039 C
19 Oct	Gas Utilities - DD		268	8771 C
21 Oct	Cheque 007655		5894	2877 C
22 Oct	Cheque 007654		6265	-3388 D
22 Oct	Cheque 007654 - returned	6265		2877 C
23 Oct	Cheque 007656		3135	-258 D
31 Oct	Bank charges		155	-413 D
D = Debit C = Credit				

(b) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be added.

(4 marks)

Details	Amount £
⬇	
⬇	

Picklist: Balance b/d, Balance c/d, Staff wages – BACS, SAG Limited, CP Plc, DFX Traders, NOS Limited, Gas Utilities – DD, Bank charges, ASBO Traders, R Ltd, Cheque 007652, Counter credit, Fisher Trade, SXT Plc, BB Ltd.

(c) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be subtracted.

(4 marks)

Details	Amount £
⬇	
⬇	

Picklist: Balance b/d, Balance c/d, Staff wages – BACS, SAG Limited, CP Plc, DFX Traders, NOS Limited, Gas Utilities – DD, Bank charges, ASBO Traders, R Ltd, Cheque 007652, Counter credit, Fisher Trade, SXT Plc, BB Ltd.

End of Task

Task 5 (10 marks)

This task is about using the journal.

Payroll transactions are recorded using a wages control account.

The wages expense for the month is £112,911.
Other payroll information for the month is shown below.

Income tax and national insurance amounts are as follows:

- Income tax:	£10,823
- Employers NIC:	£6,831
- Employees NIC	£5,995

In addition there are pension deductions for 35 employees who each pay £100 a month for pension contributions.

(a) Show the journal entry needed to record the net wages paid to employees

(4 marks)

Picklist: Bank, Employee NIC, Employer NIC, HM Revenue and Customs, Income tax, Pensions, Wages control, Wages expense.

Journal to record the net wages paid to employees

Account name	Amount £	Debit	Credit
Wages control	92,593	☑	☐
Bank	92,593	☐	☑

This is a customer account in a receivables ledger. The customer has now ceased trading owing the amount outstanding, which includes VAT.

BGN Ltd

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 July	Balance b/f	4,500	9 July	Bank	11,600
4 July	Invoice 0009875	2,365	26 July	CN0092	55
21 July	Invoice 0009879	9,590			

(b) Record the journal entries needed in the general ledger to write off the irrecoverable debt.

Do not enter zero in unused debit or credit cells.

(6 marks)

Account name	Debit £	Credit £
⬇		
⬇		
⬇		

Picklist: Irrecoverable debts, Bank, Purchases, Payables ledger control, Receivables ledger control, Sales, VAT control, BGN Ltd.

A new business has been started and a new set of ledger accounts are to be opened.

A partially completed journal to record the opening entries for the new business is shown below.

(c) Complete the journal by placing each amount in either the debit or credit column.

Do not enter zero in unused debit or credit cells.

(2 marks)

Account name	Amount £	Debit £	Credit £
Bank loan	5,000		
Computer	1,300		
Cash at bank	10,500		
Capital	6,800		

End of Task

Task 6 (10 marks)

This task is about using the journal to correct errors.

A suspense account has been opened with a balance of £81.

The error has been identified as an entry made in the general ledger. The payables ledger control account was correctly credited with £990 but the debit entry made to purchases was incorrectly entered as £1,071.

(a) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**
- **remove the suspense account balance**

Do not enter a zero in unused debit or credit column cells.

(5 marks)

Picklist: VAT, Bank, Purchases, Payables ledger control, Suspense.

Journal to remove the incorrect entry

Account name	Debit £	Credit £

Journal to record the correct entry

Account name	Debit £	Credit £

Journal to remove the suspense account balance

Account name	Debit £	Credit £

(b) Show whether the errors below will cause or will not cause an imbalance in a trial balance, by placing the appropriate answer against each error. You may use each answer more than once.

(4 marks)

Error	Effect on the trial balance
A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.	
The payables ledger control account was correctly credited with £990 but the debit entry made to purchases was incorrectly entered as £1,071.	
Interest paid of £246 showing in the bank statement for the month has not been entered in the cash book.	
The receivables ledger of SS Ltd has been incorrectly debited with a sales invoice which should have been posted to the receivables ledger of SNS Limited.	

Answer:

Will cause an imbalance

Will not cause an imbalance

At the end of a month a trial balance was extracted and did not balance. The debit column totalled £132,955 and the credit column totalled £129,472.

(c) What entry is needed in the suspense account to balance the trial balance.

Do not enter a zero in the unused column cell.

(1 mark)

Amount name	Debit £	Credit £
Suspense		

End of Task

Task 7 (10 marks)

This task is about extracting a trial balance.

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

(a) 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.**

(8 marks)

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

A partially completed trial balance is shown below. It excludes the general ledger account balances in part (a).

	Debit	Credit
Payables ledger control		
Bank	56,682	
Bank charges		
Receivables ledger control	44,530	
Sales		78,922
Fixtures and fittings		
Purchases	56,409	
Capital		
Totals	157,621	78,922

(b) Calculate the total debit and total credit amounts that would be shown in the trial balance above, if including the balances for the general ledger accounts in part (a).

(2 marks)

	Debit	Credit
Totals		

End of Task

Task 8 (10 marks)

This task is about redrafting a trial balance.

The journal entries to correct all bookkeeping errors and a list of balances as they appear in the trial balance are shown below.

Journal

Account name	Debit £	Credit £
Bank	29	
Interest received		29
Receivables ledger control	1200	
Suspense		1200

Journal

Account name	Debit £	Credit £
Motor vehicles	1500	
Suspense		1500
Motor vehicles	1500	
Suspense		1500

(a) Complete the table below to show:

- **the balance of each account after the journal entries have been recorded**
- **whether each balance will be a debit or credit entry in the trial balance**

(5 marks)

List of balances

Amount name	Original balance £	New balance £	Debit in the trial balance	Credit in the trial balance
Bank (not overdrawn)	5083		☐	☐
Interest received	125		☐	☐
Receivables ledger control	6088		☐	☐
Motor vehicles	24560		☐	☐

A partially prepared trial balance had debit balances totalling £122,537 and credit balances totalling £121,077.

The general ledger accounts below have not yet been entered in the trial balance.

(b) Complete the table below to show whether each balance will be a debit or credit entry in the trial balance.
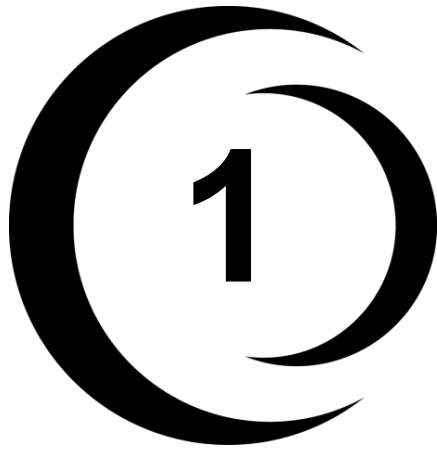
(3 marks)

Amount name	Balance £	Debit in the trial balance	Credit in the trial balance
Office expenses	2311	☐	☐
Rent received	4000	☐	☐
Discounts allowed	229	☐	☐

(c) What will be the totals of each column shown in the trial balance after the balances in (b) have been entered.

(2 marks)

Amount name	Debit £	Credit £
Totals		

End of Task

1 Revision Notes

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.

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	**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

Posting day books to the general ledger

Credit Customers	Total Amount	VAT Amount	Net Amount
Sales Day Book (SDB)	**DR** Receivables Ledger Control	**CR** VAT	**CR** Sales
Sales Returns Day Book (SRDB)	**CR** Receivables Ledger Control	**DR** VAT	**DR** Sales Returns
Discounts Allowed Day Book (DADB)	**CR** Receivables Ledger Control	**DR** VAT	**DR** Discounts Allowed

Posting day books to the general ledger

Credit Suppliers	Total Amount	VAT Amount	Net Amount
Purchases Day Book (PDB)	**CR** Payables Ledger Control	**DR** VAT	**DR** Purchases
Purchases Returns Day Book (PRDB)	**DR** Payables Ledger Control	**CR** VAT	**CR** Purchases Returns
Discounts Received Day Book (DRDB)	**DR** Payables Ledger Control	**CR** VAT	**CR** Discounts Received

The cash book

Transaction	Total Amount in the cash and bank columns of a cash book	VAT and Net Amounts in the 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

The purpose of 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 purpose of a trial balance is to ensure that all entries made in the general ledger have been properly balanced and to check the accuracy of entries made before a final set of financial statements are constructed for a business.

Exam tasks may require you to:

- Transfer balances to an initial trial balance.
- Total and balance an initial trial balance.
- Recalculate the balance of a general ledger account following journal entries.
- Complete a trial balance from adjusted and unadjusted balances.
- Balance the adjusted trial balance: total the debit and credit columns.

Types of errors not disclosed by the trial balance

Errors and omissions occur in the general ledger that do **not** cause an imbalance between the total of all debit and credit balances in a trial balance. This makes these types of error more difficult to detect. These types of error can be remembered using the acronym 'TOPCROC'. Exam tasks can require you to identify different types of error from examples given or to prepare journal entries to correct errors.

- **T Transposition**
  A digit (number) for an amount posted is reversed incorrectly for both a debit and credit entry made.
- **O Original entry**
  Documents such as invoices or credit notes are prepared incorrectly or the wrong amounts are posted incorrectly to the day books.
- **P Principle**
  An amount incorrectly posted to the wrong general ledger account and the wrong financial element.
- **C Commission**
  An amount incorrectly posted to the wrong general ledger account but the right financial element.
- **R Reversal of entries**
  Debit and credit entries are incorrectly posted the wrong way round.
- **O Omission**
  No entry has been made in the general ledger (a transaction is not recorded).
- **C Compensating**
  Very rare but can happen, two independent errors create an imbalance between debit and credit amounts, but each error compensates and cancels out the other (so no imbalance would exist in the trial balance).

Types of errors disclosed by the trial balance

Errors and omissions occur in the general ledger that do cause an imbalance between the total of all debit and credit balances in a trial balance. This makes these types of error easier to detect because the trial balance will not balance.

These types of error can be remembered using the acronym 'TESCOS'. Exam tasks can require you to identify different types of error from examples given or to prepare journal entries to correct errors using a suspense account.

- **T Transposition**
  A digit (number) for an amount posted is reversed incorrectly for a debit amount posted but the credit amount is correctly posted, or vice versa.
- **E Extraction**
  A general ledger balance in error is balanced incorrectly. The incorrect balance is 'extracted' and shown incorrectly in a trial balance.
- **S Single entry**
  A debit entry is posted without any corresponding credit entry, or vice versa.
- **C Casting**
  A column in a day book is added up ('casted') incorrectly and the incorrect amount posted from a day book to the general ledger.
- **O Omission**
  A general ledger balance in error is missed out altogether from a trial balance.
- **S Same sided**
  Two debit entries are posted in error without any corresponding credit entry, or vice versa.

Suspense accounts

A suspense account balance is opened each time an imbalance exists between the total of all debits and credits in a trial balance. A balance is opened in a suspense account to ensure equality between the total of all debits and credits in a trial balance, it is a temporary account and will be closed whenever the errors can be found and corrected. A suspense account can also temporarily store financial transactions until they can be verified and the correct general ledger accounts for the posting is determined.

Practice example 1

Trial Balance (totals before the suspense account opened)   154,896   155,279
Suspense account opened (debit balance)   383
Trial balance totals agree but errors need to be found   155,279   155,279

In the example above the total debit amounts and total credit amounts in a trial balance do not agree and a suspense account is temporarily opened to hold the amount of any imbalance. An amount of £383 is missing on the debit side (£155,279 - £154,896) which becomes a suspense account balance to ensure the trial balance debit and credit totals do agree.

Practice example 2

Trial Balance (totals before the suspense account opened)	121,780	99,800
Suspense account opened (credit balance)		21,980
Trial balance totals agree but errors need to be found	121,780	121,780

In the example above the total debit amounts and total credit amounts in a trial balance do not agree and a suspense account is temporarily opened to hold the amount of any imbalance. An amount of £21,980 is missing on the credit side (£121,780 - £99,800) which becomes a suspense account balance to ensure the trial balance debit and credit totals do agree.

The purpose of a bank reconciliation

A bank reconciliation is the process of agreeing a closing cash book balance recorded by the business to the closing balance shown on the bank statements. A bank reconciliation is an important internal control to help a business identify any errors or omissions from its cash receipts or payments recorded. It also helps to discover any cash fraud in a more timely manner.

Bank reconciliations are typically performed daily, weekly or monthly by a business to ensure the cash book maintains an accurate and up-to-date bank balance.

Reasons for performing a bank reconciliation

- Detecting errors
- Identifying fraudulent transactions and theft
- Keeping track of trade receivables and trade payables

The process for a bank reconciliation

1. Compare and match receipts recorded in the cash book (receipts are 'debits' in the cash book) to receipts recorded on the bank statements (receipts are 'credits' on a bank statement) **AND** Compare and match payments recorded in the cash book (payments are 'credits' in the cash book) to payments recorded on the bank statements (payments are 'debits' on a bank statement).

The end result of step 1 is to discover unmatched receipts and payments from comparing both sets of records.

2. Revise the cash book by making entries in the cash book for items that appear on the bank statements but are not recorded in the cash book. Examples of such items include bank interest received, bank charges and interest paid, automated payments or receipts (such as BACS and faster payments) that have been omitted (missed) from the cash book.

An exam task may provide a cash book and expect you to enter missing items not in the cash book, as well as total and balance the cash book. An exam task alternatively could ask for the debit or credit entries to revise a cash book. The end result of step 2 is to have an accurate and up-to-date closing balance for the cash book.

3. Complete a bank reconciliation statement that will agree the closing balance in the revised cash book to the closing balance shown on the bank statements. A bank reconciliation statement adjusts the closing balance shown on the bank statement for 'timing differences' to agree this closing balance to the cash book.

Earlier timing differences are items recorded in the cash book in the previous month and are now clearing 'early' on the bank statements in the following month. Earlier timing differences are not reconciling items for the current month and these items should be ignored when completing step 2 above.

The receivables ledger control account (RLCA)

The general ledger account that represents the total amount owed by credit customers is the receivables ledger control account (RLCA), the entries in this account are the summarised total amounts entered from the day books.

An example of a receivables ledger control account (RLCA) is shown below. Using the principle of DEAD CLIC, the balance brought down (b/d) is on the debit side because the receivables ledger control account is an asset (customers owe money to the business). All entries within this account would include VAT.

- Debit entries are made for sales invoices which increase the balance owed by credit customers.
- Credit entries are made for customer payments, discounts allowed, sales returns, and irrecoverable debts, which decrease the balance owed by credit customers.

Example of a receivables ledger control account

Receivables ledger control account

Date	Details	Amount £	Date	Details	Amount £
1 Apr	Balance b/d	12,900	30 Apr	Bank	24,060
30 Apr	Sales	31,200	30 Apr	Sales returns	500
			30 Apr	Discounts allowed	624
			30 Apr	Set off entries to PLCA	1,200
			30 Apr	Irrecoverable debts	680
			30 Apr	Balance c/d	17,036
	Total	44,100		**Total**	44,100
1 May	Balance b/d	17,036			

Cash sales are not recorded in the receivables ledger or receivables ledger control account (only credit sales). A cash sale is a sales transaction that was 'not on credit' and in this case a till (or sales) receipt is normally provided as official evidence of the sales transaction at the time of purchase. Cash sales are recorded in the cash book.

A set-off (contra) entry occurs in a situation when you have a customer who orders goods on credit but also supplies goods on credit to the same business. In such cases there would be an account in both the receivables and payables ledger. Agreements can be made to set-off balances between the receivables and payables ledger without any payment.

Purpose of the receivables ledger control account

- Checks the accuracy of the total customer balances outstanding in the receivables ledger.
- Provides a quick and summarised total for customer balances outstanding in the receivables ledger.
- Helps to identify any errors or missing figures.

Types of error that are common in the receivables ledger control and receivables ledger include sales invoices, credit notes or bank receipts that have been posted more than once (duplicated), or a posting made in one ledger system but no entry is made in the other (omission). Mistakes may happen in one ledger system but not the other and if so, the balances of each ledger would not agree at the end of a period,

Summary for the effect of duplications and omissions

Type of error	Transaction	Error made in the receivables ledger control account (RLCA)	Error made in the receivables ledger
Duplication e.g. same transaction entered twice	Sales invoice (debit entry)	RLCA balance higher than the receivables ledger balance	Receivables ledger balance higher than the RLCA balance
	Credit notes, payments, set off entries and irrecoverable debts (credit entry)	RLCA balance lower than the receivables ledger balance	Receivables ledger balance lower than the RLCA balance
Omission e.g. transaction not recorded	Sales invoice (debit entry)	RLCA balance lower than the receivables ledger balance	Receivables ledger balance lower than the RLCA balance
	Credit notes, payments, set off entries and irrecoverable debts (credit entry)	RLCA balance higher than the receivables ledger balance	Receivables ledger balance higher than the RLCA balance

The payables ledger control account (PLCA)

The general ledger account that represents the total amount owed to credit suppliers is the payables ledger control account (PLCA), the entries in this account are the summarised total amounts entered from the day books.

An example of a payables ledger control account (PLCA) is shown below. Using the principle of DEAD CLIC, the balance brought down (b/d) is on the credit side because the payables ledger control account is a liability (the business owes money to suppliers). All entries within this account would include VAT.

- Credit entries are made for purchase invoices which increase the balance owed to credit suppliers.
- Debit entries are made for supplier payments, discounts received and purchase returns which decrease the balance owed to credit suppliers.

Example of a payables ledger control account

Payables ledger control account

Date	Details	Amount £	Date	Details	Amount £
30 Apr	Discounts received	249	1 Apr	Balance b/d	6,590
30 Apr	Purchase returns	360	30 Apr	Purchases	24,895
30 Apr	Bank	15,296			
30 Apr	Set off entries to RLCA	1,200			
30 Apr	Balance c/d	14,380			
	Total	31,485		Total	31,485
			1 May	Balance b/d	14,380

Cash purchases are not recorded in the payables ledger or payables ledger control account (only credit purchases). A cash purchase is a purchase transaction that was 'not on credit' and in this case a till (or sales) receipt is normally provided as official evidence of the sales transaction at the time of purchase. Cash purchases are recorded in the cash book.

Purpose of the payables ledger control account

- Checks the accuracy of the total supplier balances outstanding in the payables ledger.
- Provides a quick and summarised total for supplier balances outstanding in the payables ledger.
- Helps to identify any errors or missing figures.

Types of error that are common in the payables ledger control and payables ledger include purchase invoices, credit notes or bank payments that have been posted more than once (duplicated), or a posting made in one ledger system but no entry is made in the other (omission). Mistakes may happen in one ledger system but not the other and if so, the balances of each ledger would not agree at the end of a period,

Summary for the effect of duplications and omissions

Type of error	Transaction	Error made in the Payables ledger control account (PLCA)	Error made in the Payables ledger
Duplication e.g. same transaction entered twice	Purchase invoice (credit entry)	PLCA balance higher than the payables ledger balance	Payables ledger balance higher than the PLCA balance
	Credit note or payment (debit entry)	PLCA balance lower than the payables ledger balance	Payables ledger balance lower than the PLCA balance
Omission e.g. transaction not recorded	Purchase invoice (credit entry)	PLCA balance lower than the payables ledger balance	Payables ledger balance lower than the PLCA balance
	Credit note or payment (debit entry)	PLCA balance higher than the payables ledger balance	Payables ledger balance higher than the PLCA balance

The VAT control account

The purpose of a VAT control account is to accurately record VAT collected from sales (outputs of the business) and VAT to be reclaimed from purchases and expenses (inputs to the business). It provides the necessary details for a VAT return to be prepared and submitted to HMRC.

An example of a VAT control account is shown below. Using the principle of DEAD CLIC, the balance brought down (b/d) is on the credit side because the VAT control account is normally a liability (VAT is owed to HMRC).

In some cases VAT is owed from HMRC (a refund of VAT is due to the business). This can happen when a business reclaims more input VAT on its purchases and expenses compared to output VAT it owes on its sales. The balance brought down (b/d) in this case would be on the debit side and indicates an 'asset' as VAT is owed from HMRC.

Example of a VAT control account

VAT control account

Date	Details	Amount £	Date	Details	Amount £
30 Apr	Cash purchases	635	1 Apr	Balance b/d	2391
30 Apr	Credit purchases	3450	30 Apr	Cash sales	6780
30 Apr	Discounts allowed	54	30 Apr	Credit sales	13667
30 Apr	Sales returns	120	30 Apr	Purchase returns	468
30 Apr	Bank (payment of VAT)	2391	30 Apr	Discounts received	23
30 Apr	Balance c/d	16679			
	Total	23329		Total	23329
			1 May	Balance b/d	16679

Calculating VAT amounts

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

Irrecoverable (bad) debts

An irrecoverable debt is a customer debt (trade receivable) that cannot be collected because the customer is unable to pay its debts owed. The debt must be removed from the receivables ledger control account (RLCA) in the general ledger and a journal entry is required for irrecoverable debts.

Journal entry for irrecoverable debts (when no VAT is charged on sales)

- **Debit**   Irrecoverable debts (expenses increase)
- **Credit**   Receivables ledger control account (the 'asset' decreases)

Journal entry for irrecoverable debts (when VAT is charged on sales)

- **Debit**   Irrecoverable debts (expenses increase)
- **Debit**   VAT control account (liability to pay VAT to HMRC decreases)
- **Credit**   Receivables ledger control account (the 'asset' decreases)

The irrecoverable debt must also be removed ('credited') from the customers account in the receivables ledger and the customer account closed.

Recording opening entries for a new business

Opening entries for a new business would be the initial journal entries required to record any transactions occurring at the start of a business in the general ledger, otherwise the general ledger balances at the start of trade would be zero.

Opening journal entries typically could include:

- Initial funding of the new business via bank loans.

Debit   Bank (an asset 'money' increases).
Credit   Bank loan (a liability 'money owed to the bank' increases).

- Initial funding of the business via money invested by the owner (capital)

Debit   Bank (an asset 'money' increases).
Credit   Capital (capital 'money owed to the owner of the business' increases).

- Assets introduced by the owner such as inventory, motor vehicles and tools.

Debit   Assets (assets increase).
Credit   Capital (capital 'money owed to the owner of the business' increases).

- Business expenses paid for by the owner of the business such as rent, motor vehicle and electricity expenses.

Debit   Expenses (expenses increase).
Credit   Capital (capital 'money owed to the owner of the business' increases).

The wages control account

A wages control account is a 'liability' account representing net salaries (money) owed to employees, it also records the total summary from payroll reports such as amounts owed to HMRC (income tax and national insurance), pension contributions and trade union subscriptions. The exam will not require tax and national insurance to be calculated. According to the logic of DEAD CLIC a credit entry will increase the balance for a liability and a debit entry will decrease a balance for a liability.

A proforma wages control account is shown below. A tip to learn payroll entries would be that all payroll entries will always be a debit or credit entry to the wages control account, so if you are familiar with these entries in the wages control then you can work out the other side of the double entry required for a journal entry.

Wages control account

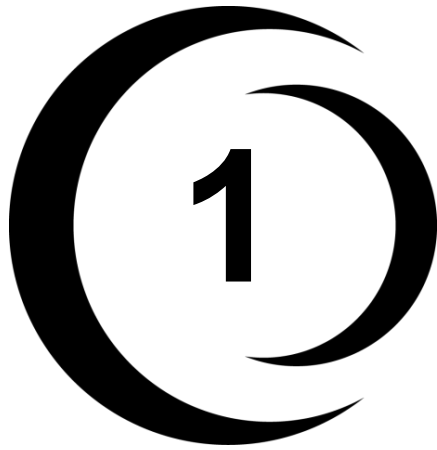| Details	Amount £	Details	Amount £
HMRC liability	1157	Wages expenses	4103
Pensions liability	780		
TU liability	26		
Bank (net salaries paid)	2140		
Total	4103	Total	4103

The wages control account keeps a record of the total (summary) of payroll transactions for a period. The total summarised amounts are recorded from the payroll reports for employees, the control account does not record detailed transactions relating to each employee. When all total payroll transactions are recorded, the wages control account should always balance and reconcile to the total details included in the payroll report. The control account acts as a 'check' for wages paid to employees and ensures the correct payroll liabilities have been recorded.

Employees are paid net wages, which is gross wages earned less employee deductions, such as income tax, employee national insurance contributions, employee pension contributions and trade union subscriptions. Gross wages less employee deductions will be equal to net wages.

Employers also make payments on behalf of employees such as employers national insurance contributions and employers pension contributions. These payments are expenses incurred by the employer, but would not be included in the calculation of net wages for employees.

Payment methods and the impact on the bank account

	Date of payment	At a later date	No effect on bank balance
Cash			✓
Cheque		✓	
Debit card	✓		
Credit card		✓	
Bank draft	✓		
Standing order	✓		
Direct debit	✓		
Direct credit	✓		
BACS		✓	
CHAPS	✓		
Faster payments	✓		

Mock Exam One - Solutions

AAT L2 Principles of Bookkeeping Controls

1

Task 1 - Solutions (10 marks)

(a) Show whether each transaction will be a debit or credit entry in the payables ledger account control.

(7 marks)

Transaction	Amount £	Debit	Credit
Balance owing as at 1 November	9,387	☐	☑
Goods purchased	54,329	☐	☑
Goods returned	5,509	☑	☐
Set off entry to the receivables ledger control	1,200	☑	☐
Discounts received	675	☑	☐
Journal credit to correct an error	440	☐	☑
Bank payments made	43,992	☑	☐

(b) Calculate the balance brought down in the payables ledger control account at 1 December and show whether it is a debit or credit balance.

(1 mark)

Amount £	Debit	Credit
12780	☐	☑

A constructed payables ledger control account is shown below using the above transactions to help with your understanding. When the payables control account is totalled and balanced the balance c/d is £12,780 on the debit side at 30 November. The balance will be brought down (b/d) on the credit side at 1 December, a credit balance indicates that money is owing to credit suppliers and the ledger balance is a liability.

Payables ledger control account

Details	Amount £	Details	Amount £
Bank	43,992	Balance b/d	9,387
Discounts received	675	Purchases	54,329
Purchases returns	5,509	Journal (credit)	440
Set off entry	1,200		
Balance c/d	12,780		
Totals	64,156	Totals	64,156
		Balance b/d	12,780

(c) Calculate the balance brought down in the VAT control account at 1 December and show whether it is a debit or credit balance.

(2 marks)

Amount £	Debit	Credit
2249	☐	✅

A constructed VAT control account is shown below using the task transactions to help with your understanding. When the VAT control account is totalled and balanced the balance c/d is £2,249 on the debit side at 30 November. The balance will be brought down (b/d) on the credit side at 1 December, a credit balance indicates that VAT is owing to HMRC and the ledger balance is a liability.

The logic of DEAD CLIC treats the VAT control account as a liability, it normally represents VAT owing to HMRC. VAT due on sales invoices are credit entries (increasing liability to pay VAT) and VAT reclaimed on purchase invoices are debit entries (decreasing liability to pay VAT). You can then take the opposite to this logic. VAT for discounts allowed irrecoverable debts and sales returns are opposite VAT entries to sales. VAT for discounts received and purchase returns are opposite VAT entries to purchases.

VAT control account

Details	Amount £	Details	Amount £
Purchases daybook	1299	Balance b/d	2884
Bank	2884	Sales daybook	3492
Balance c/d	**2249**	Purchases returns day book	56
Total	6432	**Total**	6432

Task 2 - Solutions (10 marks)

(a) Complete the reconciliation statement below by:

- **inserting the balance of the receivables ledger control account**
- **inserting the total balance in the receivables ledger**
- **calculating any difference.**

(3 marks)

Balance in the receivables ledger account

Transactions	Amount £
Fast Traders	3,468
Hatter Ltd	2,602
MAM Plc	2,748
OSG Ltd	4,599
ABC Ltd	-260
Zee Traders	-250
Total	12,907

The receivables ledger control account had debit entries amounting to £37,880 and credit entries amounting to £26,984. £37,880 DR entries + £26,984 CR entries = £10,896 DR balance.

Reconciliation statement	Amount £
Receivables ledger control balance	10896
Total balance in the receivables ledger	12907
Difference	2011

(b) Which ONE of the reasons below could explain the difference you calculated in (a).

(1 mark)

Reasons	
Goods were entered twice in the receivables ledger control account	☐
Goods returned were not entered in the receivables ledger account of a customer	✅
An irrecoverable debt was written off in the receivables ledger of a customer but omitted as an entry in the receivables ledger control account	☐

- Goods sold were entered twice in the receivables ledger control account. Sales invoices will increase the balance owed by customers. If entered twice in the receivables ledger control, the balance owed in the receivables ledger control would be higher than the balance in the receivables ledger, but this is not the case.

- **Goods returned were not entered in the receivables ledger account of a customer.** Credit notes for goods returned will decrease the balance owed by customers. If not entered in the receivables ledger account of a customer, the balance owed in the receivables ledger would be higher than the balance in the receivables ledger control account, and this is the case in the task.

- A irrecoverable debt was written off in the receivables ledger of a customer but not the receivables ledger control account. The writing off of any irrecoverable debt will decrease the balance owed by customers. If not entered in the receivables ledger control account, the balance in the receivables ledger control would be higher than the balance of the receivables ledger accounts of customers, but this is not the case.

(c) Using the table below show THREE adjustments that should appear in the payables ledger control account, to reconcile this balance to the payables ledger. Enter only ONE figure for each line. Do not enter zeros in unused cells. Do NOT use minus signs or brackets.

(6 marks)

Account	Dr £	Cr £
Adjustment 1		1000
Adjustment 2	11280	
Adjustment 3		240

1.	The total column of the purchases daybook was undercast by £1,000. The amount posted to the payables ledger control account was £131,673 but the correct entry should have been £132,673. **The total column of the purchases daybook would be credited to the payables ledger control account (PLCA) . Given the total was undercast (under added) by £1,000 then we need to post another £1,000 more to the PLCA.** **CR PLCA £1,000 to increase liabilities to suppliers.**
2.	Purchases returns of £5,640 were credited to the payables ledger control account in error. The correct entries were made in the payables ledger accounts of suppliers. **Purchase returns should be a debit, not a credit entry to the PLCA. Credit notes for returns will reduce liability to pay suppliers. We need to debit £5,640 to cancel the error and then debit £5,640 again to record the amount correctly (2 x £5,640) in the PLCA = £11,280 DR PLCA.**
3.	A purchase invoice for £240 from Streets Ltd was omitted from purchases daybook. The correct entry was made in the payables ledger account of this supplier. **The purchases daybook would be used to make credit entries to the PLCA for the total of all supplier invoices. Given £240 was omitted then we need to post another £240 more to the PLCA. CR PLCA £240 to increase liability to suppliers.**
4.	A set-off entry of £5,042 was omitted from the purchase ledger account of M. Smith. The correct entry was made in purchases ledger control account. **The PLCA has been correctly updated but the payables ledger account of the supplier also needs to be reduced by £5,042.**
5.	Purchase returns of £120 were debited in error to the payables ledger account of Winkle Traders Ltd instead of the payables ledger account of Traders RUS Ltd. **The wrong supplier account was updated in the payables ledger but a correct posting was made to the PLCA. Both the PLCA and payables ledger balances would still agree. The payables ledger balance is still correct but the individual supplier accounts will need correction.**

6.	A purchase invoice was sent by a supplier for £360 in error, the correct amount on the invoice should be £3,600. The incorrect amount of £360 was posted to both the payables ledger and payables ledger control account. **This is a supplier error and the PLCA and payables ledger have both been updated by £360. When the correct invoice is received then both ledgers will be adjusted, but currently both balances will still agree as they contain an entry for the same amount.**

A payables ledger control account (PLCA) showing the adjustments above and a reconciliation (agreement) to the total balance in the payables ledger is shown below to help with the logic and understanding.

PLCA (Trade Payables)

	£		£
Adjustment 2	11280	Balance b/d	27042
Balance c/d	17002	Adjustment 1	1000
		Adjustment 3	240
	28282		28282

Adjustment to the payables ledger balance

	£
Total balance in the payables ledger	22044
Adjustment 4	-5042
Revised total balance in the payables ledger	17002

If adjustments 1-4 are made as corrections above, then the balance for both ledger systems would now be the same and agree ('reconcile') to £17,002. Adjustments 5 and 6 are not reconciling items, these errors still have to be corrected, but do not cause differences between the balances of each ledger system.

Task 3 - Solutions (8 marks)

(a) Match each situation with the most appropriate payment method below.

(4 marks)

Situation	Method of payment
A business wants to pay a fixed amount of money at monthly intervals to pay off a bank loan.	Standing order
A business needs to make a one off payment to a supplier, but wants to postpone any withdrawals from their bank account for at least 2 working days.	Cheque
A business needs to pay for a one off high-value property transaction which must be paid at a specific future date.	CHAPS
A business needs to purchase small amounts of stationary from the local stationary shop.	Cash

(b) Complete the following sentence.

(1 mark)

The method of payment in (a) above that would generally have no effect on the bank balance would be **Cash**.

(c) Check the bank statement against the cash book and enter any transactions in the table below to revise the cash book at 31 May.

(3 marks)

Transaction	Amount £	Debit	Credit
ECO Traders - BACS	**1635**	✅	☐
V Ltd	**5336**	☐	✅
Bank charges	**298**	☐	✅

The cash book has also been updated below and totalled and balanced to help with the logic and understanding.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/d	5220	2 May		Staff wages	3992
6 May	ASO Traders	3489	11 May	009812	W. Wren	4689
24 May	ABC Ltd	5897	12 May	009813	DF Ltd	1139
8 May	**ECO Traders**	**1635**	19 May	009814	Ghol Limited	660
31 May	**Balance c/d**	**3505**	24 May	009815	X Traders	3450
			29 May	009816	YTG Limited	182
			14 May		**V Ltd**	**5336**
			30 May		**Bank charges**	**298**
		19746				19746
			1 Jun		**Balance b/d**	**3505**

The cash book above is overdrawn (a liability) as the balance b/d is on the credit side at 1 June. A bank reconciliation has also been provided below to help with the logic and understanding.

Bank reconciliation 31 May

Balance as per bank statement 31 May	-3323
Add: outstanding lodgements	
Less: outstanding payments	
Cheque 009816	182
Balance as per cash book 31 May	-3505

The balance as per the bank statement at 31 May reconciles ('agrees') to the revised cash book balance at 31 May.

Note: Cheque 009807 should be ignored in the reconciliation process, since it is an early timing difference from the last period (the month of April), a bank reconciliation at 1 May (or 30 April) is included below to help with the logic and understanding. Early timing differences would reconcile the opening balance for the cash book and bank statement at 1 May (or 30 April) as they were reconciling items in the previous month.

Balance as per bank statement 1 May	8420
Less earlier timing differences	
Cheque 009807	-3200
Balance as per cash book 1 May	5220

Task 4 - Solutions (12 marks)

(a) Complete the bank reconciliation as at 31 May.

Do not use a minus sign or brackets for deductions.

Bank reconciliation statement	£
Balance as per bank statement	10428
Outstanding lodgements	
D. Tom	624
Unpresented cheques	
D. Tom	130
Balance as per cash book	10922

The cash book below has been totalled and balanced to help with the logic and understanding. The closing balance as per the bank statement at 31 May reconciles ('agrees') to the cash book balance at 31 May (£10,922). The balance brought down (b/d) at 1 June is a debit balance which indicates an asset (the bank is not overdrawn).

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/f	6489	1 May	000185	Fisher Ltd	3589
8 May	NON Limited	1667	9 May		Ester Energy	1993
9 May	Mick Traders	6894	12 May	000186	DF Traders	950
19 May	X plc	4489	14 May	000187	ASBO Traders	2367
21 May	C. Wren	673	25 May	000188	D. Tom	130
28 May	D. Tom	624	26 May		ZMS Limited	885
			31 May		Balance c/f	10922
	Totals	20836			Totals	20836
1 June	Balance b/f	10922				

(b) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be added.

(4 marks)

Details	Amount £
Fisher Trade	5402
SXT Plc	9330

(c) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be subtracted.

(4 marks)

Details	Amount £
NOS Limited	660
BB Ltd	1250

The cash book below highlights the timing differences that do not appear on the bank statement and the cash book is totalled and balanced to help with the logic and understanding. The balance as per the bank statement at 31 October reconciles ('agrees') to the cash book balance at 31 October (£12,409). A bank reconciliation is also provided below at 31 October.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
7 Oct	ASBO Traders	6489	1 Oct		Balance b/f	1992
11 Oct	R Ltd	5897	12 Oct		Staff wages - BACS	1355
22 Oct	SAG Limited	6265	15 Oct	007654	SAG Limited	6265
29 Oct	Fisher Trade	5402	17 Oct	007655	CP Plc	5894
31 Oct	SXT Plc	9330	18 Oct	007656	DFX Traders	3135
			21 Oct	007657	NOS Limited	660
			29 Oct		Gas Utilities - DD	268
			30 Oct	007658	BB Ltd	1250
			31 Oct		Bank charges	155
			31 Oct		Balance c/f	12409
	Totals	33383			Totals	33383
1 Nov	Balance b/f	12409				

Bank reconciliation 31 October

Balance as per bank statement	-413	overdrawn
Add: outstanding lodgements		
Fisher Trade	5402	
SXT Plc	9330	
Less: outstanding payments		
NOS Limited	660	
BB Ltd	1250	
Balance as per cash book	12409	

Cheque 007652 (£1,255) should be ignored in the reconciliation process, since it is an early timing difference from the last period (the month of September). Early timing differences would reconcile the opening balance for the cash book and bank statement at 1 October (or 30 September) as a reconciling item in the previous month. A bank reconciliation at 1 October (or 30 September) is also included below to help with the logic and understanding.

Bank reconciliation at 1 October

Balance as per bank statement	-737	overdrawn
Less: outstanding payments		
Cheque 007652	1255	
Balance as per cash book	-1992	overdrawn

Task 5 - Solutions (10 marks)

(a) Show the journal entry needed to record the net wages paid to employees

(4 marks)

Journal to record the net wages paid to employees

Account name	Amount £	Debit	Credit
Wages control	**85762**	✅	☐
Bank	**85762**	☐	✅

Payment of net salaries would be £112,911 wages expenses less all employer and employee deductions.

Wages expense	112,911
Less:	
Income tax	10,823
ER NIC	6,831
EE NIC	5,995
Pensions (£100 x 35 employees)	3,500
Net salaries	**85,762**

An example of a wages control account is included below to familiarise yourself with the debit and credit entries. This may help for an exam task, since if you know the right amount and the correct debit or credit entry to the wages control ledger account, then you can work out the other side of the double entry and general ledger account to update.

Wages (payroll) control account

Details	Amount £	Details	Amount £
HMRC liability	X	Wages expenses	X
Pensions liability	X		
TU liability	X		
Bank (net salaries paid)	X		
Total	X	**Total**	X

(b) Record the journal entries needed in the general ledger to write off the irrecoverable debt.

Do not enter zero in unused debit or credit cells.

(6 marks)

Account name	Debit £	Credit £
Irrecoverable debts	**4000**	
VAT control	**800**	
Receivables ledger control		**4800**

An irrecoverable debt is a customer debt that cannot be collected, due to the customer unable to continue to trade.

Dual effect explained

- Irrecoverable debts (an expense) will increase (debited with £4,000).
- VAT control (a liability) will decrease (debited with £800) as the VAT is reclaimed back from the original sales made to the customer.
- The receivables ledger control (an asset) will be decreased (credited with £4,800) because the debt is written off and no money is owed by the customer.

The receivables ledger account of the customer has been balanced below to identify the amount owing from the customer. All amounts recorded in a receivables ledger include VAT. To find the VAT amount you have £4,800 representing 120% (if you added 20% VAT to the net amount of 100%). £4,800 ÷ 120% x 20% = VAT £800. Alternatively, 20%/120% is 1/6 as a fraction. 1/6 x £4,800 = VAT £800. The remaining amount of the sale earned (net) is therefore £4,800 - £800 = £4,000.

BGN Ltd

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 July	Balance b/f	4,500	9 July	Bank	11,600
4 July	Invoice 0009875	2,365	26 July	CN0092	55
21 July	Invoice 0009879	9,590		**Balance c/f**	**4,800**
		16,455			16,455

(c) Complete the journal by placing each amount in either the debit or credit column.

Do not enter zero in unused debit or credit cells.

(2 marks)

Opening entries for a business require you to record by journal the initial entries used to record transactions occurring at the start of trade for a business. DEAD CLIC can be used for determining the correct debit or credit balance but the element (asset, liability, capital, income or expense) must be understood first.

Account name	Amount £	Debit £	Credit £
Bank loan	5,000		**5000**
Computer	1,300	**1300**	
Cash at bank	10,500	**10500**	
Capital	6,800		**6800**

Task 6 - Solutions (10 marks)

(a) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**
- **remove the suspense account balance.**

Do not enter a zero in unused debit or credit column cells.

(5 marks)

Journal to remove the incorrect entry

Account name	Debit £	Credit £
Purchases		1071

Journal to record the correct entry

Account name	Debit £	Credit £
Purchases	990	

Journal to remove the suspense account balance

Account name	Debit £	Credit £
Suspense	81	

The payables ledger control account was correctly credited with £990 but the debit entry to purchases was incorrectly entered as £1,071. When correcting errors remember the golden rule which is 'if it is not broken, then don't fix it'. The incorrect entry was made to purchases (an expense) and so the journal entry will be to correct the balance for this ledger account.

The debit entry to purchases (an expense) should have been £990, but was entered as £1,071, so £1,071 - £990 = £81 'debited too much'. For this reason a suspense balance of '£81 credit' would have been created to balance the trial balance (see below).

A journal entry would be required to credit (reduce) purchases by £1,071 to reverse the original error and then debit (increase) purchases by £990 for the correct entry, any difference is then posted to the suspense account (a debit entry of £81) to complete the journal entries (since debit and credit entries in a journal must agree). No balance should now exist in the suspense account when the error has been corrected.

The workings below may help to understand the logic.

	The task information		The Solution required		How it is when corrected	
Ledger account	**HOW IT WAS** Existing Balances		**The journal**		**HOW IT SHOULD BE** Revised Balances	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Purchases ledger control account		990				990
Purchases	1071		990	1071	990	
Suspense		81	81			
Total	1071	1071	1071	1071	990	990

(b) Show whether the errors below will cause or will not cause an imbalance in a trial balance, by placing the appropriate answer against each error. You may use each answer more than once.

(4 marks)

Error	Effect on the trial balance
A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.	Will not cause an imbalance
The payables ledger control account was correctly credited with £990 but the debit entry made to purchases was incorrectly entered as £1,071.	Will cause an imbalance
Interest paid of £246 showing in the bank statement for the month has not been entered in the cash book.	Will not cause an imbalance
The receivables ledger of SS Ltd has been incorrectly debited with a sales invoice which should have been posted to the receivables ledger of SNS Limited.	Will not cause an imbalance

(c) What entry is needed in the suspense account to balance the trial balance.

Do not enter a zero in the unused column cell.

Amount name	Debit £	Credit £
Suspense		3483

	DR	CR
Trial balance (imbalance)	132955	129472
Suspense		3483
Trial balance	132955	132955

When errors cause an imbalance in the trial balance then an amount will be entered in a suspense account ledger to ensure both the total debit and total credit amounts do agree.

Task 7 - Solutions (10 marks)

(a) 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.**

(8 marks)

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

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 1st (beginning) of the month and the balance c/d is always recorded at the end of the month 30th/31st (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).

(b) Calculate the total debit and total credit amounts that would be shown in the trial balance above, if including the balances for the general ledger accounts in part (a).

(2 marks)

	Debit	Credit
Totals	**184,099**	**184,099**

A completed trial balance is shown below to help with the logic and understanding for how the total debit and total credit amounts for the trial balance has been calculated.

	Debit	Credit
Payables ledger control		**28,177**
Bank	56,682	
Bank charges	**278**	
Receivables ledger control	44,530	
Sales		78,922
Fixtures and fittings	**26,200**	
Purchases	56,409	
Capital		**77,000**
Totals	**184,099**	**184,099**

Task 8 - Solutions (10 marks)

(a) Complete the table below to show:

- **the balance of each account after the journal entries have been recorded**
- **whether each balance will be a debit or credit entry in the trial balance**

(5 marks)

List of balances

Amount name	Original balance £	New balance £	Debit in the trial balance	Credit in the trial balance
Bank (not overdrawn)	5083	5112	✓	☐
Interest received	125	154	☐	✓
Receivables ledger control	6088	7288	✓	☐
Motor vehicles	24560	27560	✓	☐

Workings

	Element	Existing Balances		Journal in task		Revised Balances	
		Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Bank (not overdrawn)	Asset	5083		29		5112	
Interest received	Income		125		29		154
Receivables ledger control	Asset	6088		1200		7288	
Motor vehicles	Asset	24560		3000		27560	

(b) Complete the table below to show whether each balance will be a debit or credit entry in the trial balance.

(3 marks)

Amount name	Balance £	Debit in the trial balance	Credit in the trial balance
Office expenses	2311	☑	☐
Rent received	4000	☐	☑
Discounts allowed	229	☑	☐

Using the logic of DEAD CLIC

- Office expenses are an expense and therefore a debit balance.
- Rent received is income earned and therefore a credit balance.
- Discounts allowed are an expense and therefore a debit balance.

(c) What will be the totals of each column shown in the trial balance after the balances in (b) have been entered.

(2 marks)

	Debit	Credit
Totals	**125,077**	**125,077**

Workings

	Element	DR	CR
Trial Balance		122537	121077
Office expenses	Expense	2311	
Rent received	Income		4000
Discounts allowed	Expense	229	
		125077	125077