



Mock Exam One

AAT L2 The Business Environment

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Mock Exam One

AAT L2 The Business Environment

Assessment information:

You have **2 hours** 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 **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.

Exam Note: Task 4 and Task 7 of your AAT exam assessment is human (not computer) marked, therefore assessment results are not released immediately.

Task 1 (10 marks)

This task is about different business types and their functions.

This task contains parts (a) to (d).

(a) Identify whether the following statements about charities are true or false.

(4 marks)

	TRUE	FALSE
A charity exists for public benefit such as for religious or scientific causes.	<input type="checkbox"/>	<input type="checkbox"/>
A charity pays corporation tax on any profits that it earns.	<input type="checkbox"/>	<input type="checkbox"/>
The Charity Commission is a government body that regulates charities.	<input type="checkbox"/>	<input type="checkbox"/>
A charity is controlled by a Board of Directors and is owned by the general public.	<input type="checkbox"/>	<input type="checkbox"/>

(b) Identify which one of the following is incorrect about an 'off the shelf' company.

(1 mark)

A purchaser can save time registering a newly formed company themselves.	<input type="checkbox"/>
It is a limited company which has already been legally set up at Companies House.	<input type="checkbox"/>
It normally has an active trading history and an established credit rating.	<input type="checkbox"/>

(c) Identify whether the following statements about companies are true or false.

(4 marks)

	TRUE	FALSE
A board of directors is appointed by the company shareholders.	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders can provide more investment to fund the business.	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders of a company have 'limited liability'.	<input type="checkbox"/>	<input type="checkbox"/>
No complex legal or accounting regulations govern companies.	<input type="checkbox"/>	<input type="checkbox"/>

(d) Complete the following sentence using the drop down list.

(1 mark)

The department responsible for identifying anticipating and satisfying customer requirements profitably would be the

Picklist: Finance department, Marketing department, HR department, IT department.

End of Task




Task 2 (13 marks)

This task is about the finance function, its information requirements and sources, and its role within the wider organisation.

This task contains parts (a) to (e).

(a) Identify the characteristic of useful information for each description below.

(3 marks)




Description	Characteristic
All information requested by the recipient was provided.	<input type="text"/> 
Information was presented in a way that the recipient can understand.	<input type="text"/> 
Information was delivered to the recipient by the agreed deadline.	<input type="text"/> 

Picklist: Accurate, Complete, User friendly, Authoritative, Timely.

You work in a finance department in a large company.

(b) Identify the person that you would most likely contact, or report the following information to.

(3 marks)

	Person
Budget cost allocation for monthly factory expenses.	<input type="text"/> 
Sales credit control and customer collection problems.	<input type="text"/> 
Query regarding the details on a supplier invoice.	<input type="text"/> 

Picklist: Payroll manager, Production manager, Purchasing manager, Sales manager.

You work between 9am to 5pm each day of the week and always take lunch between 1pm to 2pm each day. Your monthly work schedule and weekly work schedule is shown below. All routine tasks in the weekly work schedule are required to be completed by the indicated deadline. All non-routine tasks in the monthly work schedule can be completed anytime on the relevant day. Today is Monday (week 1).

Weekly work schedule (routine tasks)			
Day	Work task	Deadline	Duration
Wednesday	Send sales invoices	12pm	2 hours
Friday	Bank reconciliations	12pm	2 hours
Every day	Process sales invoices	5pm	2 hours
Every day	Process purchase invoices	5pm	1 hour
Every day	Record and bank cheques	10am	1 hour

Monthly work schedule (other routine tasks)					
	Monday	Tuesday	Wednesday	Thursday	Friday
Week 1	Finance meeting (2 hours)	Variance reports (3 hours)			Send out customer statements (1 hour)
Week 2	Expense reports (1 hour)				Send out customer statements (1 hour)
Week 3		Staff meeting (1 hour)			Send out customer statements (1 hour)
Week 4		Payroll reports (2 hours)			Send out customer statements (1 hour)

Your manager has requested a 2 hour meeting with you on any Tuesday of this month.

(c) Identify two days in the month when this meeting can be accepted.

(2 marks)

Picklist: Tuesday (Week 1), Tuesday (Week 2), Tuesday (Week 3), Tuesday (Week 4).

(d) Identify whether each policy or procedure described below is for a finance function, or is an organisational-wide policy and procedure.

(4 marks)

	Finance department	Organisational-wide
Rules about mobile phone use, smoking, drugs and alcohol.	<input type="checkbox"/>	<input type="checkbox"/>
Customer statements sent out at the end of each month.	<input type="checkbox"/>	<input type="checkbox"/>
Use of the internet and email policies for communication.	<input type="checkbox"/>	<input type="checkbox"/>
Procedure for cash handling and banking cheques received.	<input type="checkbox"/>	<input type="checkbox"/>

A colleague has a tax query and you have agreed to find out more information.

(e) Identify which one of the following is more likely to be a valid source of information.

(1 mark)

Facebook	<input type="checkbox"/>
Twitter	<input type="checkbox"/>
HMRC	<input type="checkbox"/>
Accounting blog sites	<input type="checkbox"/>

End of Task

Task 3 (14 marks)

This task is about corporate social responsibility (CSR), ethics and sustainability.

This task contains parts (a) to (e).

A business wants to improve its corporate social responsibility.

(a) Identify FOUR initiatives that would help improve the welfare of its staff.

(4 marks)

Ensure employees have regular rest breaks and provide free drinking water.	<input type="checkbox"/>
Introduce new production equipment to lower energy consumption.	<input type="checkbox"/>
Ensure that all staff know the procedure for claiming back any business expenses.	<input type="checkbox"/>
Introduce flexible working practices for all employees.	<input type="checkbox"/>
Offer courses for all staff to help develop their IT, Maths and English skills.	<input type="checkbox"/>
Ensure that all office and factory employees work overtime.	<input type="checkbox"/>
Offer free membership for staff to join their local gymnasium.	<input type="checkbox"/>
Ensure that employees send information electronically rather than use printed paper.	<input type="checkbox"/>

(b) Match each statement shown below to a fundamental principle of ethics for AAT members.

(3 marks)

Statement	Ethical principle
AAT members should be straightforward, honest and truthful.	<input type="text"/>
AAT members should comply with relevant laws and regulations as a minimum requirement.	<input type="text"/>
AAT members should not allow bias, conflicts of interest or undue influence to override their professional judgement.	<input type="text"/>

Picklist: Confidentiality, Objectivity, Integrity, Professional competence and due care, Professional behaviour.

(c) A fully sustainable business is one that. Choose ONE only.

(1 mark)

Consumes natural resources from the environment in a positive way.	<input type="checkbox"/>
Continually improves the welfare of its customers and employees.	<input type="checkbox"/>
Continually improves the welfare of society as a whole.	<input type="checkbox"/>
Consumes natural resources without any negative impact on the environment.	<input type="checkbox"/>

(d) Match each statement shown below to a category included in ‘triple bottom line’ reporting.

(3 marks)

Statement	Category
Maximise sales and profits.	<input type="text"/>
Maximise stakeholder welfare.	<input type="text"/>
Minimise harm to the natural environment.	<input type="text"/>

Picklist: Promotion, Planet, Place, Profit, People.

(e) Identify whether each business stakeholder is an internal, or external stakeholder.

(3 marks)

	Internal	External
Shareholder.	<input type="checkbox"/>	<input type="checkbox"/>
Finance Director.	<input type="checkbox"/>	<input type="checkbox"/>
Employee.	<input type="checkbox"/>	<input type="checkbox"/>

End of Task

Task 4 (22 marks)

This task is about processing bookkeeping transactions and communicating information. This task contains parts (a) to (e).

You work for PB Limited, a plumbing wholesale company that sells plumbing and electrical supplies to trade customers. You are a finance assistant and report directly to the financial controller. A sales invoice is being prepared for goods supplied as shown in the 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 that would be included in the sales invoice.

(4 marks)

	£
Net amount before discount	
Net amount after discount	
VAT	
Total	

(b) Record the amounts entered in the sales daybook, when the invoice in part (a) is completed.

(3 marks)

Sales daybook

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

(c) A prompt payment discount of 3% for payment within 7 days has been offered to MZ Ltd. Calculate the amount that MZ Ltd would pay on the invoice in part (a) above, if they took up the prompt payment discount.

(3 marks)

£

A colleague who has worked in the finance department for one month, has asked you about the accounting treatment for trade and prompt payment discounts.

(d) Explain to the colleague an appropriate response for their accounting query.

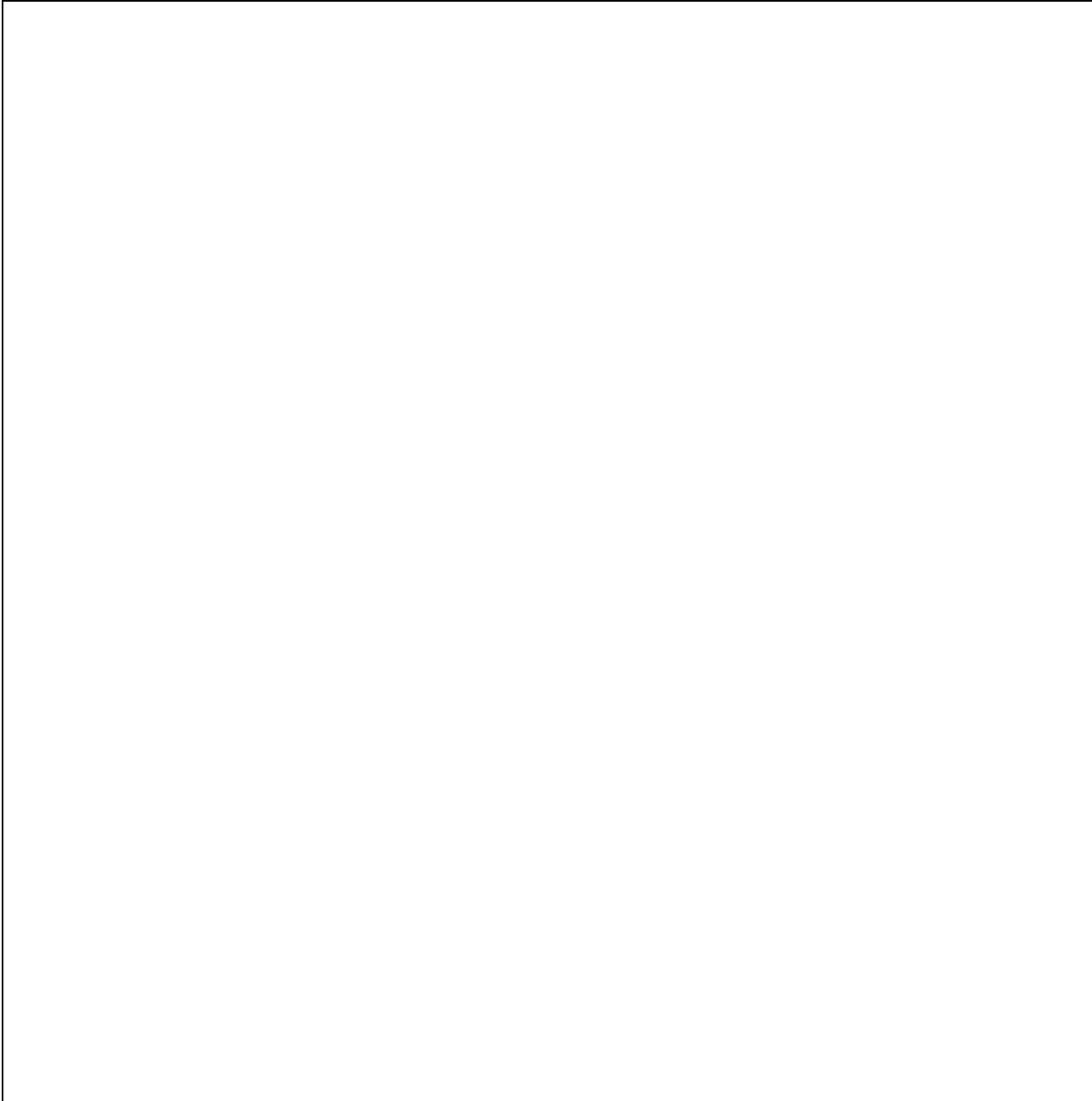
(4 marks)

You have received a remittance advice from MZ Ltd shown below for payment of invoice 1298 in part (a) above. Today is the 26 April 20XX. The contact person at MZ Ltd is Mrs Kirsty Smith.

<p style="text-align: center;">MZ Limited 6 Hall Street, Wingleford, WL4 4YV. VAT registration number 123 6790 01</p> <p style="text-align: center;">Remittance advice</p> <p style="text-align: right;">Account code: MZ001 Dated: 25 April 20XX</p> <p>To: PB Limited, 2 Church Street, London, W23 1LL.</p> <p style="text-align: center;">Payment of invoice 1298 for the amount due of £1,717.99 has been made by BACS today.</p>
--

(e) Write a letter to MZ Ltd informing them that they have underpaid the invoice and to request further payment for any difference due. Also inform them that a credit note is due and how much the total amount of the credit note would be. Your letter must be clear and structured appropriately.

(8 marks)



End of Task



Task 5 (10 marks)

This task is about control accounts, reconciliations and using journals to correct accounts.

This task contains parts (a) to (e).

BB Ltd sells and hires building equipment. The balances in its receivables ledger at 1 November are shown below.

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 have calculated in (a).

(1 mark)

Reasons	
Goods were entered twice in the receivables ledger control account	<input type="checkbox"/>
Goods returned were not entered in the receivables ledger account of a customer	<input type="checkbox"/>
An irrecoverable debt was written off in the receivables ledger of a customer but omitted as an entry in the receivables ledger control account	<input type="checkbox"/>

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.

(3 marks)

Account	Dr £	Cr £
↓		
↓		
↓		

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

(d) 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.

(2 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.

(e) 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 6 (7 marks)

This task is about the principles of contract law.

This task contains parts (a) to (d).

(a) Identify whether the following statements about contracts are true or false.

(3 marks)

Statement	TRUE	FALSE
Mr B buys a lottery ticket and promises a friend that if he wins, he will buy his friend a diamond ring. If Mr B wins, he is legally obligated to buy his friend a diamond ring.	<input type="checkbox"/>	<input type="checkbox"/>
Ms C sees a fake replica hand gun for sale in a shop window display and approaches the shop keeper to buy the hand gun. The shop keeper is legally bound to sell the hand gun to Ms C.	<input type="checkbox"/>	<input type="checkbox"/>
Mrs A makes an offer to buy goods on e-bay. Within 5 hours she changes her mind and decides to send another message to revoke her offer, before sending this message she notices the seller has sent a message accepting her offer. Mrs A is legally bound to buy the goods.	<input type="checkbox"/>	<input type="checkbox"/>

(b) Identify which one of the following types of court would specifically hear only criminal cases.

(1 mark)

Supreme court	<input type="checkbox"/>
Crown court	<input type="checkbox"/>
High court	<input type="checkbox"/>
County court	<input type="checkbox"/>

(c) Identify which TWO of the following are sources of UK law.

(2 marks)

Common law.	<input type="checkbox"/>
A contract.	<input type="checkbox"/>
An Act of Parliament.	<input type="checkbox"/>
A letter of intent.	<input type="checkbox"/>

(d) Identify which one of the following situations would create a void contract.

(1 mark)

Undue influence or duress inflicted on a party before a contract was signed.	<input type="checkbox"/>
The contract terms include law breaking activities.	<input type="checkbox"/>
Misrepresentation by a party before the contract was signed.	<input type="checkbox"/>
Breach of contract terms by either party to the contract.	<input type="checkbox"/>

End of Task

Task 7 (10 marks)

This task is about bookkeeping systems, receipts and payments, and the importance of information and data security.

This task contains parts (a) to (d).

XZ Traders is a business run by a sole trader called Barry Evans. Barry is a self-employed plumber and employs three full-time staff in his business. Ruth Evans, who is Barry's wife, undertakes all accounting matters on behalf of the business.

The business accounts are currently recorded using a manual system, however a cloud based payroll and VAT system has been installed in the last few years with the help and support of a local accounting practice. The payroll and VAT system does not currently have a password, because Ruth is very bad at remembering passwords.

Ruth is considering moving all business accounts to a fully digital and cloud based system.

(a) Explain TWO benefits and TWO drawbacks of using a digital bookkeeping system.

(4 marks)

(b) Identify TWO characteristics of useful information that would most likely improve, if Ruth decided to use a fully digital accounting system.

(2 marks)

Comparable	<input type="checkbox"/>
Consistent	<input type="checkbox"/>
Understandable	<input type="checkbox"/>
Reliable	<input type="checkbox"/>
Timely	<input type="checkbox"/>

(c) Explain to Ruth TWO reasons why it is important to ensure the security of data kept in the payroll and VAT system.

(2 marks)

(d) Explain to Ruth TWO ways that data and information can be retained more securely in a digital and cloud based system, other than by using passwords.
(2 marks)

End of Task

Task 8 (14 marks)

This task is about the external business environment.

This task contains parts (a) to (e).

Based on the forces of supply and demand for pricing and output in the beef industry.

(a) Identify for each statement below, what is most likely to happen to price and output in the beef industry.

(6 marks)

Statement	Price	Output
An increase in the population of the country.	↓ ↓	↓ ↓
The market price of chicken decreases.	↓ ↓	↓ ↓
Farmers face increasing costs to feed and raise their cows.	↓ ↓	↓ ↓

Picklist: Increase, Decrease, Remains the same.

Risk and uncertainty are important concepts in the world of business.

(b) Identify whether each statement below is true or false.

(2 marks)

	TRUE	FALSE
Risk is the chance of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable.	<input type="checkbox"/>	<input type="checkbox"/>
Uncertainty cannot be measured, but gives a high degree of control to a business over the situation.	<input type="checkbox"/>	<input type="checkbox"/>



(c) Identify TWO advantages of globalisation for a business.

(2 marks)

Growth in product sales and profitability.	<input type="checkbox"/>
Volatile exchange rate movements.	<input type="checkbox"/>
Complex international laws and regulations.	<input type="checkbox"/>
Lower tax rates.	<input type="checkbox"/>
Outbreak of war.	<input type="checkbox"/>

(d) Identify the key principle of an effective tax system, that is explained by each statement below.

(2 marks)

Statement	
The tax burden on society, should fall heavier on those individuals or businesses, who have the ability to pay it.	
A tax system should be clearly understood and simple to work out how much tax a taxpayer must pay.	

Picklist: Convenience, Efficiency, Transparency, Equity, Certainty.

Household consumption and business investment in an economy is falling, businesses are struggling to sell goods and services, which is causing a fall in national income and higher unemployment, as businesses lay off workers.

(e) Identify TWO actions that could be taken by a government to help solve this economic problem.

(2 marks)

Reduce rates of taxation in the economy.	<input type="checkbox"/>
Increase rates of taxation in the economy.	<input type="checkbox"/>
Increase interest rates.	<input type="checkbox"/>
Decrease interest rates.	<input type="checkbox"/>
Reduce government spending in the economy.	<input type="checkbox"/>

End of Task



Revision Notes

The different classifications of law

Common law and equity

Common law is a body of customary and accepted laws, established from previous court case rulings or decisions made by a judge. Also called case law, because previous legal cases provide the 'unwritten laws' that exist in the legal system, that help courts interpret the actual 'written laws' that are made by Acts of Parliament.

Equity deals with the 'fairness' of justice. Courts administer both equity and common law, equity is supreme in all disputes.

Civil and criminal law

Criminal Law	Civil Law
The law of crime and criminal punishment e.g. murder, assault, theft and fraud.	The law of civilian rights e.g. divorce, child custody, breach of contract and negligence.
Offenders may receive a prison sentence, given probation or a fine.	Offenders maybe required to financially compensate an injured party.
Burden of proof is 'beyond reasonable doubt', more serious crimes determined by a jury.	Burden of proof is based on evidence and 'probable cause'. Ruling is determined by a judge.
Criminal cases are heard by the Magistrates and Crown Courts.	Civil cases are heard by the County and High Courts.

Public law and private law

Public law is part of the legal system that governs issues which are of direct concern to society as whole e.g. environmental law, international law, taxation law and criminal law. Public law deals with the powers, rights and obligations of government and society.

Private law is part of civil law that manages the relationship between private 'citizens' and companies.

Acts of Parliament (statute law)

An Act of Parliament (a statutory law) can introduce new laws or change existing laws. A law is passed initially by the introduction of a Bill, which has to be passed by both the House of Commons, the House of Lords and be given Royal Assent by officials, acting on behalf of the Monarchy.

European Union Law and the European Convention of Human Rights

The UK is no longer a member of the European Union. EU legislation is now part of UK legislation and under the control of UK Parliament. EU laws operate within member states of the European Union. The UK is a member of the European Convention on Human Rights (ECHR) that protects the human rights of people.

The key features of a contract

A valid (or legal) contract can be written or verbal, it is a legally binding promise by one party to fulfil an obligation to another party, in return for consideration (normally money).

A legally binding contract must comprise five basic elements which is offer, acceptance, consideration, capacity and intention to create legal relations.

Offer can be defined as the expression of willingness to contract with the intention that it becomes legally binding, when accepted by the other party. An invitation to treat is not an offer in law e.g. the display of goods in a shop or goods sold at an auction.

An offer can be terminated:

- Rejection by the offeree.
- Operation of the law e.g. anything that is law breaking.
- Lapse of time e.g. after 'unreasonable delay' by the offeror.
- Failure to agree conditions.
- Death of a party.
- Revocation e.g. offer withdrawn before acceptance.
- Acceptance e.g. a contract is formed and the offer brought to an end.

The meaning and consequences of acceptance

A contract becomes legally binding in law, when acceptance of an offer has been communicated to the offeror by the offeree. Acceptance can be made orally, in writing or by conduct by a seller, but only effective when it is communicated or received.

The meaning of and need for consideration

If no consideration is given by either party to a contract, the contract is not legally binding. Consideration can be defined as "valuable consideration in the sense of the law and may consist of some right, interest, profit or benefit or responsibility accruing to either party or undertaken by the other."

Capacity and legality

Parties to a contract must have capacity to contract for it to be legally binding. Capacity is a legal term that refers to the minimum mental capacity required by law for a person to enter into a legal agreement. A contract must have intention to create legal relations (legality) for it to be legally binding.

Examples of lack of capacity to contract

- Children (minors) under 18 years of age.
- Some persons with disabilities or mental health issues.
- Voluntary intoxication e.g. drugs and alcohol.

The meaning of discharging a contract

A discharged contract means that each party is freed from their obligations and the contract is brought to a legal end, this may be due to the following reasons:

- Performance.
- Breach of contract.
- Mutual agreement.
- Impossibility of performance.
- Lapse of time.

Void and voidable contracts

A void contract is one that violates the law. The contract is illegitimate and unenforceable from the moment it is created even if there was offer and acceptance. A contract is deemed void if it includes law breaking activities, or a party did not have the minimum mental capacity required by law e.g. mentally incapacitated, drunk or a minor.

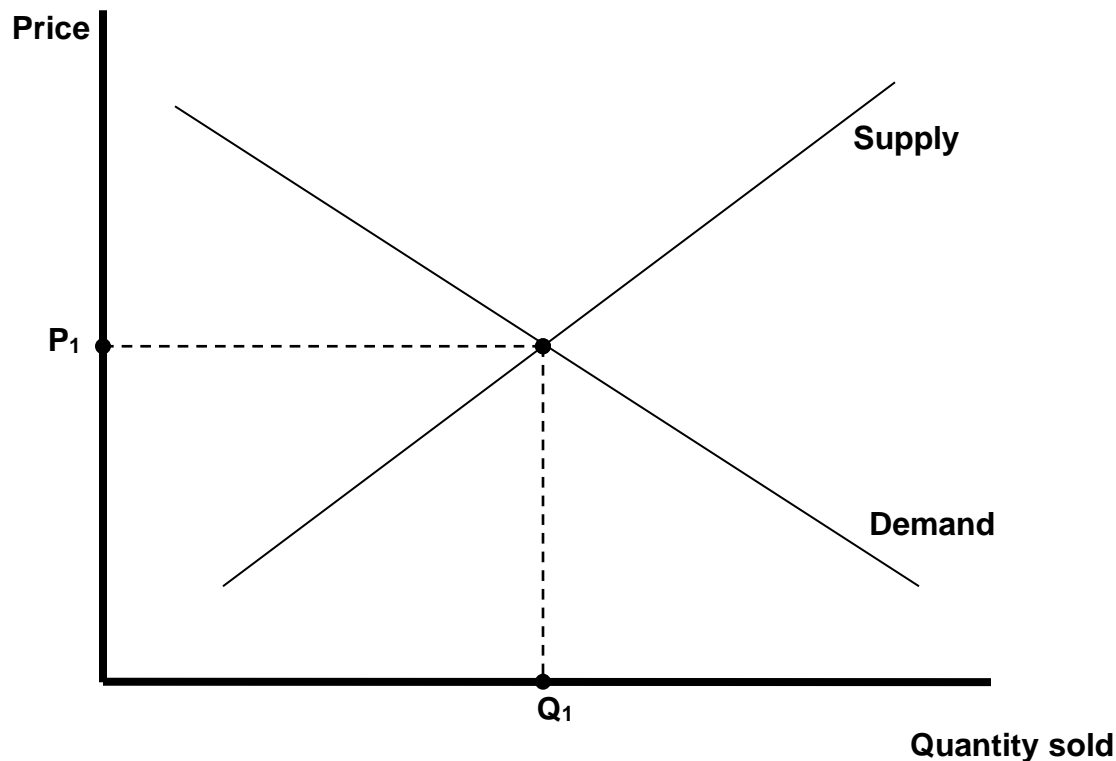
A voidable contract unlike a void contract, is a valid contract but rendered unenforceable by a court for the following reasons:

- Failure to disclose material facts, misrepresentation or fraud by either party.
- Undue influence or duress inflicted on the other party.
- Breach of contract by either party.

The economic environment

A market is any place (physical or virtual) whereby buyers and sellers come into contact for the purpose of exchanging goods or services.

Diagram to show supply and demand



Demand

Demand represents the total quantity that buyers are willing to purchase at the existing market price. The law of demand states that if the market price falls, the quantity demanded (consumed) from buyers will rise, and vice versa.

Factors that may cause a change in demand

- Advertising.
- Population of a country.
- Expectations of buyers.
- Price of substitute goods or services.
- Price of complimentary goods or services.
- Income of buyers (households).
- Tastes and fashion.

The effect of an increase in demand (if supply is unchanged) is to initially create a shortage in the market and this puts pressure on the market price to rise. The effect of a decrease in demand (if supply is unchanged) is to initially create a surplus in the market, which puts pressure on the market price to fall.

Supply

Supply represents the total quantity that sellers are willing and able to make or sell at the existing market price. The law of supply states that if the market price rises, the quantity supplied by sellers will rise, and vice versa.

Factors that may cause a change in supply

- Climate (weather).
- Price of factors of production (resources).
- Resource availability.
- Taxation.
- Subsidies.
- Goods in joint supply.
- Expectations of sellers.
- Technology.

The effect of an increase in supply (if demand is unchanged) is to initially create a surplus in the market, which puts pressure on the market price to fall. The effect of a decrease in supply (if demand is unchanged) is to initially create a shortage in the market, which puts pressure on the market price to rise.

Uncertainty and risk

Risk and uncertainty are important concepts in the world of business. Risk is the chance (or probability) of a future outcome occurring such as winning or losing sales or profits. All potential outcomes are known and the likelihood of each outcome is measurable.

Uncertainty implies that the chance (or probability) of a future outcome occurring is unknown, unpredictable or too complex to be measured, although the impact of the event can be understood. Uncertainty cannot be measured and is uncontrollable.

The global business environment

It is the case today that many businesses operate in a global business environment. Globalisation means that the whole world is increasingly behaving like a single market and countries are strongly interdependent on each other for the provision of goods or services.

Advantages of trading internationally

- Opportunities for growth in sales and profits.
- Significantly lower tax rates, subsidies, grants or finance can be available.
- International sourcing of resources can lower costs for a business.

Uncertainty and risk of trading internationally

- Exchange rates.
- Political, economic and legal risk.
- Outbreak of war.

How changes in exchange rates may change business costs

A UK retailer buys TV sets overseas from a US manufacturer for \$250 per TV set. The current exchange rate between the UK and US is \$2.00 = £1.

The cost (in pounds) to import the US good

$\$250 \div \$2.00 = \text{£}125.00$ per TV set.

If the pound now weakens against the dollar falling to \$1.50 = £1...

The cost (in pounds) to import the US good

$\$250 \div \$1.50 = \text{£}166.67$ per TV set.

How government raises finances through the tax system

A direct tax is administered and paid 'directly' by the individual or business expected to pay it e.g. corporation tax and income tax.

An indirect tax is a tax indirectly collected from an individual or business that is expected to pay it e.g. value added tax (VAT), it is the business (seller) that collects and pays any VAT to HMRC on behalf of the consumer.

The functions of a tax system

- Taxation raises money to fund government spending.
- Taxation can discourage consumption.
- Taxation helps redistribute income and wealth.
- Taxation can be used to 'fine tune' an economy.

The key principles of an effective tax system

- **Equity (Fairness)** e.g. distributed towards those individuals (or business) who have the means and 'ability to pay it'.
- **Certainty** e.g. tax systems should be clearly understood and simple to use for the tax payer (not arbitrary).
- **Convenience** e.g. administration should not be time consuming or complex.
- **Economy (or efficiency)** e.g. tax systems should be economical and efficient to run for a government.
- **Transparency (or compliance)** e.g. tax payers need to be honest, clear and obvious about their tax affairs when dealing with the tax authorities.

Government control of an economy

- Monetary policy is any action by a government to influence the cost of borrowing (credit) in an economy e.g. increasing or decreasing interest rates.
- Fiscal policy means changing taxation and/or government spending directly in an economy, to influence levels of national expenditure (demand).

	Increase demand in the economy	Decrease demand in the economy
Monetary policy	Decrease interest rates	Increase interest rates
Fiscal policy	Decrease taxation	Increase taxation
	Increase government spending	Decrease government spending

Corporate social responsibility (CSR)

Corporate social responsibility (CSR) is concerned with a business being aware of the impact of its actions or conduct on its stakeholders and how to act in the best interests of society. A stakeholder is any organisation or individual person that has an interest in the business. The objectives of CSR can be remembered as **PEEL**, which stands for **Philanthropic, Economic, Ethical and Legal**.

Customers are prepared to pay premium prices for brands that represent strong ethical and social values. A business with a reputation for excellent CSR may attract more shareholders or investors who are willing to invest in the business.

Business ethics

Business ethics is concerned with the moral principles or values that guide the right kind of behaviour or conduct of a business, business ethics is one objective of corporate social responsibility.

Sustainability and the natural environment

Sustainability means that a business can operate without compromising the ability of future generations to inherit existing natural resources. Society needs clean air, fresh water and a non-toxic environment to live. The aims of sustainability extend also to the social equality of stakeholders and the economic (financial) viability of the business.

Triple bottom line reporting

Triple bottom line reporting is a framework that measures sustainability success:

- **Profit (economic)** e.g. minimise costs, maximise sales, profit and cash-flows.
- **People (social)** e.g. maximise stakeholder welfare.
- **Planet (environmental)** e.g. minimise harm to the natural environment.

The fundamental principles of ethics for AAT members

The code of ethics can be remembered using the acronym **PIPCO**.

- Professional competence and due care
- Integrity
- Professional behaviour
- Confidentiality
- Objectivity

Types of organisation

	Ownership	Management	Liability for debts	Net assets	Taxation	Distributing profits	Accounting regulations
Sole trader	Sole trader	Sole trader	Unlimited Liability for a sole trader	Capital	Individual pays income tax on profits earned	Sole trader takes drawings from the business	None
Partnership	Partners	Partners	Unlimited Liability for a partner	Capital	Individuals pay income tax on their share of profits earned	Each partner takes drawings from the business	None
Company	Shareholders	Board of Directors	Limited Liability for Shareholders	Equity	Company pays corporation tax on company profits earned	Dividends paid to shareholders from profits earned by the company	Companies Act and Accounting Standards
LLP	Members	Members	Limited Liability for Members	Capital	Individuals pay income tax on their share of profits earned	Each partner takes drawings from the business	Partnership Act, Companies Act and Accounting Standards
Charity	Public benefit	Board of Trustees	Limited Liability for Trustees	Funds	Tax Exempt	Not for profit, earns a surplus or incurs a deficit	Charity legislation and statements of recommended practice

Buying an 'off the shelf' company

An off the shelf company is a limited company which has already been legally set up and pre-registered at Companies House. An off the shelf company has never traded (it is not active) and is ready to be used immediately by the purchaser.

The benefits of using 'off the shelf' companies

- A purchaser can save time.
- Can make it easier and quicker to set up a bank account and obtain a bank loan.
- It can give the impression the company already has an established history.

The limitations of using 'off the shelf' companies

- Uncertainty surrounding the companies past history.
- Risk of scammers who sell 'off the shelf' companies that had an active business.
- Established history is not normally enough to get a good credit rating.

Pre-incorporation contracts

Unless a company is 'incorporated' (registered) it has no legal existence and no capacity to enter into a legal contract. Pre-incorporation contracts are made by 'promoters' on behalf of a company, before the company has actually been legally incorporated. A pre-incorporation contract is intended as a temporary agreement for legal arrangements prior to the actual act of incorporation.

Business names that cannot be used

- Business names that are 'offensive'.
- Business names that contain 'sensitive' words or expressions.
- Business names that are 'similar' to an existing business or trade mark.

The different functions of a business

A function is a team of people, or department that specialises in an activity, process or operation that is required to be performed routinely by an organisation. Functions are formalised and are more likely to exist in large organisations that have 'a place for everything and everything in its place'.

The finance function

The role of the finance function includes the production of statutory financial statements and providing a service (information, support, advice and guidance) to both internal and external stakeholders.

How a finance function contributes to the organisation

- Managing funds effectively.
- Management accounting.
- Financial accounting.
- Auditing.
- Corporate social responsibility (CSR) reporting.

The information technology (IT) function

The role of the IT function is to establish, monitor and maintain information technology systems that provide services and information for the organisation and its stakeholders.

How an IT function contributes to the organisation

- Installation and maintenance of computer network systems.
- Facilitates sharing of information by integrating technology and networks.
- Maintains the integrity of data security e.g. accuracy and data protection.
- Improves the efficiency of how data is processed and reported.
- Improves customer service.
- Integrating the organisation externally with its suppliers and customers.

The operations function

Operations is any business function that is responsible for managing the process of making, selling and delivering goods, performing customer services or supporting customers.

How operations contributes to the organisation

- Production (manufacturing).
- Performing services.
- Customer support.
- Logistics e.g. handling, movement and storage of goods.
- Merchandising e.g. managing customer point of sale displays.

The marketing and sales functions

The marketing function can be defined as “the management process responsible for identifying anticipating and satisfying customer requirements profitably” (Chartered Institute of Marketing).

How a marketing function contributes to the organisation

- Product management.
- Pricing decisions.
- Promotion ideas.
- Placement of products or services.

A sales function is responsible for selling products or services to customers. Sales teams normally work close together, to build and maintain better customer relations. The main goal of the sales function is to increase sales.

The human resource (HR) function

A human resources (HR) function embraces the philosophy that “employees are the organisations most valued asset”, it can influence and motivate employees in a more positive way and improve business productivity and performance.

How a HR function contributes to the organisation

- Recruitment and selection of excellent staff.
- Preparing new staff.
- Training and development of employees.
- Motivating employees.
- Appraisal of staff.
- Managing staff discipline, dismissal and redundancy.
- Ensuring compliance with the law.
- Managing personnel records, pensions and payroll.
- Staff communication.

Outsourcing activities in the finance function

Outsourcing is the contracting out of work-related activities and tasks, to be completed externally by another business (a third-party provider). The alternative to outsourcing is to provide the service internally by a business, using its own internal employees.

Examples of finance activities that can be outsourced

- Payroll administration, compliance and reporting.
- VAT administration, compliance and reporting.
- Company legal administration.
- Tax advice, compliance and reporting.

Actions can be taken if there is insufficient liquidity for a business

Solvency means a business is able to pay its debts as they fall due.

- Capital (investment) introduced by the shareholders or business owner(s).
- Obtain more finance (debt) from banks and other financial institutions.
- Chase trade receivables and collect money faster.
- Reduce the purchase of raw materials (or goods for resale).
- Delay supplier payments (trade payables).
- Delay the purchase of non-current assets.

Demonstrating good business relationships

- Professional behaviour.
- Courtesy and punctuality.
- Active listening and communication skills.
- Helping out other team colleagues.
- Meeting deadlines and goals.
- Compliance with laws, policies and procedures.

The benefits of good business relationships

- Good relationships foster collaboration, which helps to share information.
- Good relationships build positive friendship, which reduces conflict and disputes.
- Good relationships establish trust and goodwill.
- Good relationships help to establish more effective communication channels.
- Good relationships are word-of-mouth marketing and promote the business.
- Good relationships with customers bring high levels of repeat business.

The principles of effective communication

The process of communication, is that a sender sends a message using an appropriate 'medium' e.g. letter, text, voice, telephone call, Teams or e-mail etc. A receiver reads or listens to the message and confirms their understanding. Communication can be verbal (speaking), non-verbal (body language) and written (e-mail, letter or report).

Process of effective communication

- Clear objectives about what will be communicated, to who and by when.
- Plan for communication e.g. consider the recipient and communication medium.
- Read through and double check the information or message, before sending it.
- Sender should ask for feedback and confirmation the message has been read.

Policies and procedures

Policies are a set of rules, or guidelines that employees must comply with e.g. what they must and must not do. Procedures are the step-by-step instructions, checklists or processes that must be followed to comply with policies e.g. instructions for how something must be done.

Information

Types of information and documentation **received** by a finance department:

- Purchase orders, statements, purchase invoices and credit notes from suppliers.
- Customer remittance advices.
- Bank statements.
- Inventory control.

Types of information and documentation **produced** by a finance department:

- Budget information.
- Cash information e.g. cash-flow forecasts and current bank account balance.
- Taxation information e.g. VAT Returns, PAYE and Corporation Tax.
- Financial information e.g. reporting assets, liabilities, income and expenses.
- Sales invoices, credit notes and statements sent to customers.

The characteristics of useful information

The ACCURATE criteria is a useful framework for assessing the characteristics of useful and effective information.

- **A** Accurate e.g. reliable and not false, incorrect, or misleading.
- **C** Complete e.g. all that was requested by a user is provided.
- **C** Cost beneficial e.g. the benefits exceed the cost to provide information.
- **U** User friendly e.g. presented in a way the recipient can understand.
- **R** Relevant e.g. the recipient 'got what they asked for'.
- **A** Authoritative e.g. information is valid, it can be trusted and relied upon.
- **T** Timely e.g. delivered to the recipient by the deadline agreed.
- **E** Easy to use e.g. summarised, charts, colour, no jargon etc.

Other characteristics of useful information include comparable and consistent.

Valid and invalid sources of information

The accountant must understand the importance of recognising valid and invalid sources of information. To determine a valid source of information, an accountant needs to exercise scepticism. Credible sources may include your own professional body (AAT), HMRC and articles published by well-established and known accounting firms.

Invalid sources of information could be social media blogs, unknown websites or articles which do not provide source links for the information, there is a higher risk that the information could be wrong, untrue or it contains errors and mistakes.

The benefits of obtaining information from multiple sources

- Multiple sources can be more reliable than a single source of information.
- Multiple sources reduce the effect of bias and may give a more objective view.
- Multiple sources often give different opinions and views about certain topics.
- Multiple sources help to compare and gain a fuller and wider understanding.
- Multiple sources can help validate and confirm facts or logic.

Primary and secondary sources of information

Primary sources of information “come straight from the horse’s mouth”, the original source of where the information came from e.g. government legal and tax publications, or bank statements sent by a bank.

Secondary sources of information are “second-hand information”, written by researchers that interpret or comment on an original event or source e.g. historical newspaper reports, encyclopaedia’s, articles, reviews and academic books.

The importance of data and information security

Sensitive information must be protected from unauthorised access. Most computer networks today are part of the internet, therefore cyber risk poses an alarming threat to business, including damage to brand and reputation, theft, fraud, extortion and meltdown of critical IT systems. There is also a legal risk of failing to comply with laws and regulations and the potential legal consequences of fines and compensation payments, under General Data Protection Regulations (GDPR).

Examples of data security

- Web security e.g. gateways, firewalls and malware protection.
- Training programs for staff highlighting the do’s and don’ts of social media usage.
- Any sensitive data encrypted.
- Strong passwords e.g. no sharing of passwords and changing passwords.
- Tighten up physical security around the office.
- Back up files and use secure cloud based, or remote storage.
- Prepare a response plan in the scenario of a cyberattack.

Business communication

The meaning of communication is that a sender exchanges information with a recipient (the 'receiver') and uses a communication medium to do this e.g. face to face, text, phone, letter or e-mail. Communication can be written, verbal (speaking) or non-verbal (body language).

Examples of business communication

- Business letters and e-mails.
- Reports.
- Spreadsheets.
- Intranet.
- Social media communication.

An accountant must be able to produce written communication using an acceptable business language, that is clear, structured and follows a logical progression. Your AAT exam assessment will require you to write a business letter or email.

Business letters and e-mails

- The senders name, business name and address.
- The recipient's name, business name and address.
- The date of the letter.
- A reference or title for the letter.
- Opening salutations e.g. Dear Sir or Madam (if the name of the recipient is unknown), or the title Mr, Mrs, Miss or Ms (if the recipient's name is known).
- A brief introduction setting out the main purpose of communication.
- The main body e.g. write in short paragraphs, with clear and logical progression, avoid the use of informality (also called 'slang'), avoid words or expressions that a recipient maybe unfamiliar with and would not understand (also called 'jargon').
- Closing salutations e.g. Yours sincerely, Yours faithfully, Regards, Kindest regards etc. Standard approaches to the closure of an e-mail or letter may include 'Yours sincerely' (if the recipient's name is known such as Dear Mr Smith), or 'Yours faithfully' (if the recipient's name is unknown such as 'Dear Sir').
- The sender's name and job title. It is important that a recipient knows who the sender is and what they do in the business.

Business letters or e-mails can be used for legal purposes, they must be accurate, be polite and convey a professional image about you and your business. A business would normally have policies regarding how communication must be made.

Reports

Reports are an official written document used to inform a recipient about a certain matter or topic. A standard approach for report writing normally includes:

- A title for the report and a date when it was published.
- An introduction e.g. purpose of the report briefly explained.
- A main body e.g. findings, results and summary explained.
- Conclusion and recommendations e.g. a summary to end the report, along with any recommendations about what needs to be done and the main reasons why.
- Appendices e.g. written materials, or other information that may be relevant for a recipient of the report to review.

A report can also number and sub-section different parts of the report to structure it more effectively for example, 1.0 Introduction, then 2.0 Main body (findings) and then sub-sections using a decimal number, 2.1, 2.2, 2.3 etc for the main body.

Spreadsheets

Spreadsheets can be a useful communication tool for example, they can create pie charts or column charts for recipients to visualise information, also organise and summarise data, to make it easier to read and understand figures at a glance.

Intranet

The intranet is an internal rather than external website, that restricts access to a limited group of users, such as employees of a business. Intranets can be used by employees to search for information, communicate across the business and manage workflow.

Examples of information communicated using an intranet

- Business news and announcements.
- Accessing training, or health and safety materials.
- On-line employee feedback and instant messaging.
- Access to internal forms e.g. booking holidays, or reclaiming expenses.
- A calendar to schedule events and internal meetings.
- Social features that create profiles, submit comments and posts.

Social media postings

A social media post is any information or data submitted by a third party to a social media outlet that is capable of being displayed e.g. Facebook and Twitter. Inappropriate social media postings include degrading comments, violent threats, illegal activities and sexually explicit content. Cyberbullying or harassment can cause social anxiety and depression to a victim. Social media postings can violate dignity, intimidate, humiliate or be obscene to a recipient, this is unacceptable.

Planning workload

Routine tasks are work activities that are undertaken regularly such as each day, or each week. Non-routine tasks are work activities that are performed irregularly and on an 'ad hoc' basis (as and when necessary).

Prioritising, monitoring and reviewing workload

Effective note-taking and documentation of key information is vital for planning workload for example, taking notes when dealing with customer queries or during meetings with your line manager or a colleague.

A 'to-do list' (or 'list of things to do') is very similar to a shopping list, important bullet points are kept as notes from perhaps a meeting or a conversation. A list helps to keep information all in one place and to plan and prioritise workload, if all tasks are listed in one place it is likely that things will not be forgotten. A 'to-do list' like a shopping list, also allows work to be prioritised on the basis of importance or urgency.

Other tools such as Microsoft Teams calendar, diaries and wall planners, also makes it easier to schedule important tasks, events and meetings.

The importance of communicating

There is an importance to communicate with others whilst undertaking work tasks that have been assigned, in particular if you have a query, or a deadline may not be met.

Revision of Introduction to Bookkeeping

Invoice

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 note

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

- $1/5 \times$ 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 are represented by general ledger accounts for recording business transactions, these are assets, liabilities, capital (equity), income (revenue) and expenses (costs). The five financial elements are represented in the financial statements for a business.

The financial statements

- Assets, liabilities and capital (equity) are presented in the statement of financial position for a business, which reports information about the wealth and liquidity position of the business.
- Income (revenue) and expenses (costs) are presented in the statement of profit or loss, which reports information about sales, costs and profits earned (or losses incurred) by the business.

The financial statements provide information which is useful for users such as banks and business owners to make economic decisions.

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

D ebit	C redit
E xpenses	L iabilities
A ssets	I ncome
D rawings	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

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 **A**ssets (debits) - Total **L**iabilities (credits) = **C**apital (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.

Sales documents sent to a customer

Sales **invoices and credit notes** are the most obvious examples of sales documents a business would send to their customers.

Sales order forms are documents that confirm a sales transaction between the buyer (customer) and seller (the business). It is an internal document generated by the business which would list sales quantities for goods ordered, the date of order and a description of the goods, it may also confirm the amount of the sale normally excluding any VAT. **Sales quotations** often precede sales order forms to allow a prospective customer to officially see the details and costs of an order.

A **delivery note** is a document that details all the goods included in a delivery. It is often signed by the person (buyer) receiving delivery of the goods as official confirmation that supply has taken place.

Statements of account are documents that detail all transactions that took place between the business (seller) and a customer (buyer) for a given period of time. It is good practice to send regular statements of account to all credit customers to let them know how much they owe the business and to confirm invoices, credit notes or payments that took place during the period. Statements of account look very similar to a bank statement.

Sales documents sent from a customer

Purchase orders forms can also be generated internally by the customer (buyer) and sent to the business (seller) and this document is the same as a sales order described above. It confirms a sales transaction between the buyer (customer) and seller (the business).

Remittance advices are documents that detail payments that have been made by the customer (buyer), the document details the invoices and/or credit notes accounted for in the payment, the date payment was made and the method of payment used e.g. cheque, BACS, or faster payments. A remittance means a sum of money that has been sent.

A **goods returns note** is a document that accompanies goods returned back to a supplier which are damaged or unwanted. A customer may internally generate this form which is then sent with the goods as an official confirmation of the quantity and description of the goods that were sent back.

Discrepancies

Discrepancies are illogical differences that exist between two or more facts for example, a discrepancy found between a sales order form and a sales invoice which has been prepared from the sales order form. Exam requirements may ask you to check details between different documents prepared, such as the sales quantity, sales price and amounts recorded, and to identify whether they agree or disagree. Discrepancies indicate that details do not match and so errors are likely to have arisen which means corrections will need to be made.

Examples of discrepancies that maybe found

- Under or over payments by customers.
- Missing transactions (omissions) and duplicated transactions.
- Incorrect type of goods.
- Incorrect product codes.
- Incorrect quantity of goods.
- Incorrect calculations of net, VAT and total amounts.
- Incorrect VAT rate.
- Incorrect discounts (trade, bulk and prompt payment).
- Incorrect dates and terms of payment.
- Non-delivery of goods.

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.

Purchases documents sent from a supplier

Purchase **invoices and credit notes** are the most obvious examples of purchases documents a supplier would send to their customers.

Sales order forms are documents that confirm a sales transaction between the buyer (customer) and seller (the supplier). It can be an internal document generated by the supplier which would list sales quantities for goods ordered, the date of order and a description of the goods, it may also confirm the amount of the sale normally excluding any VAT. **Sales quotations** often precede sales order forms to allow a prospective customer to officially see the details and costs of an order.

A **delivery note** is a document that details all the goods included in a delivery. It is often signed by the person (buyer) receiving delivery of the goods as official confirmation that supply has taken place.

Statements of account are documents that detail all transactions that took place between a supplier (seller) and a customer (buyer) for a given period of time. It is good practice for a supplier to send regular statements of account to all its credit customers to let them know how much they owe and to confirm invoices, credit notes or payments that took place during the period.

Purchases documents sent to a supplier

Purchase orders forms can also be generated internally by the customer (buyer) and sent to the supplier (seller) and this document is the same as a sales order described above. It confirms a sales transaction between the buyer (customer) and seller (the business).

Remittance advices are documents that detail payments that have been made by the customer (buyer) to the supplier, the document details the invoices and/or credit notes accounted for in the payment, the date payment was made and the method of payment used e.g. cheque, BACS, or faster payments. A remittance means a sum of money that has been sent.

A **goods returns note** is a document that accompanies goods returned back to a supplier which are damaged or unwanted. A customer may internally generate this form which is then sent with the goods as an official confirmation of the quantity and description of the goods that were sent back.

Discrepancies

Discrepancies are illogical differences that exist between two or more facts for example, a discrepancy found between a purchase order form and a purchase invoice, or a goods returned note and a credit note. Exam requirements may ask you to check details between different documents prepared, such as the purchase quantity, purchase price and amounts recorded, and to identify whether they agree or disagree. Discrepancies indicate that details do not match and so errors are likely to have arisen which means corrections will need to be made.

Examples of discrepancies that maybe found

- Under or over payments to suppliers.
- Missing transactions (omissions) and duplicated transactions.
- Incorrect type of goods or product code.
- Incorrect quantity of goods.
- Incorrect calculations of net, VAT and total amounts.
- Incorrect VAT rate.
- Incorrect discounts (trade, bulk and prompt payment).
- Incorrect dates and terms of payment.
- Non-delivery of goods.

Revision of Principles of Bookkeeping Controls

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.

Example

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.

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.

Payment methods and the impact on the bank account

	Date of payment	At a later date	No effect on bank balance
Cash			<input checked="" type="checkbox"/>
Cheque		<input checked="" type="checkbox"/>	
Debit card	<input checked="" type="checkbox"/>		
Credit card		<input checked="" type="checkbox"/>	
Bank draft	<input checked="" type="checkbox"/>		
Standing order	<input checked="" type="checkbox"/>		
Direct debit	<input checked="" type="checkbox"/>		
Direct credit	<input checked="" type="checkbox"/>		
BACS		<input checked="" type="checkbox"/>	
CHAPS	<input checked="" type="checkbox"/>		
Faster payments	<input checked="" type="checkbox"/>		

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

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



Mock Exam One - Solutions

AAT L2 The Business Environment

Task 1 - Solutions (10 marks)

(a) Identify whether the following statements about charities are true or false.

(4 marks)

	TRUE	FALSE
A charity exists for public benefit such as for religious or scientific causes.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A charity pays corporation tax on any profits that it earns.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The Charity Commission is a government body that regulates charities.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A charity is controlled by a Board of Directors and is owned by the general public.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The second statement is false because a charity has tax exempt status, which means it does not pay tax on any surplus that it earns. The fourth statement is false, a charity is run by a Board of Trustees, not a Board of Directors (which control a company).

(b) Identify which one of the following is incorrect about an 'off the shelf' company.

(1 mark)

A purchaser can save time registering a newly formed company themselves.	<input type="checkbox"/>
It is a limited company which has already been legally set up at Companies House.	<input type="checkbox"/>
It normally has an active trading history and an established credit rating.	<input checked="" type="checkbox"/>

An off the shelf company is a limited company which has already been legally set up and pre-registered at Companies House. An off the shelf company normally has never traded (it is not active) and is ready to be used immediately by the purchaser.

(c) Identify whether the following statements about companies are true or false.

(4 marks)

	TRUE	FALSE
A board of directors is appointed by the company shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Shareholders can provide more investment to fund the business.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Shareholders of a company have 'limited liability'.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
No complex legal or accounting regulations govern companies.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The fourth statement is false. The Companies Act is the primary source of company law that governs companies in the UK. Accounting standards regulate and govern extensively how company financial statements are prepared and presented.

(d) Complete the following sentence using the drop down list.

(1 mark)

The department responsible for identifying anticipating and satisfying customer requirements profitably would be the **Marketing department**.

Task 2 - Solutions (13 marks)

(a) Identify the characteristic of useful information for each description below.

(3 marks)

Description	Characteristic
All information requested by the recipient was provided.	Complete
Information was presented in a way that the recipient can understand.	User friendly
Information was delivered to the recipient by the agreed deadline.	Timely

(b) Identify the person that you would most likely contact, or report the following information to.

(3 marks)

	Person
Budget cost allocation for monthly factory expenses.	Production manager
Sales credit control and customer collection problems.	Sales manager
Query regarding the details on a supplier invoice.	Purchasing manager

(c) Identify two days in the month when this meeting can be accepted.

(2 marks)

Tuesday (Week 2)
Tuesday (Week 3)

	Monday	Tuesday	Wednesday	Thursday	Friday
Week 1	4 hours (every day) + 2 hours	4 hours (every day) + 3 hours	4 hours (every day) + 2 hours (Wed)	4 hours (every day)	4 hours (every day) + 1 hour + 2 hours (Fri)
Week 2	4 hours (every day) + 1 hour	4 hours (every day)	4 hours (every day) + 2 hours (Wed)	4 hours (every day)	4 hours (every day) + 1 hour + 2 hours (Fri)
Week 3	4 hours (every day)	4 hours (every day) + 1 hour	4 hours (every day) + 2 hours (Wed)	4 hours (every day)	4 hours (every day) + 1 hour + 2 hours (Fri)
Week 4	4 hours (every day)	4 hours (every day) + 2 hours	4 hours (every day) + 2 hours (Wed)	4 hours (every day)	4 hours (every day) + 1 hour + 2 hours (Fri)

(d) Identify whether each policy or procedure described below is for a finance function, or is an organisational-wide policy and procedure.

(4 marks)

	Finance department	Organisational-wide
Rules about mobile phone use, smoking, drugs and alcohol.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Customer statements sent out at the end of each month.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Use of the internet and email policies for communication.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Procedure for cash handling and banking cheques received.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(e) Identify which one of the following is more likely to be a valid source of information.

(1 mark)

Facebook	<input type="checkbox"/>
Twitter	<input type="checkbox"/>
HMRC	<input checked="" type="checkbox"/>
Accounting blog sites	<input type="checkbox"/>

Task 3 - Solutions (14 marks)

(a) Identify FOUR initiatives that would help improve the welfare of its staff.

(4 marks)

Ensure employees have regular rest breaks and provide free drinking water.	<input checked="" type="checkbox"/>
Introduce new production equipment to lower energy consumption.	<input type="checkbox"/>
Ensure that all staff know the procedure for claiming back any business expenses.	<input type="checkbox"/>
Introduce flexible working practices for all employees.	<input checked="" type="checkbox"/>
Offer courses for all staff to help develop their IT, Maths and English skills.	<input checked="" type="checkbox"/>
Ensure that all office and factory employees work overtime.	<input type="checkbox"/>
Offer free membership for staff to join their local gymnasium.	<input checked="" type="checkbox"/>
Ensure that employees send information electronically rather than use printed paper.	<input type="checkbox"/>

(b) Match each statement shown below to a fundamental principle of ethics for AAT members.

(3 marks)

Statement	Ethical principle
AAT members should be straightforward, honest and truthful.	Integrity
AAT members should comply with relevant laws and regulations as a minimum requirement.	Professional behaviour
AAT members should not allow bias, conflicts of interest or undue influence to override their professional judgement.	Objectivity

(c) A fully sustainable business is one that. Choose ONE only.

(1 mark)

Consumes natural resources from the environment in a positive way.	<input type="checkbox"/>
Continually improves the welfare of its customers and employees.	<input type="checkbox"/>
Continually improves the welfare of society as a whole.	<input type="checkbox"/>
Consumes natural resources without any negative impact on the environment.	<input checked="" type="checkbox"/>

(d) Match each statement shown below to a category included in 'triple bottom line' reporting.

(3 marks)

Statement	Category
Maximise sales and profits.	Profit
Maximise stakeholder welfare.	People
Minimise harm to the natural environment.	Planet

(e) Identify whether each business stakeholder is an internal, or external stakeholder.

(3 marks)

	Internal	External
Shareholder.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Finance Director.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Employee.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Task 4 - Solutions (22 marks)

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

(4 marks)

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

Workings:

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

- $^{**}8.5\%$ Trade discount = 0.085 ($8.5 / 100$).
- $1 - 0.085 = 0.915$.
- 0.915 (or 91.5%) $\times \text{£}1,710.00 = \text{£}1,564.65$.
- Alternatively work out 8.5% of $\text{£}1,710.00$. $\text{£}1,710.00 \div 100\% \times 8.5\% = \text{£}145.35$ (trade discount).
- $\text{£}1,710.00 - \text{£}145.35 = \text{£}1,564.65$.
- $^* \text{VAT } 0.2$ (or 20%) $\times \text{£}1,564.65 = \text{£}312.93$. Alternatively find $1/5$ (or 20%) of the net amount. $\text{£}1,564.65 \div 100\% \times 20\% = \text{£}312.93$.
- Total amount due (before PPD) $\text{£}1,564.65 + \text{£}312.93 = \text{£}1,877.58$.

(b) Record the amounts entered in the sales daybook, when the invoice in part (a) is completed.

(3 marks)

Sales daybook

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

- Total is the gross amount (inclusive of VAT)
- Net amount excluded VAT.

(c) A prompt payment discount of 3% for payment within 7 days has been offered to MZ Ltd. Calculate the amount that MZ Ltd would pay on the invoice in part (a) above, if they took up the prompt payment discount.

(3 marks)

£

1,821.25

Workings:

- $3\% = 0.03$ (3/100).
- $£1,877.58 \times 0.03$ (or 3%) = £56.33 total prompt payment discount.
- $£1,877.58 - £56.33 = £1,821.25$.
- Alternatively, $1 - 0.03 = 0.97$ (or 97%). 0.97 (or 97%) \times £1,877.58 = £1,821.25.

(d) Explain to the colleague an appropriate response for their accounting query.

(4 marks)

- Trade discounts are deducted from the list price of the goods when the sales invoice is prepared.
- The net amount of the sales value is calculated after trade discounts have been deducted and VAT is calculated on the net amount of the sales value.
- Prompt payment discounts (PPD) are applied when the payment of a sales invoice occurs within an agreed period of time.
- The original sales invoice is kept the same and a credit note is issued to the customer for the net, VAT and total amount for the PPD taken.
- The receivables ledger is automatically updated in a computerised system for sales invoices and credit notes issued to customers.

1 x mark for reference to any of the above points shown above (maximum 4 marks). Any other relevant points maybe awarded 1 x mark.

(e) Write a letter to MZ Ltd informing them that they have underpaid the invoice and to request further payment for any difference due. Also inform them that a credit note is due and how much the total amount of the credit note would be. Your letter must be clear and structured appropriately. (8 marks)

<p>PB Limited, 2 Church Street, London, W23 1LL.</p> <p style="text-align: center;"><u>Payment of invoice 1298</u></p> <p>Dear Mrs Smith</p> <p>Thank you for your payment of £1,717.99 for sales invoice 1298.</p> <p>Unfortunately, the amount due has been underpaid. You have very kindly paid the invoice on 25 April 20XX and within the agreed 7 day period to be entitled to a 3% prompt payment discount. The invoice amount due is £1877.58, a 3% prompt payment discount would reduce the amount outstanding to £1821.25 (discount available $£1877.58 \div 100\% \times 3\% = £56.33$). The invoice has therefore been underpaid by $£1821.25 - £1,717.99 = £103.26$.</p> <p>Could you please send further payment of £103.26. We shall also issue a credit note for the total amount of £56.33 and update your customer account accordingly.</p> <p>Yours sincerely</p> <p>AAT student (name) Finance Assistant</p>	<p>MZ Limited 6 Hall Street, Wingfield, WL4 4YV. 26 April 20XX</p>
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Communication (maximum 3 marks):

- Customer address, name, date and appropriate greeting (1 mark).
- Appropriate closure or sign off for the letter (1 mark).
- Thank you for your receipt of payment (1 mark).

1 mark each for reference to the following points (maximum 5 marks):

- Unfortunately, it seems you have underpaid invoice number 1298 (1 mark).
- The amount still outstanding is £103.26 (1 mark).
- Please pay the remaining amount required for the invoice to be fully paid (1 mark).
- We will issue a credit note (1 mark).
- The amount of the credit note is £56.33 (1 mark).

Any other relevant points maybe awarded 1 x mark.

Task 5 - 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	<input type="checkbox"/>
Goods returned were not entered in the receivables ledger account of a customer	<input checked="" type="checkbox"/>
An irrecoverable debt was written off in the receivables ledger of a customer but omitted as an entry in the receivables ledger control account	<input type="checkbox"/>

- 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.

(3 marks)

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

1.	<p>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.</p>
2.	<p>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.</p>
3.	<p>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.</p>
4.	<p>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.</p>
5.	<p>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.</p>
6.	<p>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.</p>

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.

(d) 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. (2 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

(e) 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		3483

	DR	CR
Trial balance (imbalance)	132955	129472
Suspense		3483
Trial balance	<u>132955</u>	<u>132955</u>

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 6 - Solutions (7 marks)

(a) Identify whether the following statements about contracts are true or false. (3 marks)

Statement	TRUE	FALSE
Mr B buys a lottery ticket and promises a friend that if he wins, he will buy his friend a diamond ring. If Mr B wins, he is legally obligated to buy his friend a diamond ring.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Ms C sees a fake replica hand gun for sale in a shop window display and approaches the shop keeper to buy the hand gun. The shop keeper is legally bound to sell the hand gun to Ms C.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Mrs A makes an offer to buy goods on e-bay. Within 5 hours she changes her mind and decides to send another message to revoke her offer, before sending this message she notices the seller has sent a message accepting her offer. Mrs A is legally bound to buy the goods.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- The first statement is false. Social agreements made between friends, normally create no intention for legal relations.
- The second statement is false. An invitation to treat is not an offer in law. For example, goods on display in a shop means that the retailer is willing to enter into a contract, but there is no obligation for the retailer to sell the goods, the goods are 'an invitation for a buyer to make an offer' and still part of negotiations.
- The third statement is true. When offer and acceptance is made by post (or e-mail), then acceptance normally occurs as soon as the message is sent, so acceptance is effective, regardless of whether the offeror (buyer) has read or received the message.

(b) Identify which one of the following types of court would specifically hear only criminal cases. (1 mark)

Supreme court	<input type="checkbox"/>
Crown court	<input checked="" type="checkbox"/>
High court	<input type="checkbox"/>
County court	<input type="checkbox"/>

The County Court and the High Court are the two main UK courts that deal with civil disputes. The Supreme Court is the final court of appeal in the UK for civil and criminal cases heard in the UK. The Crown Court deals with serious criminal trials and cases are heard by a judge and a twelve-person jury.

(c) Identify which TWO of the following are sources of UK law.

(2 marks)

Common law.	<input checked="" type="checkbox"/>
A contract.	<input type="checkbox"/>
An Act of Parliament.	<input checked="" type="checkbox"/>
A letter of intent.	<input type="checkbox"/>

(d) Identify which one of the following situations would create a void contract.

(1 mark)

Undue influence or duress inflicted on a party before a contract was signed.	<input type="checkbox"/>
The contract terms include law breaking activities.	<input checked="" type="checkbox"/>
Misrepresentation by a party before the contract was signed.	<input type="checkbox"/>
Breach of contract terms by either party to the contract.	<input type="checkbox"/>

A 'void' contract is one that violates the law. The contract is illegitimate and unenforceable from the moment it is created even if there was offer and acceptance. All other examples are 'voidable' contracts, which are valid contracts but rendered unenforceable by a court.

Task 7 - Solutions (10 marks)

(a) Explain TWO benefits and TWO drawbacks of using a digital bookkeeping system.

(4 marks)

Benefits of using digital accounting systems

- Automatically balances the cash book.
- Automatically completes the transfer of data from the books of prime entry to the ledgers.
- Automatically reconciles the receivables and payables ledgers to their respective control accounts.
- Automatically creates a trial balance from the general ledger accounts.
- Processes recurring entries, saves time, reduces errors and omissions.

Drawbacks of using digital accounting systems

- Makes the duplication of automated and manual entries possible.
- Can create errors when the amount or frequency of a recurring entry changes.
- Automatically balances but doesn't mean the entries are automatically correct.

- 1 mark for each reference to a benefit (maximum 2 marks).
- 1 mark for each reference to a drawback (maximum 2 marks).
- Any other relevant points may award marks.

(b) Identify TWO characteristics of useful information that would most likely improve, if Ruth decided to use a fully digital accounting system.

(2 marks)

Comparable	<input type="checkbox"/>
Consistent	<input type="checkbox"/>
Understandable	<input type="checkbox"/>
Reliable	<input checked="" type="checkbox"/>
Timely	<input checked="" type="checkbox"/>

(c) Explain to Ruth TWO reasons why it is important to ensure the security of data kept in the payroll and VAT system.

(2 marks)

Most computer networks today are part of the internet, therefore cyber risk poses an alarming threat to business, including damage to brand and reputation, theft, fraud, extortion and meltdown of critical IT systems.

There is also a legal risk of failing to comply with laws and regulations and the potential legal consequences of fines and compensation payments, under General Data Protection Regulations (GDPR).

A Court of Appeal decision in October 2018, held that Morrisons was vicariously liable for a serious data breach by a disgruntled employee. The supermarket chain faced a huge potential pay-out to employees whose personal data was compromised when Andrew Skelton, an internal auditor, posted the names, bank account details, salaries and national insurance details of nearly 100,000 employees online.

- 1 mark for each reason (maximum 2 marks).
- Any other relevant points may award marks.

(d) Explain to Ruth TWO ways that data and information can be retained more securely in a digital and cloud based system, other than by using passwords.

(2 marks)

- Web security e.g. gateways, firewalls and malware protection.
- Training programs for staff highlighting the do's and don'ts of social media usage. Any sensitive data should be encrypted.
- Make sure no one walks away with computers and tighten up physical security around the office. Stolen hard drives can leave a business open to attack.
- Back up files as often as necessary and use secure cloud based, or remote storage for protection against fire, flood or meltdown of internal systems.
- Prepare for an attack and create a response plan in scenario of a cyberattack.

- 1 mark for each reference to a security measure (maximum 2 marks).
- Any other relevant points may award marks.

Task 8 - Solutions (14 marks)

(a) Identify for each statement below, what is most likely to happen to price and output in the beef industry.

(6 marks)

Statement	Price	Output
An increase in the population of the country.	Increase	Increase
The market price of chicken decreases.	Decrease	Decrease
Farmers face increasing costs to feed and raise their cows.	Increase	Decrease

As the population of a country increases, more buyers will exist to buy goods or services from a market, in this case beef. The effect of an increase in demand (if supply is unchanged) is to initially create a shortage in the market for beef and this puts pressure on the market price to rise. As the market price rises, more profit should incentivise farmers to expand their production of beef and so output will rise.

Chicken is an alternative good that satisfies the same need as beef, it is therefore a substitute good. If the market price of chicken decreases (encouraging more consumption of chicken) and the price of beef remained the same, then consumers may switch to consuming more chicken and less beef. The effect of a decrease in demand for beef (if supply is unchanged) is to initially create a surplus in the market, which puts pressure on the market price to fall. As the market price falls, less profit should incentivise farmers to contract their production of beef and so output will fall.

If business costs rise then less profit is earned and this normally discourages sellers (farmers) who may cut back on production levels and may even exit the market. The effect of a decrease in supply (if demand is unchanged) is to initially create a shortage in the market, which puts pressure on the market price to rise.

(b) Identify whether each statement below is true or false.

(2 marks)

	TRUE	FALSE
Risk is the chance of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Uncertainty cannot be measured, but gives a high degree of control to a business over the situation.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- The first statement is true. Risk is the chance (or probability) of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable. Risk is measurable and gives some degree of control over the situation.
- The second statement is false. Uncertainty implies that the chance (or probability) of a future outcome occurring is unknown, unpredictable or too complex to be measured. Uncertainty cannot be measured and is uncontrollable.

(c) Identify TWO advantages of globalisation for a business.

(2 marks)

Growth in product sales and profitability.	<input checked="" type="checkbox"/>
Volatile exchange rate movements.	<input type="checkbox"/>
Complex international laws and regulations.	<input type="checkbox"/>
Lower tax rates.	<input checked="" type="checkbox"/>
Outbreak of war.	<input type="checkbox"/>

(d) Identify the key principle of an effective tax system, that is explained by each statement below.

(2 marks)

Statement	
The tax burden on society, should fall heavier on those individuals or businesses, who have the ability to pay it.	Equity
A tax system should be clearly understood and simple to work out how much tax a taxpayer must pay.	Certainty

(e) Identify TWO actions that could be taken by a government to help solve this economic problem.

(2 marks)

Reduce rates of taxation in the economy.	<input checked="" type="checkbox"/>
Increase rates of taxation in the economy.	<input type="checkbox"/>
Increase interest rates.	<input type="checkbox"/>
Decrease interest rates.	<input checked="" type="checkbox"/>
Reduce government spending in the economy.	<input type="checkbox"/>

A UK government can help recover the economy by increasing demand for goods and services which will help to increase national income levels (output), in turn more workers will be hired by businesses.

	Increase demand in the economy	Decrease demand in the economy
Monetary policy	Decrease interest rates	Increase interest rates
Fiscal policy	Decrease taxation	Increase taxation
	Increase government spending	Decrease government spending