

# AAT

Foundation Certificate in  
Accounting

## Bookkeeping Transactions

## Integrated Workbook

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# CONTENTS

	Page
<b>Chapter 1</b> Business Documents	1
<b>Chapter 2</b> Books of Prime Entry	29
<b>Chapter 3</b> Double entry bookkeeping – an introduction	49
<b>Chapter 4</b> Ledger accounting	73
<b>Chapter 5</b> Accounting for sales, VAT and discounts	97
<b>Chapter 6</b> Accounting for purchases, VAT and discounts	111
<b>Chapter 7</b> Control accounts and subsidiary ledgers	121
<b>Chapter 8</b> Receipts and payments	145
<b>Chapter 9</b> Answers	177

# INTEGRATED WORKBOOK ICONS



Definition



Exam Technique Point



Key Point



Illustration



New content



Example

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# Chapter 1

## Business Documents



### Outcome

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By the end of this session you should be able to:

- outline the purpose and content of a number of business documents including a quotation, purchase order, sales order, delivery note, invoice and credit note
- describe the function of a coding system

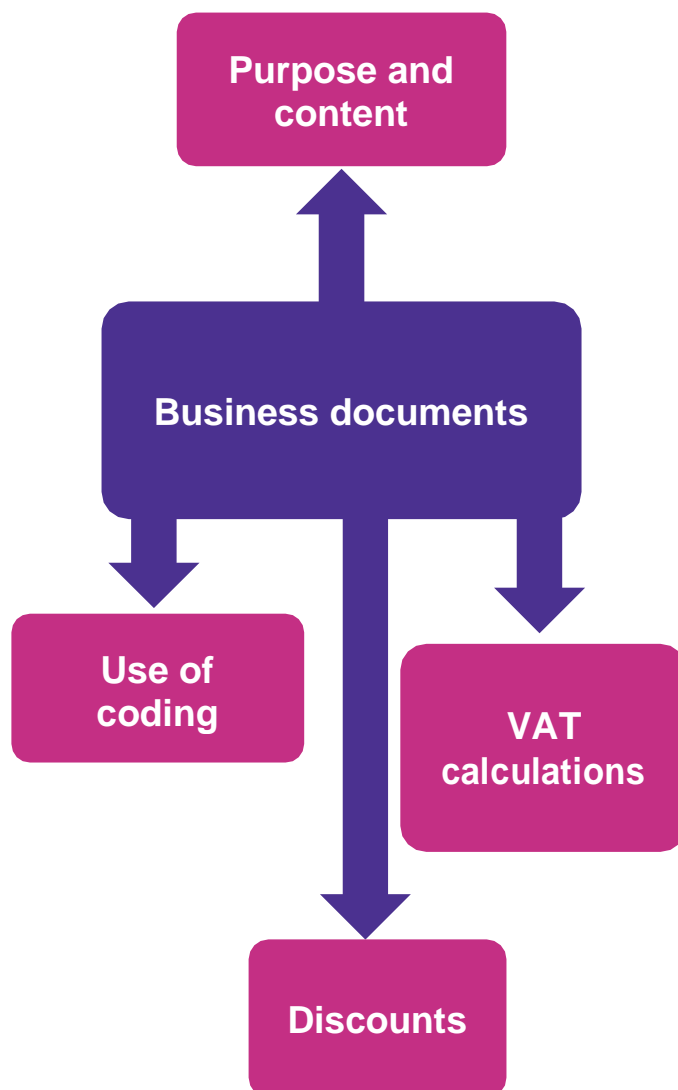
and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 1 of your Study Text



## Overview

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# 1 Business transactions

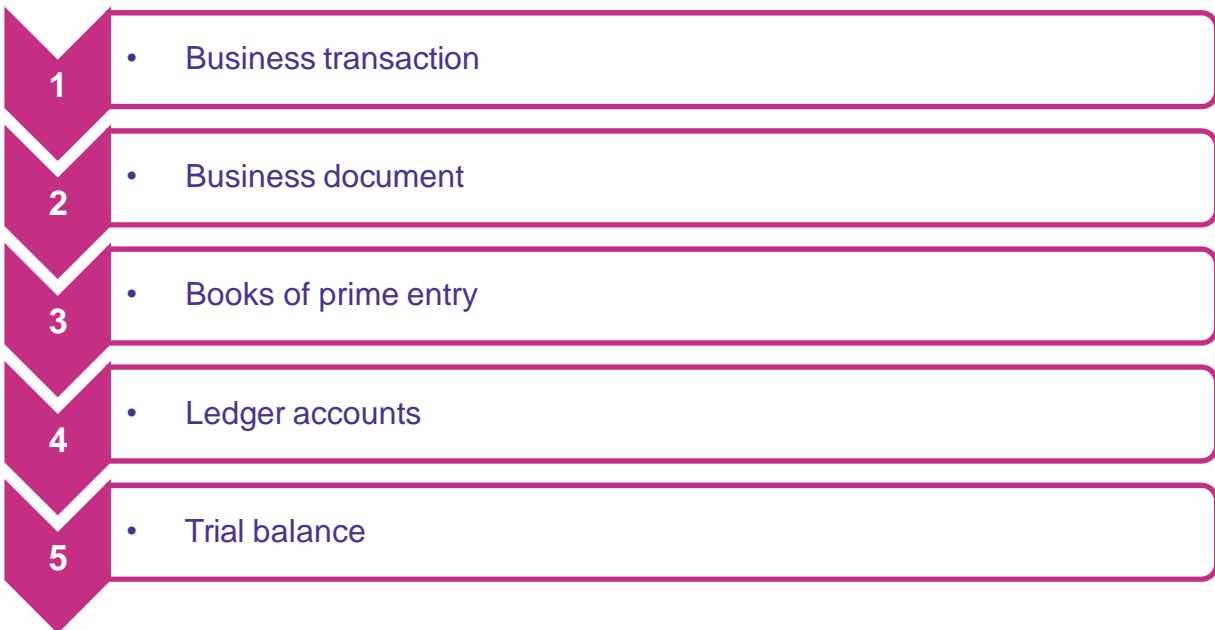
The purpose of accounting is to record and classify business transactions.

There are many transactions that a business may undertake – credit sales, credit purchases, cash sales, cash purchases, other expenses either paid from the bank or by cash, paying cash into the bank, withdrawing cash from the bank and owner’s drawings.

A business may enter into a large number of transactions on a daily basis. It is quite clear that keeping track of all these transactions can be a detailed process.

To ensure that a business does keep track of all sales earned, purchases and expenses incurred, the transactions are recorded in an accounting system.

## Overview of the accounting system



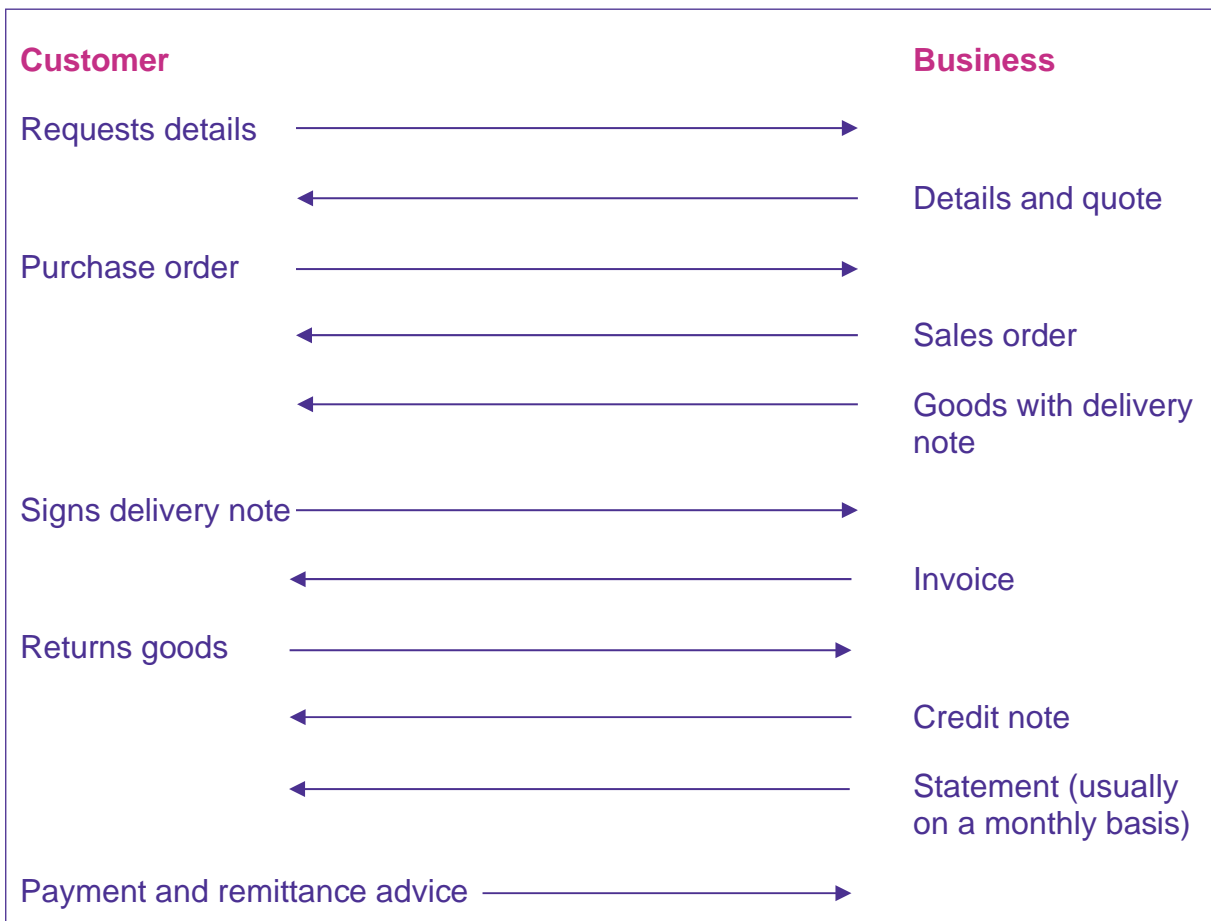
## Notes



## 2

## Business documents for a credit transaction

Various documents may be used when dealing with credit transactions. The flow diagram below shows the typical flow of a transaction including the documents involved. Dependent on whether it is a credit sale or a credit purchase, we will be looking at it from the perspective of the business or customer.



## Notes



## 3 Quote

If there is no set price list that has been issued to customers to refer to, a business may issue a formal quotation upon request.

A typical price quotation is shown below:



### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890  
1235

#### **QUOTATION**

Date: 14 March

11 Mountjoy Street

London W12 6RS

Thank you for your telephone enquiry of 10 March. We are pleased to quote the following price: Five tiers chocolate wedding cake (Code C351) £60.00 per tier, excluding VAT.

Date required: 25th March 2012.

A BAKER

# Bookkeeping Transactions

Details to include on the quotation:

Notes

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## 4 Purchase order

If the customer is happy with the price quoted, they will formally order the goods. They do so by issuing a purchase order.



A purchase order is a buyer generated document that authorises a purchase transaction.

All orders should be approved by an appropriate representative of the business – normally a member of management.

**Details to include on the purchase order:**

Notes



## PURCHASE ORDER

### Belle's Wedding Planners



11 Mountjoy  
Street LONDON

W12 6RS Tel:  
0208 741 2962

Fax: 0208 741 2963

Date: 17 March 2012

Purchase order no:

P01562

To: Little Miss Muffin Cake Shop  
1 Baker Street  
London  
WC1 8QT

Delivery address  
(if different from above)  
Four Hills Hotel  
Park Lane

London

W1

1UY

<i>Product</i>	<i>Ref</i>	<i>Quantity</i>	<i>Price per unit (excl. VAT)</i> £	<i>Total (excl. VAT)</i> £
Chocolate Wedding Cake	C351	5 Tiers	60	300

Signed: J Belle

Purchasing Manager

## Notes



## 5 Sales order

To avoid misunderstandings, a business will normally confirm a customer's order by completing a sales order.



A sales order is a seller generated document that authorises a sale to a customer, issued after the receipt of a purchase order.

A sales order will confirm:

### Notes





## Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

### SALES ORDER

<b>To:</b>	<b>Delivery:</b>	<b>Delivery</b>
<b>date:</b> Belle's Wedding Planners	Four Hills Hotel	25 March
2012 11 Mountjoy Street	Park Lane	
London W12	6RS	
	Londo	
	n W1	
	1UY	

**Date:** 18 March 2012

**Sales order number:** 41161

We confirm the following order to be delivered as above.

Please note our credit terms are strictly 30 days net.

Code	Quantity	Description	Unit price (excl. VAT)	Discount
C351	5 Tiers	Chocolate Wedding Cake	£60.00	NIL

Authorised: **A BAKER**

Date: 18 March 2012

## Notes



## 6 Delivery note and goods received note

After the sale has been agreed and the goods are ready to be sent to the customer, a delivery note is prepared.



A delivery note is a document accompanying goods despatched to a customer explaining what the delivery contains.

The delivered goods should be checked by the customer to ensure they are in good condition, they agree to the delivery note and that they agree to what was initially ordered.

The delivery note normally has three parts and serves a variety of purposes.

*Part one* – This is kept by the **customer**. It is their record of the goods received. They will compare this to the purchase order to ensure the goods delivered were what they ordered. They will also compare this to the sales invoice when they receive it to ensure they are only invoiced for the goods delivered.

*Part two* – This is signed and returned to the **supplier** of the goods as evidence they have been received by the customer in good condition.

*Part three* – This is signed and kept by the **delivery organisation** as evidence they have delivered the goods and that the customer has received them.

### Notes





### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890 1235

DN 00673

#### **DELIVERY NOTE**

<b>To:</b>	<b>Delivery:</b>	<b>Delivery</b>
<b>date:</b> Belle's Wedding Planners 2012 11 Mountjoy Street London W12 6RS	Four Hills Hotel Park Lane London W1 1UY	25 March
<b>Date:</b> 25 March 2012	<b>Sales order number:</b> 41161	

We confirm the following order to be delivered as above.

<i>Product</i>	<i>Cod e</i>	<i>Quantity</i>
Chocolate Wedding Cake	C35 1	5 Tiers

Received in good condition: J Belle



A goods received note is an internal document completed by the purchaser that records the details of goods received and contains similar information to a delivery note.

## Notes



## 7 Invoice (including a review of VAT)



An invoice is a document that itemises a transaction between a buyer and a seller. A sales invoice can be simply defined as the request for payment by the purchaser for goods sold or services provided by the seller.

For each credit sale made by a business, an invoice is raised.



### *Little Miss Muffin Cake Shop*

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

Invoice no: 005673

Tax point: 25 March 2012

VAT reg no: 618 2201 63

Delivery note: DN00673

Account no: BEL65

### INVOICE

**To:**

**date:** Belle's Wedding Planners

2012 11 Mountjoy Street

London W12 6RS

**Delivery:**

Four Hills Hotel

Park Lane

London W1 1UY

**Delivery**

25 March

**Date:** 25 March 2012

**Sales order number:** 41161

<i>Product</i>	<i>Cod e</i>	<i>Quantity</i>	<i>Price per unit</i>	<i>Total</i>
			£	£
Chocolate Wedding Cake	C35 1	5	60	300.00
			VAT	60.00
			<b>Total</b>	<b>360.00</b>

# Bookkeeping Transactions

## Details to include on the invoice

### VAT



VAT (which is also known as sales tax or goods and services tax) is charged on the taxable supply of goods and services in the United Kingdom by a taxable person in the course of a business carried on by them.

The calculation of VAT is reviewed in detail in Chapters 5 & 6 – we will now review how to perform a basic VAT calculation.

Let's review how the figures work with a VAT rate of 20%

#### Cost structure:

Net	100%
VAT	20%
Gross	120%

### How to manipulate VAT

$$\text{The amount known} \times \frac{\% \text{ of what you want to know}}{\% \text{ of what you do know}}$$

### VAT from Net

Say we want to find out the VAT (at 20%) from a net amount of £120,000.

Using the equation above, the amount we know is the net amount of £120,000, the percentage of what we want to know is 20% (i.e. the VAT), and the percentage of what we do know is the net percentage which is 100%.

**Workings:**

### VAT from Gross

Say we want to find out the VAT (at 20%) from a gross amount of £288,000.

Using the same equation, the amount we know is the gross amount of £288,000, the percentage of what we want to know is 20% (i.e. the VAT) and the percentage of what we do know is the gross percentage which is 120% (the net 100% + VAT rate 20%)

**Workings:**

## Bookkeeping Transactions



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There is also a specific rounding rule to remember with VAT.

VAT should always be rounded down to the nearest penny e.g. VAT of £21.5677 will be rounded down to £21.56

### Receiving an invoice

When the invoice is received by the customer, the following checks should be performed:

## Notes



In some businesses, invoices are stamped with a grid stamp upon receipt. A grid stamp contains entries for:

Purchase order number – the number of the original purchase order for the goods now being invoiced.

Delivery note number – the number on the delivery note sent with the goods.

Invoice number – a sequential number given to all purchase invoices received, for control purposes.

Cheque number – when known, the number of the cheque paying this invoice will be filled in.

Account code – the purchase ledger code for this payable.

Checked by – the employee checking the invoice and filling in the grid entries.

Date – the date the employee is filling in the grid entries.

General (main) ledger account – the account in the general ledger to be charged with the cost of the invoice.

## Notes

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### 8 Credit note



A credit note is a document issued by a supplier to a customer cancelling part or all of a sales invoice.

A business may issue a credit note for the following reasons.

## Notes





## Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

Credit note no: CN 02542

Tax point: 30 March 2012

VAT reg no: 618 2201 63

Invoice no: 005673

Account no: BEL65

### CREDIT NOTE

**Credit to:**

Belle's Wedding

Planners 11 Mountjoy

Street London W12

6RS

**Date:** 30 March 2012

Description	Code	Quantity	VAT rate %	Unit price £	Amount exclusive of VAT £
Chocolate Wedding Cake	C35 1	1 tier	20	60.00	60.00
VAT					60.00
Total amount of credit					12.00
<b>Reason: One tier of unsatisfactory quality.</b>					72.00

When a customer returns goods, the return of goods will often be accompanied by a goods returned note.

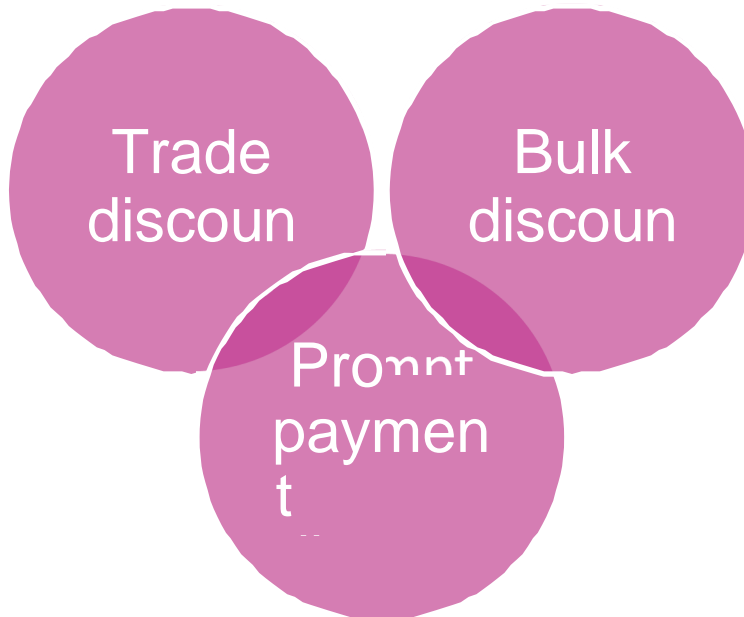


A goods returned note is a document sent to the supplier by the customer detailing the goods returned and reason(s) for the return being made.

The contents of a goods returned note are similar to a goods received note but with the added detail of why a return is being made.

# 9 Discounts

A discount is a reduction to the price of the sales of goods or services. There are different types of discounts that may be given or offered for different reasons.



A **trade discount** is a definite amount that is deducted from the list price of the goods for the supplies to some customers, with the intention of encouraging and rewarding customer loyalty.

A **bulk discount** is similar to a trade discount in that it is deducted from the list price of the goods and disclosed on the invoice. However, a bulk discount is given by a supplier for sales orders above a certain quantity.

**Prompt payment discounts** (also known as settlement or cash discounts) are offered to customers in order to encourage early payment of invoices.

VAT is calculated after trade and bulk discounts have been deducted from the original list price.

Prompt payment discounts are only offered on an invoice so it does not reduce the net or VAT amounts at the point of the invoice preparation.

If the customer goes on to take advantage of a prompt payment discount offered, the original net and VAT amounts are adjusted – this is looked at in more detail in chapter 5 of this text.

### Notes

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### 10 Coding



A **code** is a system of numbers, letters and symbols designed to be applied to a classified set of items, to give a brief, accurate reference, which helps entry to the accounting records, collation and analysis.

A code may be alphabetical, numerical or alphanumerical. Codes are used in accounting records and the accounting system; within day books, sales and purchases ledgers and other business documents.

**Advantages of having a coding system include:**



**Ledger code** is a unique reference given to different types of income, expenses, assets and liabilities. It may also be referred to as a general ledger (GL) or nominal code.

**Customer account code** is a unique reference given to each individual customer of an organisation.

**Supplier account code** is a unique reference given to each individual supplier of an organisation.

**Product code** is a unique reference given to each type of product of an organisation.



## Example 1

Front Cover Designers code all purchase invoices with a supplier code and a general ledger code. A selection of the alphanumeric codes used is given below.

Supplier	Supplier account code	Item	General ledger code
Paper Mill	PAP113	T-shirts	GL0032
Sideline Printers	SID498	Leaflets	GL0045
XYZ Limited	XYZ221	Photo mugs	GL0101

The following invoice was received from a supplier.

Sideline Printers 34 Whitalel Street London E3 9IK VAT registration no: 298 5566 14	
Printed 800 leaflets @ £0.25 each	£200
VAT @ 20%	£40
<b>Total</b>	<b>£240</b>

**What codes would be used to code this invoice?**

Supplier account code:

General ledger code:



### Example 2

Joyce Partners use a current coding system for their customers. Please see below for an extract of their system.

Customer	Code
JBR Limited	JBR001
Just Signs	JUS002
People Prints	PEO003

**Carry on from the above extract and assign appropriate alphanumeric codes to the two new customers below. There are no other customers that begin with the letter H.**

Hart Landscapes

Princess Peas

Coding is also useful when used in a filing system. You can set up your files and reference them alphabetically or numerically so that all similar documents are filed together. For example, all invoices will be filed together under the same code, and all credit notes will be filed together under the same code.

When filing, it is important to follow an appropriate order. For example by date, alphabetically, by reference number, by business name.

### Notes



## 11 Summary

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### Business documents

- Credit transactions involve a number of different business documents as part of the credit sales and credit purchases cycles

### Types of business documents

- Quote
- Purchase order
- Sales order
- Delivery note
- Invoice
- Credit note

### Coding

- Coding systems ensure accuracy of recording and filing business documents

## Notes

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### Illustrations and further practice



#### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 1 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 1 of the BTRN Pocket Notes.

#### Additional, more challenging questions

The following questions can be found within Chapter 1 of the BTRN Study Text.

1 – 6

### Exam kit questions



You should now be able to answer the questions from this section of the Exam Kit

- Coding

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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## Notes

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# Chapter 2

## Books of Prime Entry



### Outcome

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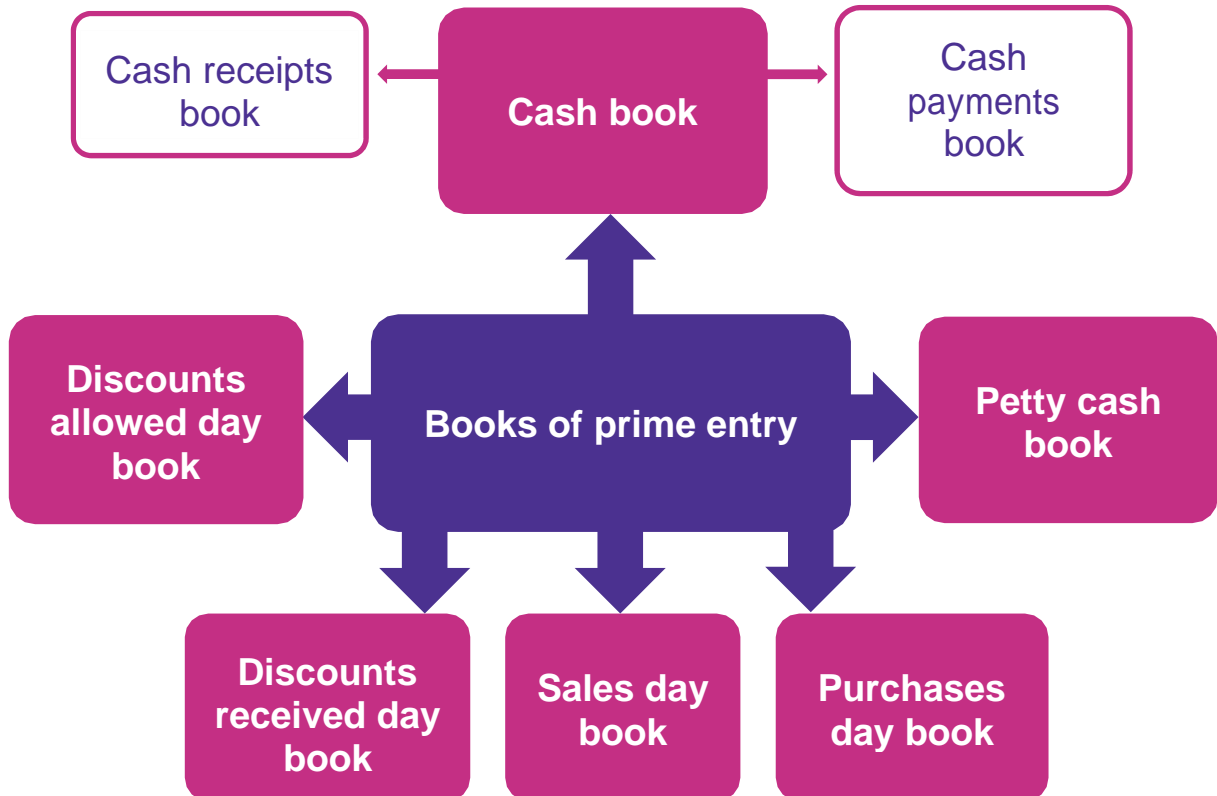
By the end of this session you should be able to:

- explain the purpose and the content of the books of prime entry and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 2 of your Study Text



## Overview



# 1 Books of prime entry

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In a typical business there will be a great number of transactions to be recorded. If we were to record each transaction individually, the accounts would get cluttered.

In order to simplify the process (and exercise greater control) we divide the recording of the transactions into parts.

- (a) The first part is entering the transaction into the appropriate book of prime entry (day book).
- (b) The second part is recording the totals from the day books into the general ledger which contains many different ledger accounts. This is introduced in chapters 3 & 4.
- (c) The third part is to ensure transactions are recorded in the subsidiary ledger which may also be referred to as a memorandum ledger. Recording transactions within subsidiary ledgers is reviewed in chapters 5, 6 & 7.

## Notes

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### 2 Sales day book

#### Definition



The sales day book

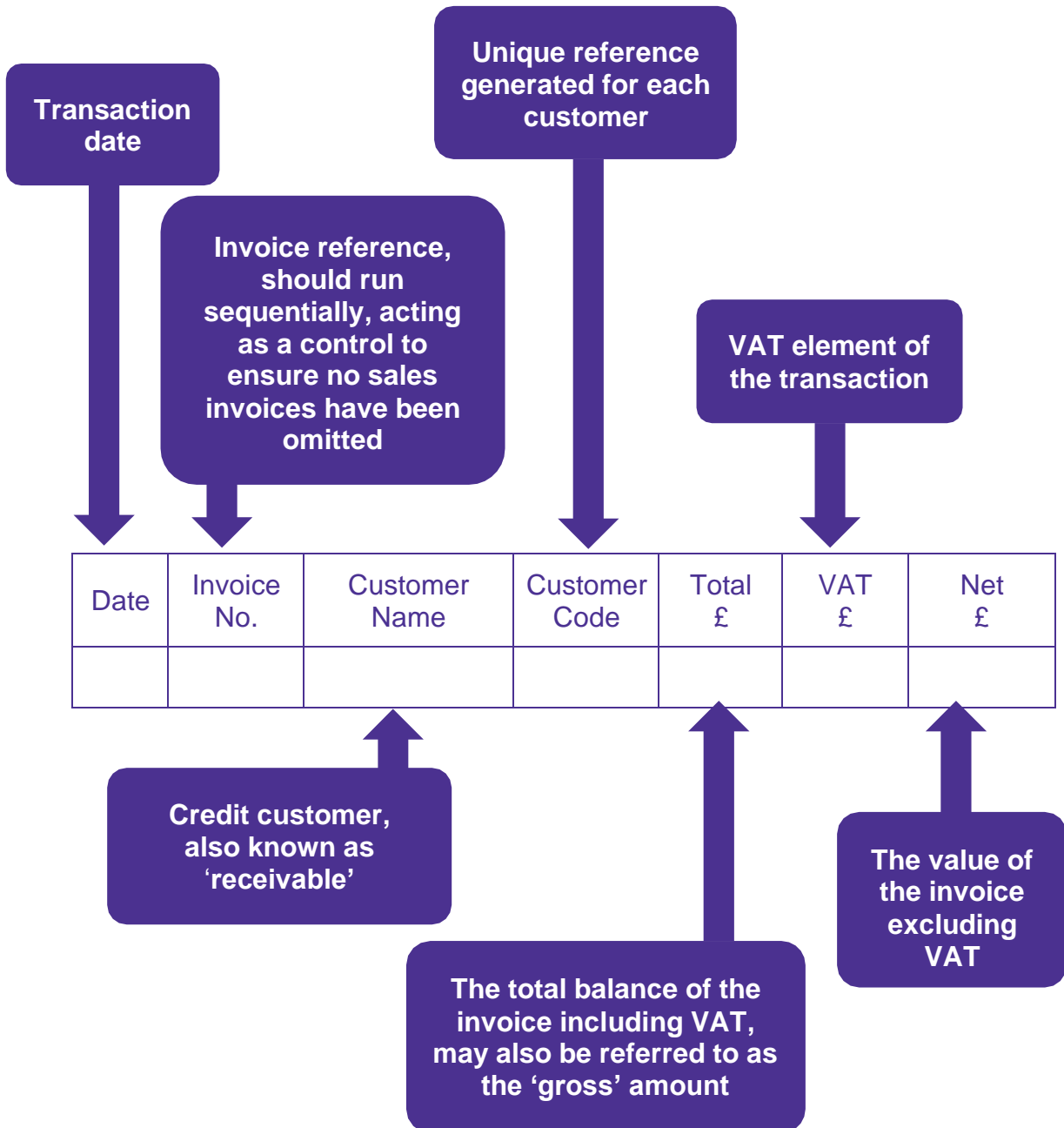
If the sales day book is written up on a daily basis, all the invoices that have been sent out to customers for that day will be collated. A check that no sales invoices are missing will be made which can be done due to sales invoices being numbered sequentially. The details from the sales invoice are then entered into the sales day book.

#### Notes





## Sales day book



### 3 Purchases day book

#### Definition



**The purchases day book**

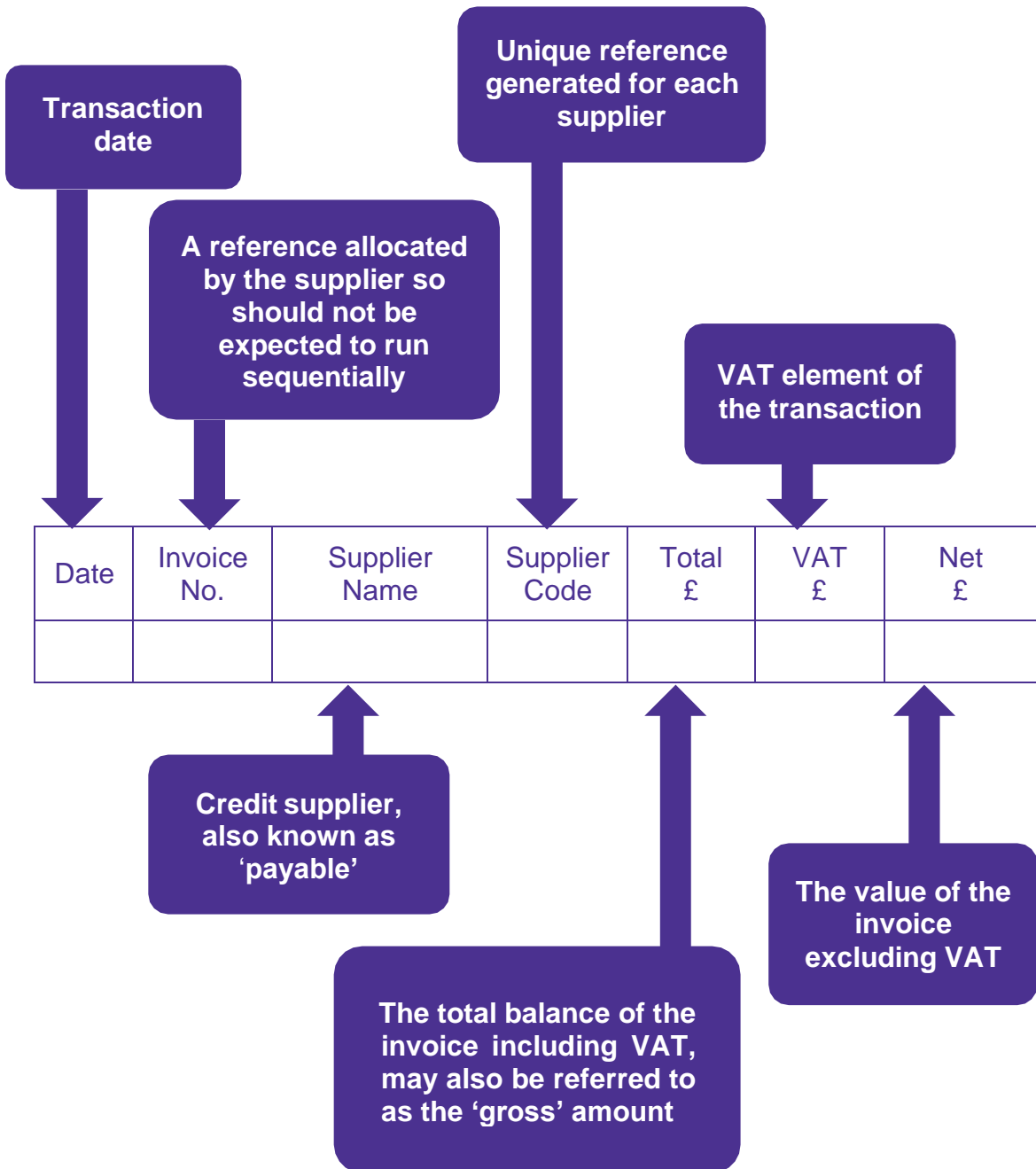
If the purchases day book is written up on a daily basis, all the invoices that have been received from suppliers for that day will be collated. Unlike sales invoices which are normally sequentially numbered, each supplier will tend to have their own numbering system so you should not expect the invoices to appear sequential. The details from the purchases invoice are then entered into the purchases day book.

#### Notes





## Purchases day book



## Notes



### 4 Cash book

The cash book is made up of cash receipts and cash payments i.e. any amounts received or paid out of the bank. Sometimes the cash book can be split into separate books – the 'Cash Receipts Book' and the 'Cash Payments Book'.

#### Cash receipts book



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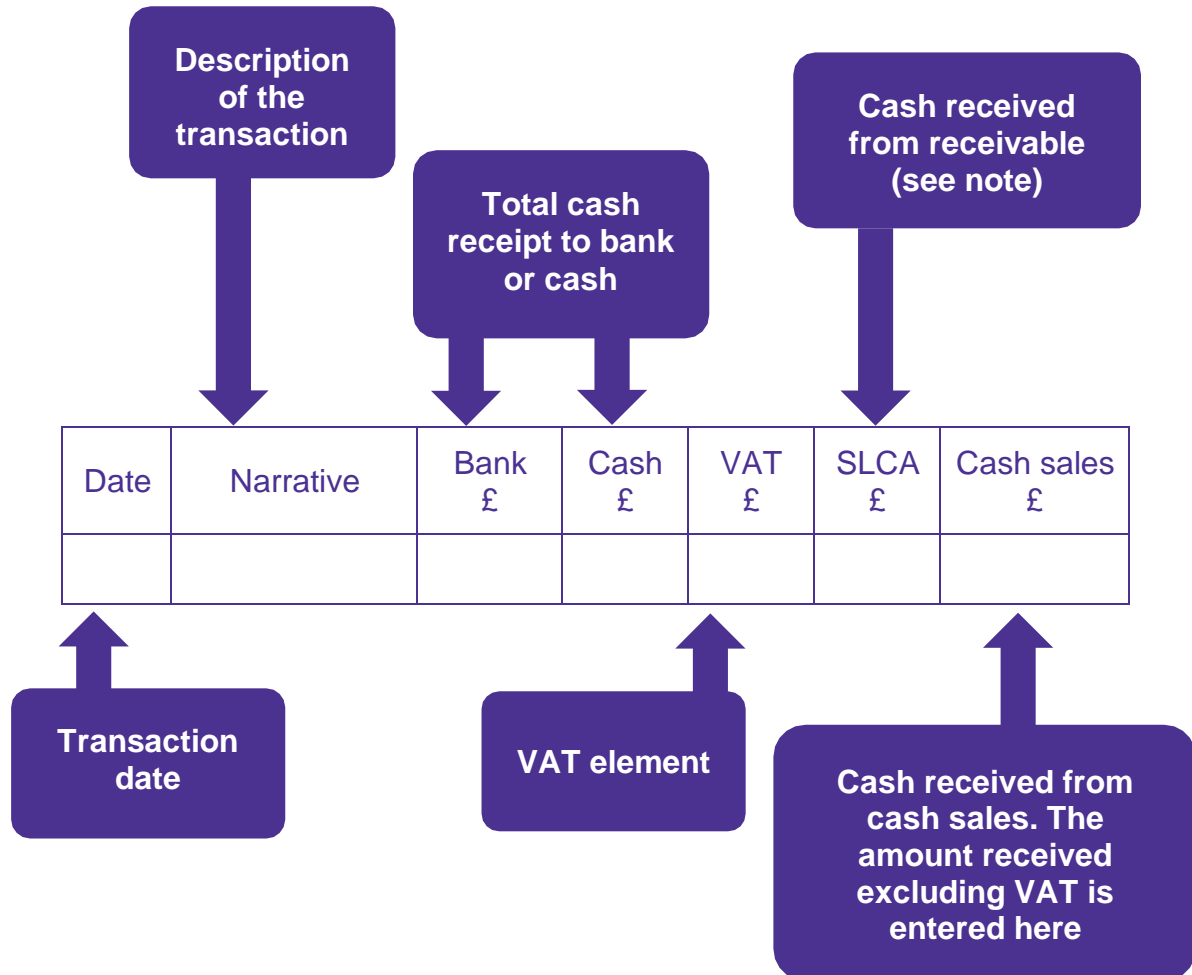
The cash receipts book

### Notes





## Cash receipts book



**Note:** SLCA stands for 'sales ledger control account' this is a term used for receivables which will be discussed in Chapter 7.



This cash receipts book is known as a 'two-column' analysed cash receipts book as it has separate columns for bank and cash transactions instead of one 'total' column.

# Bookkeeping Transactions

## Cash payments book



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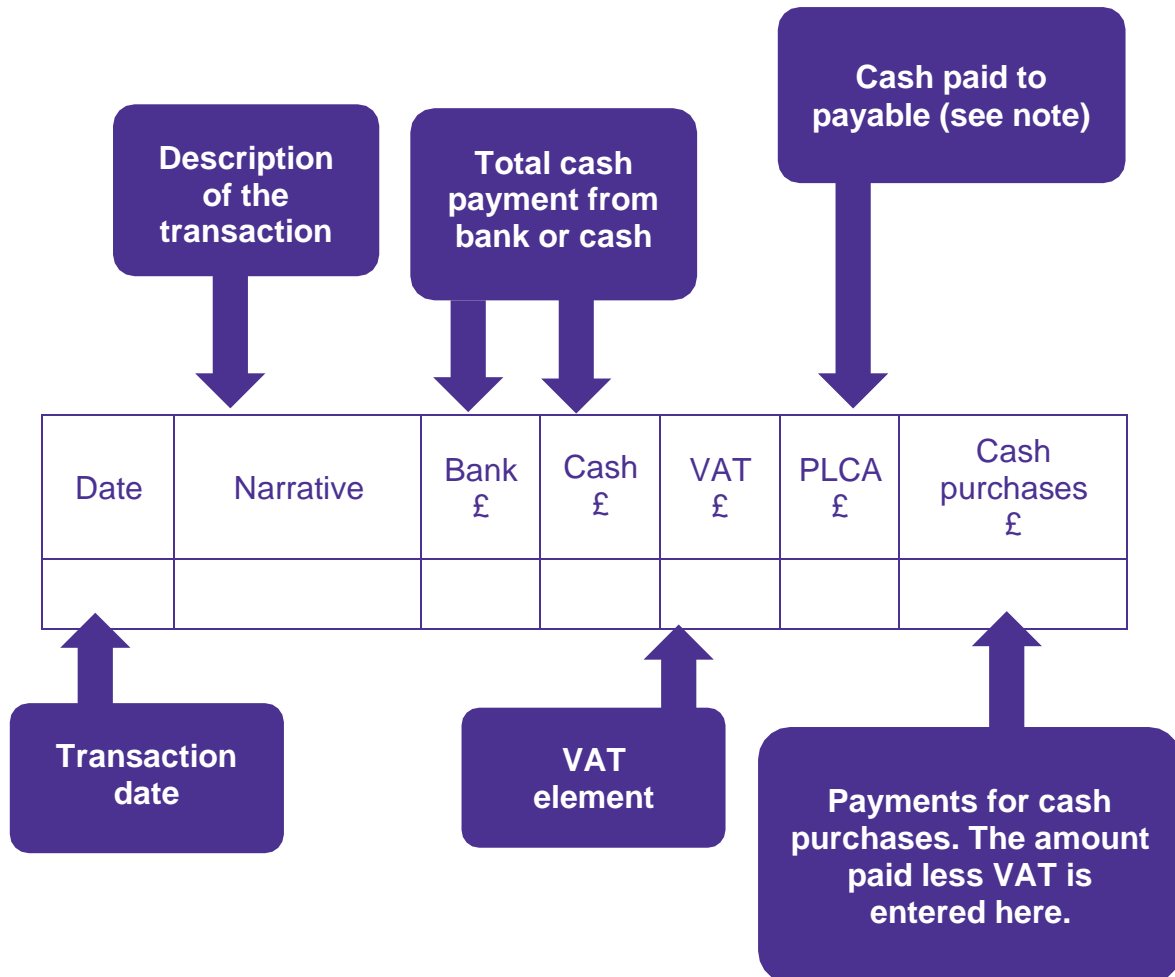
The cash payments book

## Notes





## Cash payments book



**Note:** PLCA stands for 'purchases ledger control account' this is a term used for payables which will be discussed in Chapter 7.



This cash payments book is known as a 'two-column' analysed cash payments book as it has separate columns for bank and cash transactions instead of one 'total' column.

## 5 Discounts allowed day book



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The discounts allowed day book

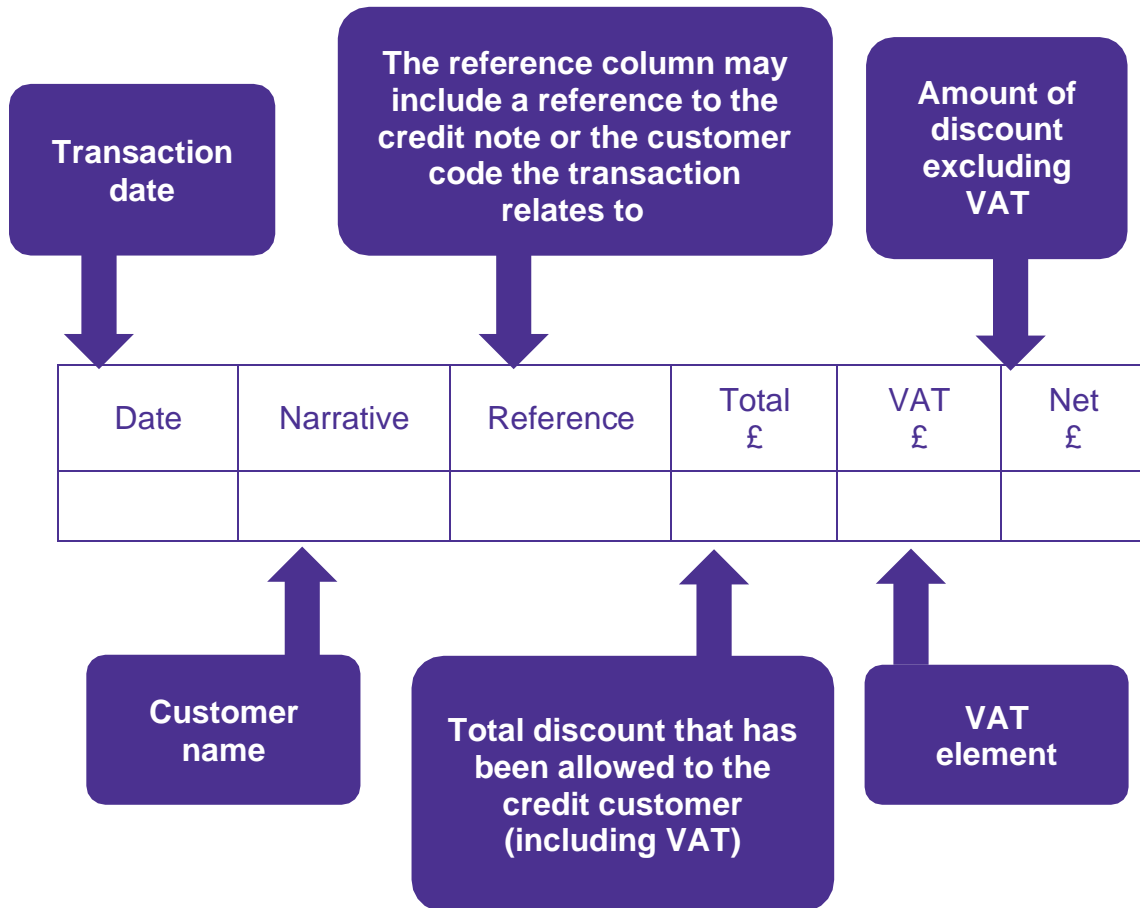
Notes

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## Discounts allowed day book



## Notes



### 6

## Discounts received day book



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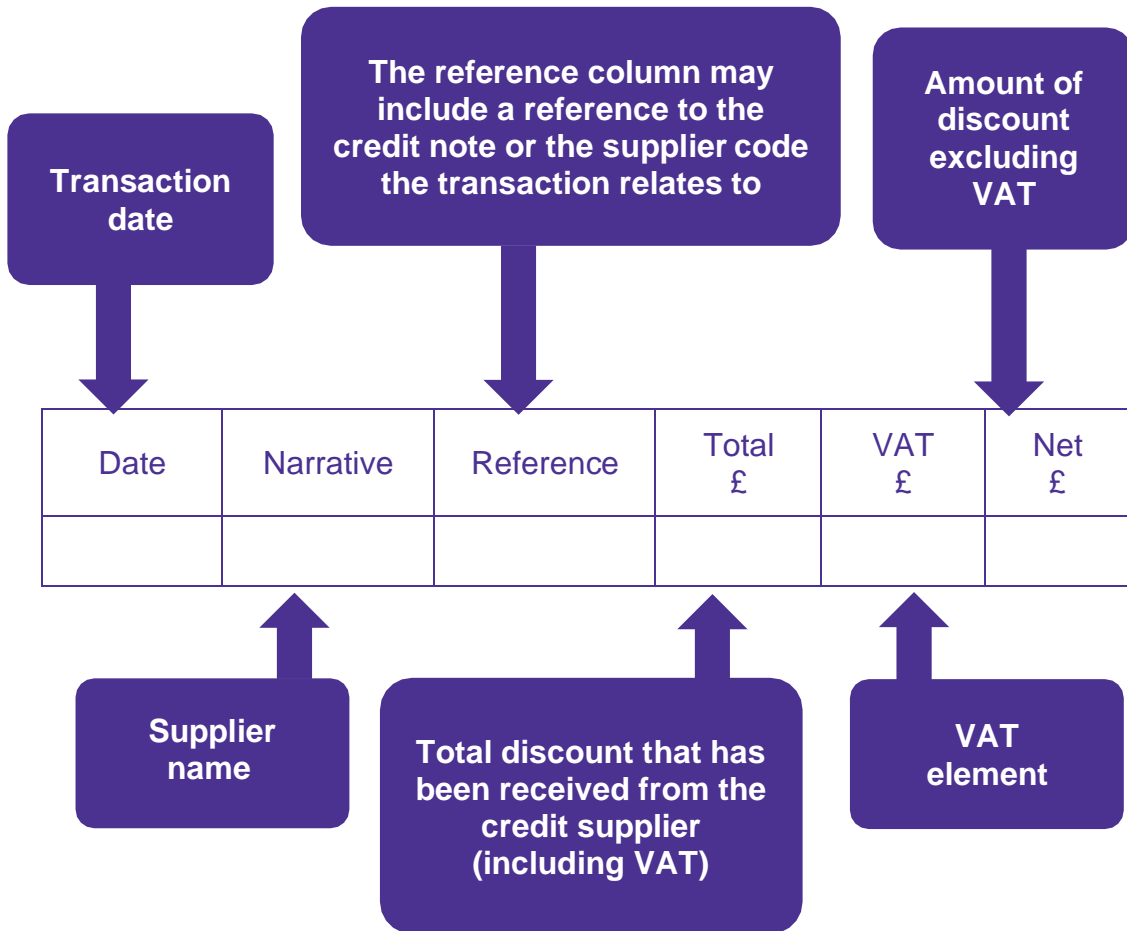
The discounts received day book

### Notes





## Discounts received day book



## Notes



### 7 Petty cash book

Most businesses require small amounts of cash in hand for payments for items such as stamps, coffee, tea, taxi fares, train fares etc. This cash is held in a petty cash tin as opposed to being held in a bank account. As it tends to only be a small amount of cash, it is referred to as 'petty cash'.



#### A petty cash book

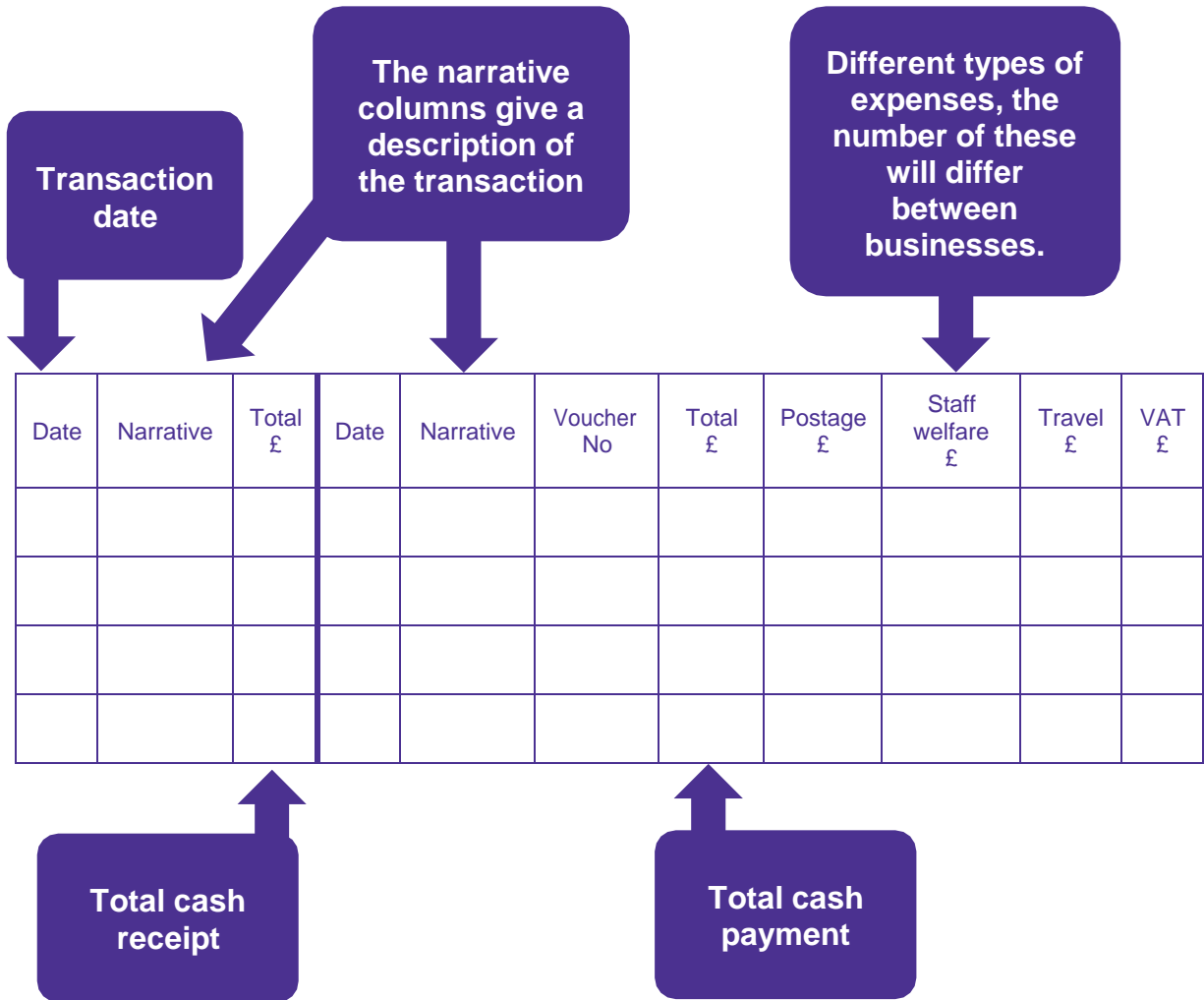
The petty cash book will tend to be analysed into different types of expenses so that management can keep track of what the cash is being spent on.

### Notes





# Petty cash book



## Notes



# 8 Summary

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### Books of prime entry

- Sales day book – credit sales
- Sales returns day book – credit sales returns
- Purchases day book – credit purchases
- Purchases returns day book – credit purchases returns
- Cash book – cash receipts and cash payments
- Discounts allowed day book – discounts allowed
- Discounts received day book – discounts received
- Petty cash book – petty cash receipts and petty cash payments

## Notes

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## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 2 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 2 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 2 of the BTRN Study Text.

1 – 4

## Notes

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Additional tutor resources

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Additional tutor guidance

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# Chapter 3

## Double entry bookkeeping – an introduction



### Outcome

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By the end of this session you should be able to:

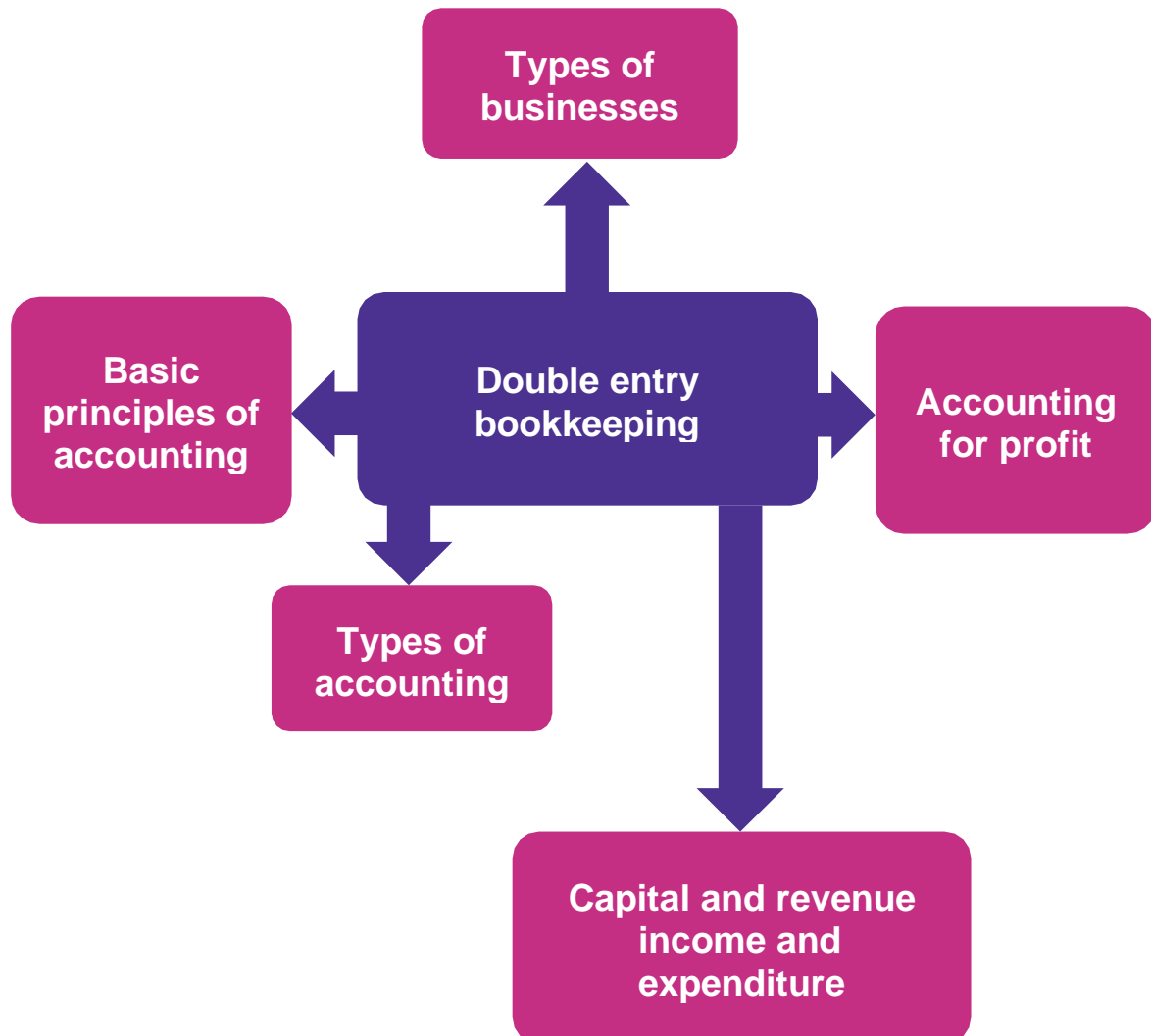
- identify the different types of business there are
- describe the different types of accounting and the financial statements
- understand the basic principles of accounting including the accounting equation
- define common terms used in accounting including capital income, capital expense, revenue income and revenue expense

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 3 of your Study Text



## Overview



## 1 Types of businesses

There are three types of businesses:



**Sole trader –**

**Partnership –**

**Company –**

# Bookkeeping Transactions

## Sole trader

- 
- 
- 

## Partnership

- 
- 
- 
- 

## Company

- 
- 
- 

## Notes



## 2 Types of accounting

Depending on what purposes the statements are being produced for, the accounts can be referred to as being either **management accounts** or **financial accounts**.

### Management accounts

These are usually prepared on a monthly basis to present timely financial and statistical information to business managers. This aids managers to run the business more effectively by making day-to-day and short-term decisions.

### Financial accounts

These are prepared annually, mainly for the benefit of people outside the management of the business, such as the owners of the business (for example, shareholders who have appointed directors to run the business on their behalf), HM Revenue and Customs, banks, customers, suppliers and the government.

### Financial statements

There are two key financial statements.

#### Statement of profit or loss

This summarises the effects of trading – the income and expenses, and shows the financial performance of the business for a given time period, usually the last twelve months.

#### Statement of financial position

This presents a snap shot of the financial position of the business at a specific moment in time, summarising the assets and liabilities of a business.

## Notes



## Bookkeeping Transactions



These items you will find on the statement of profit or loss:

**Sales revenue**

**Cost of sales**

**Gross profit**

**Sundry income**

**Expenses**

**Net profit or loss**

## Notes





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These items you will find on the statement of financial position:

**Asset**

**Non-current asset**

**Current asset**

**Receivable**

**Liability**

Notes





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These items you will find on the statement of financial position:

**Non-current liability**

**Current liability**

**Payable**

**Capital**

**Drawings**

Notes

---





Shown below is a sample format of the statement of profit or loss:

### Statement of profit or loss for the year ended 31 December 20X1

	£	£
Sales revenue		X
Less: sales returns		(X)
		X
Less: Cost of sales		
Opening inventory	X	
Purchases	X	
Purchase returns	(X)	
Closing inventory	(X)	(X)
Gross profit		X
Sundry income		X
Expenses		
Rent	X	
Electricity	X	
Irrecoverable debt	X	
Stationery	X	
Telephone	X	(X)
Net profit for the year		X

## Notes



## Bookkeeping Transactions



Shown below is a sample format of the statement of financial position:

### Statement of Financial Position as at 31 December 20X1

	Cost	Depreciation	Carrying amount
	£	£	£
Non-current assets:			
e.g. land and buildings	X	X	X
	<hr/>	<hr/>	
Current assets:			
Inventories		X	
Trade receivables		X	
Bank		X	
		<hr/>	X
Non-current liabilities:			(X)
Current liabilities:			
Trade payables		X	
VAT payable		X	
		<hr/>	(X)
Total net assets			<hr/> X <hr/>
Capital account			
Capital			X
Profit/(Loss) for the year			X/(X)
Less: Drawings			(X)
			<hr/> X <hr/>

3

## Capital and revenue income and expenditure

### Capital income

Income received from the sale of non-current assets.

*Example:* The proceeds received from selling a motor vehicle.

### Revenue income

Income received from the trading activities.

*Example:* The proceeds received from selling goods (inventory).

### Capital expenditure

Expense of acquiring or improving non-current assets.

*Examples:* Buying a piece of machinery, removing single glazed windows and replacing with double glazed windows.

### Revenue expenditure

Day to day running expenses of the business, including the repair and maintenance of non-current assets.

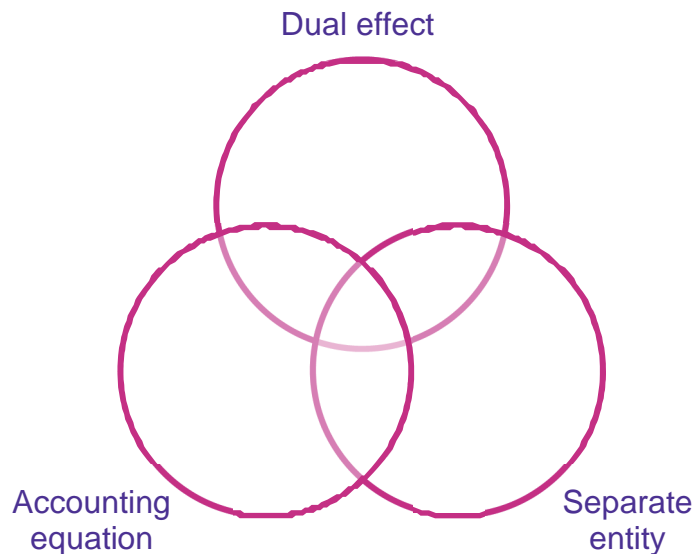
*Examples:* Gas, electricity, rent, repairs and maintenance.

## Notes



# 4 Basic principles of accounting

This chapter introduces the basic concepts and rules of bookkeeping. In particular we study the dual effect principle, the separate entity principle, and the accounting equation. Together these will show how the assets of a business will always equal its liabilities and will pave the way for studying double entry bookkeeping.



### Dual effect

This states that every transaction has two financial effects.

For example, you buy a new printer for £500 cash.

You now have a new printer, which is an asset. But your cash has decreased by £500.

### Separate entity

This states that the owner of the business is, for accounting purposes (not necessarily legal purposes), a completely separate entity from the business itself.

## Notes





## Example 1

---

For each transaction write down the dual effect:

- 1 John started the business by putting £5,000 into his business bank account.
- 2 John pays himself £200.
- 3 John's business buys a van for £1,000 cash.
- 4 John's business buys a computer for £500 and promises to pay later (buys on credit).

## Notes

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## Bookkeeping Transactions

### The accounting equation

At its simplest, the accounting equation simply says that:

$$\text{Assets} = \text{Liabilities}$$

The owner's capital is treated as a special form of liability as the money is owed back to the owner. If we include this the accounting equation is now:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

This can be re-stated as:

$$\text{Assets} - \text{Liabilities} = \text{Capital}$$

Any profit the business makes will increase what is owed back to the owner and any drawings taken will reduce it. Therefore, we can re-write the equation as:

$$\text{Assets} - \text{Liabilities} = \text{Capital} + \text{Profit}^* - \text{Drawings}$$

\*NB: A loss would be subtracted from the capital



---

The statement of financial position is a more detailed display of the accounting equation.

## Notes





## Example 2

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The example is based on a business named TLC – it shows a number of transactions that a business may enter into and how the basic principles of accounting are applied. Once we have reviewed the example we will consider the need to account for profit which paves the way for us learning about double entry bookkeeping.

### 1 Introduce capital

You win £10,000 and use it to create a retail business (called TLC) selling hearts and roses. What is the effect?

Answer 1

*Dual effect*

TLC's position is:

*Assets*

£

*Capital*

£

### 2 Buy inventory with cash

TLC buys 500 chocolate hearts for cash. The cost of each heart is £5. What is the effect?



### Example 2 – continued

---

Answer 2

*Dual effect*

TLC's position is:

*Assets*  
£

*Capital*  
£

### 3 Buy inventory on credit

In reality a business will not always pay for its purchases with cash but is more likely to buy things on credit.

TLC buys inventory of 200 red roses on credit. Each red rose costs £10. What is the effect?

Answer 3

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£

**Note:** 'Assets' column is now referred to 'Net assets' due to the liability being deducted from assets.



## Example 2 – continued

---

### 4 Buy a delivery van

The delivery van is bought for ongoing use within the business rather than for resale. Such assets are known as non-current assets.

TLC buys a delivery van for £1,000 cash. What is the effect?

Answer 4

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£

### 5 Sell inventory for profit

TLC sells 200 red roses for £15 cash each. What is the effect?

Answer 5

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£



## Example 2 – continued

---

### 6 Sell inventory (on credit) for profit

It is equally likely that a business will sell goods on credit. When goods are sold on credit, an asset of the business called a receivable is generated.

TLC sells 400 chocolate hearts to Valentino for £12.50 each on credit. What is the effect?

Answer 6

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£

### 7 Pay expenses

In reality, TLC will have been incurring expenses from its commencement. TLC received and paid a gas bill for £500. What is the effect?

Answer 7

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£



## Example 2 – continued

---

### 8 Take out a loan

In order to fund your future expansion plans for TLC, you persuade your Aunt to lend TLC £2,000.

TLC is loaned £2,000 cash by your Aunt. She expects to be repaid in two years' time. What is the effect?

Answer 8

*Dual effect*

TLC's position is:

*Net assets*  
£

*Capital*  
£

Notes

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### 5 Accounting for profit

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So far when we have bought or sold inventory or paid expenses we have seen the effect on a single profit account.

However, in practice this is not ideal as the owners of the business will want to keep track of all of the separate elements that make up their profit and not have to calculate the profit after every single transaction.

To keep detailed accounting records we now need to record all sales, purchases and expenses separately, as opposed to working out the impacts on inventory and profit after every transaction.

From now on there will be no inventory account and no profit account as we have seen in the examples in this chapter. The inventory value will be calculated periodically by carrying out an inventory count or 'stock take' and will be entered into the accounts of the business as a year-end journal adjustment. The profit, or loss, for the period will be calculated by preparing the statement of profit or loss.

## Notes

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## Example 3

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Our dual effects are now:

**Buy inventory for cash**

**Buy inventory on credit**

**Sell inventory for cash**

**Sell inventory on credit**

**Pay a bill for gas with cash**

**Receive an electricity bill and don't pay it yet**

## 6 Summary

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### Types of businesses

- Sole traders
- Partnerships
- Companies

### Types of accounting

- Management accounting
- Financial accounting

### Financial statements

- Statement of profit or loss – summary of financial performance
- Statement of financial position – summary of financial position

### Basic principles of accounting

- Dual effect – every transaction has two financial effects
- Separate entity – the business and the owner are seen as two separate accounting entities
- Accounting equation

Assets – Liabilities = Capital

## Notes

---



## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 3 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 3 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 3 of the BTRN Study Text.

1 – 3

## Exam kit questions



You should now be able to answer the questions from this section of the Exam Kit

- understanding the double entry system

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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# Chapter 4

## Ledger accounting



### Outcome

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By the end of this session you should be able to:

- account for transactions in ledger accounts as part of the general ledger
- balance off ledger accounts in order to prepare an initial trial balance

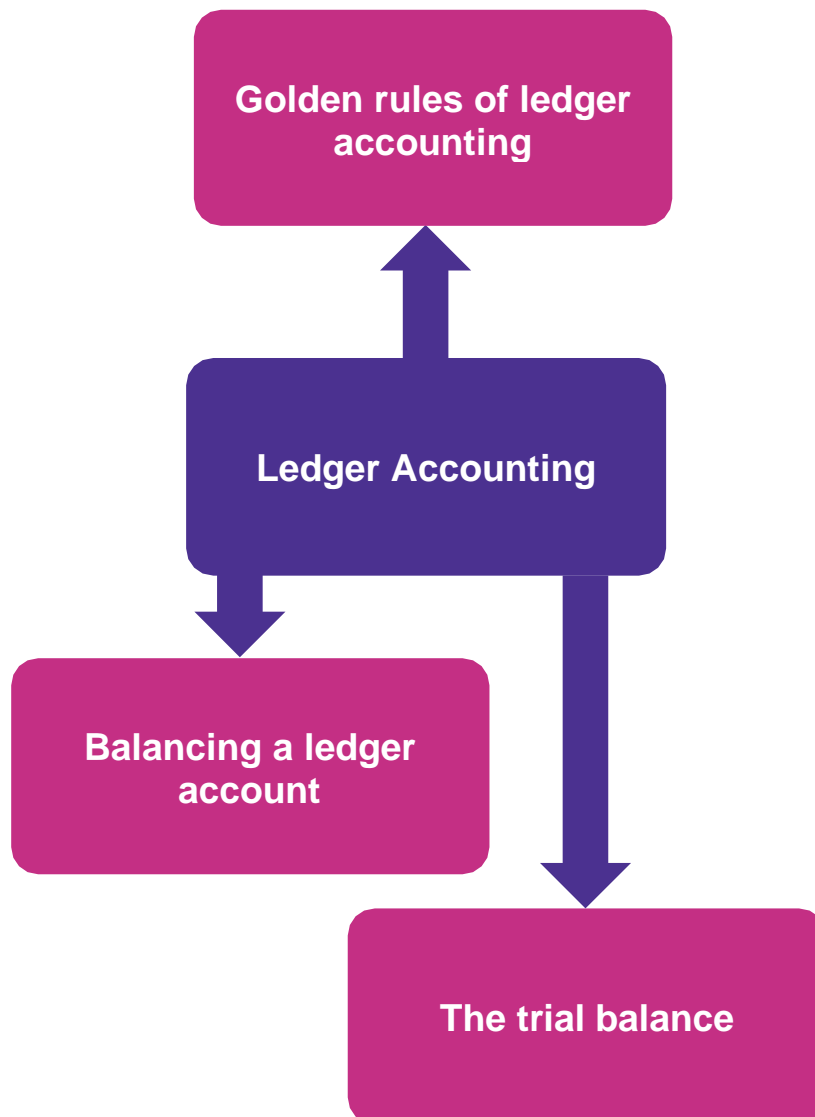
and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 4 of your Study Text



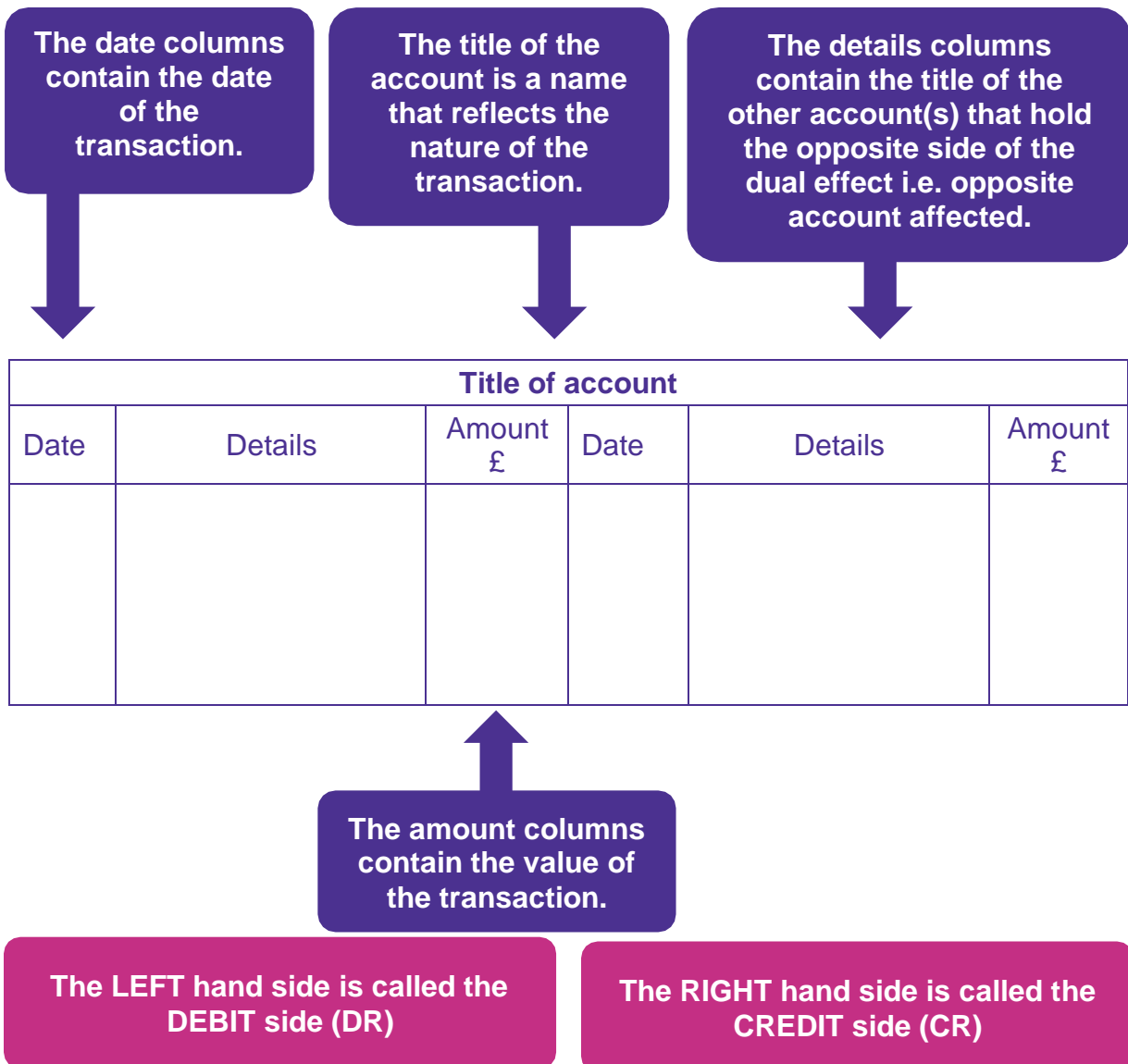
## Overview

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# 1 Introduction

In practice it is far too time consuming to write up the accounting equation each time the business undertakes a transaction. In addition, management may want to keep a track of the separate forms of income, expenses, assets and liabilities, therefore ledger accounts are used.



We post entries to the debit or credit sides dependent on whether they are increases or decreases to an account.

## 2 Golden rules to ledger accounting



Ledger account	



For increases to the ledger accounts, we can remember this as the mnemonic '**DEAD CLIC**'

Ledger account	

Wherever the bank is concerned:

Money paid into the bank account is a debit to the bank ledger account; money paid out of the bank account is a credit to the bank ledger account

### Notes





## Example 1

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### TLC

For each transaction, write out the double entry and then post the entries to the ledger accounts.

- (1) You win £10,000 and use it to create a retail business (called TLC) selling hearts and roses.
  
- (2) TLC buys 500 chocolate hearts and paid by cheque. The cost of each heart is £5.
  
- (3) TLC buys Inventory of 200 red roses on credit. Each red rose costs £10.
  
- (4) TLC buys a delivery van for £1,000 and paid by cheque.
  
- (5) TLC sells 200 red roses for £15 cash each.
  
- (6) TLC sells 400 chocolate hearts to Valentino for £12.50 each on credit.



## Example 1 – continued

- (7) TLC received and paid a gas bill for £500.
  
- (8) TLC is loaned £2,000 cash by your Aunt. She expects it to be repaid in two years time.
  
- (9) TLC pays £1,500 cash towards the £2,000 owed to the supplier.
  
- (10) TLC's Receivable sends a cheque for £3,000.
  
- (11) You withdraw £750 from the business.

Business bank account					
Date	Detail	£	Date	Detail	£

Capital					
Date	Detail	£	Date	Detail	£

Purchases					
Date	Detail	£	Date	Detail	£

Trade payables					
Date	Detail	£	Date	Detail	£

Non-current asset – van					
Date	Detail	£	Date	Detail	£

Sales					
Date	Detail	£	Date	Detail	£

# Bookkeeping Transactions

## Trade receivables

Date	Detail	£	Date	Detail	£

## Gas

Date	Detail	£	Date	Detail	£

## Loan

Date	Detail	£	Date	Detail	£

## Drawings

Date	Detail	£	Date	Detail	£

Notes



## 3 Balancing a ledger account

At the end of a period of time, for example a month of trading, the owner of the business might wish to know some details about the performance of the business in the period. For example:

These figures can be found by balancing the ledger accounts.

### Procedure for balancing a ledger account

- Step 1** Total both the debit and the credit side of the ledger account and make a note of each total.
- Step 2** Insert the higher of the two totals as the total on both sides of the ledger account leaving a line beneath the final entry on each side of the account.
- Step 3** On the side with the smaller total insert the figure needed to make this column add up to the total. Refer to this figure as the 'balance carried down' (or 'Bal c/d' as an abbreviation).
- Step 4** On the opposite side of the ledger account, below the total insert this same figure and refer to it as the 'balance brought down' (or 'Bal b/d' as an abbreviation).



The balance brought down is the balance that is transferred to the Trial Balance. These balances appear in the Trial Balance on the same side as the balances are brought down on.

### Notes



## Bookkeeping Transactions

### Step-by-step illustration:



**Step 1:** Total up each side (to find the highest valued side).

Bank					
Date	Detail	£	Date	Detail	£
16.02	Capital	20,000	16.02	Machinery	5,000
16.02	SLCA	500	16.02	PLCA	200

DR side totals £20,500, CR side totals £5,200 – higher total is DR side.

**Step 2:** Put the highest side to the bottom of both sides.

Bank					
Date	Detail	£	Date	Detail	£
16.02	Capital	20,000	16.02	Machinery	5,000
16.02	SLCA	500	16.02	PLCA	200

## Notes



**Step 3:** In the lower valued side, insert the 'balance carried down' (balance c/d) to make it up to the total.

Bank					
Date	Detail	£	Date	Detail	£
16.02	Capital	20,000	16.02	Machinery	5,000
16.02	SLCA	500	16.02	PLCA	200

**Step 4:** Bring the same balance as the balance c/d to the opposite side below the total and refer to as 'balance brought down' (balance b/d).

Bank					
Date	Detail	£	Date	Detail	£
16.02	Capital	20,000	16.02	Machinery	5,000
16.02	SLCA	500	16.02	PLCA	200

Note the use of dates throughout this example; the ledger accounts were balanced off as at 16 February, with the balance brought down on the following date of 17 February.

## Notes



# 4 Trial Balance

The trial balance is a list showing the balance brought down on each ledger account. It is a check point to ensure that every debit has an equal and opposite credit entry and therefore the totals of the trial balance columns should balance. However, it does not confirm that the account you have debited/credited is correct.



In an exam task you may be required to balance off ledger accounts and take balances through to a trial balance, or you may be given a list of balances and instructed to enter the figures in the debit or credit column as appropriate.

It is important you are able to apply the rules of the 'DEAD' 'CLIC' mnemonics to identify whether accounts should be debit or credit balances.

According to AAT feedback, mistakes usually relate to entries for discounts allowed, discounts received, bank interest paid, bank interest received, loans from the bank and the VAT (sales tax) account.

You should ensure you take time to read the VAT wording carefully as it may refer to VAT owing to HMRC or VAT owing from HMRC, determining which side of the trial balance the figure is placed.

Always total each column of the trial balance to show that the debit balances are equal to the credit balances.

## Notes





## Example 2

We are now going to balance off the ledger accounts for the TLC question that we saw earlier in the chapter. Once these ledger accounts have been balance we will then be able to prepare an initial trial balance.

Business bank account					
Date	Detail	£	Date	Detail	£
	(1) capital	10,000		(2) purchases	2,500
	(5) sales	3,000		(4) van	1,000
	(8) loan	2,000		(7) gas	500
	(10) receivable	3,000		(9) payable	1,500
				(11) drawings	750

Capital					
Date	Detail	£	Date	Detail	£
				(1) bank	10,000

Purchases					
Date	Detail	£	Date	Detail	£
	(2) bank	2,500			
	(3) payables	2,000			



## Example 2 – continued

Trade payables					
Date	Detail	£	Date	Detail	£
	(9) bank	1,500		(3) purchases	2,000

Non-current asset – van					
Date	Detail	£	Date	Detail	£
	(4) bank	1,000			

Sales					
Date	Detail	£	Date	Detail	£
				(5) Bank	3,000
				(6) Receivable	5,000



## Example 2 – continued

Trade receivables					
Date	Detail	£	Date	Detail	£
	(6) sales	5,000		(10) bank	3,000

Gas					
Date	Detail	£	Date	Detail	£
	(7) bank	500			

Loan					
Date	Detail	£	Date	Detail	£
				(8) bank	2,000

Drawings					
Date	Detail	£	Date	Detail	£
	(11) Bank	750			



## Example 2 – continued

### Trial balance for TLC

	Dr £	Cr £
Business bank account		
Capital		
Purchases		
Trade payables		
Van		
Sales		
Trade receivables		
Gas		
Loan		
Drawings		
<b>Totals</b>		

## Notes





From the trial balance, a statement of profit or loss and a statement of financial position can be produced.

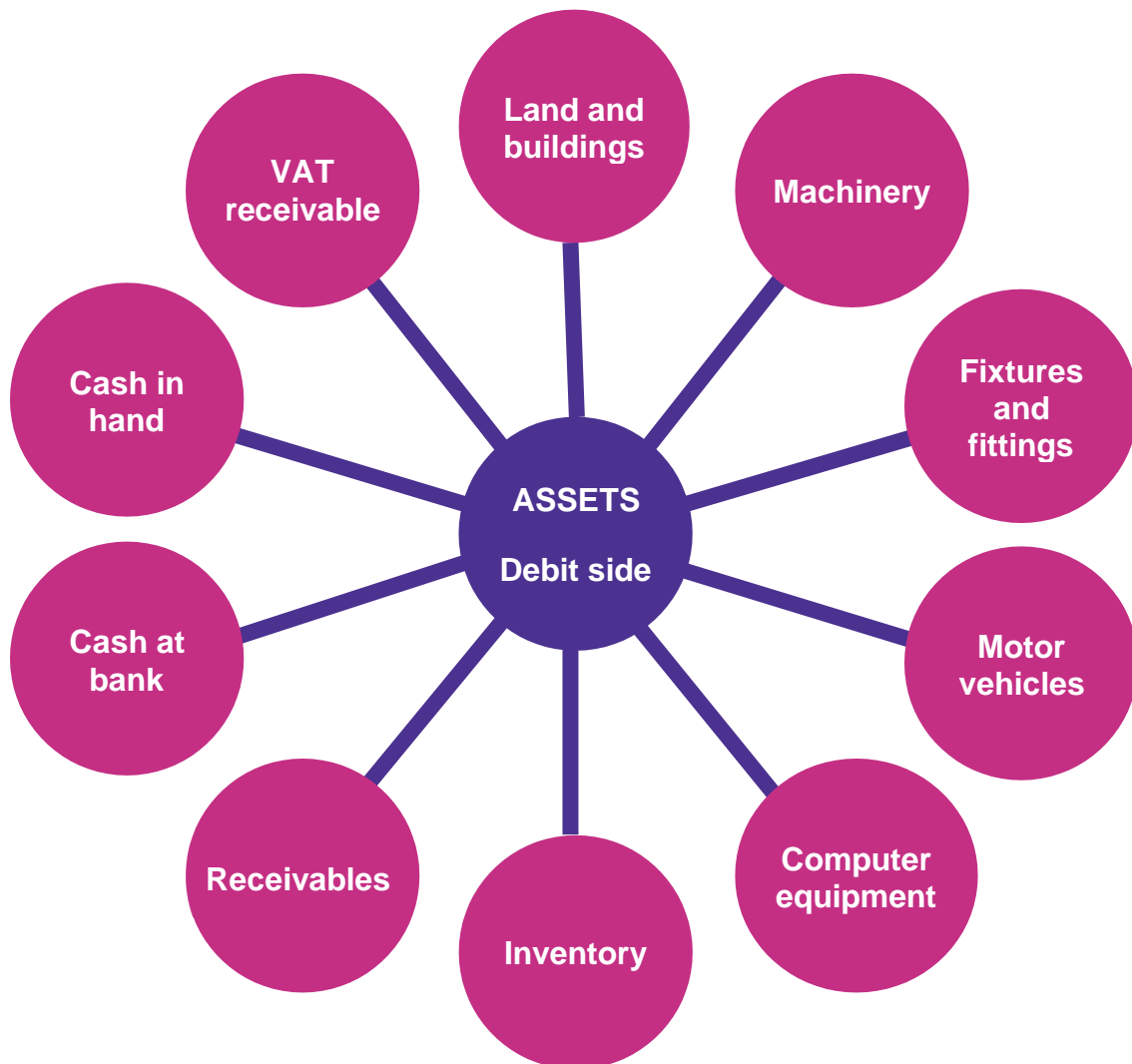
Please note, you will not be required to produce a statement of profit or loss or a statement of financial position in your computer based assessment for BTRN. Producing these financial statements is studied and assessed as part of the Advanced Diploma level of the AAT qualification.

The following diagrams show the different types of assets, liabilities, income and expenses you may encounter. You should ensure that you are familiar with all these different accounts and what side of the trial balance you would expect they would appear on.

## Notes

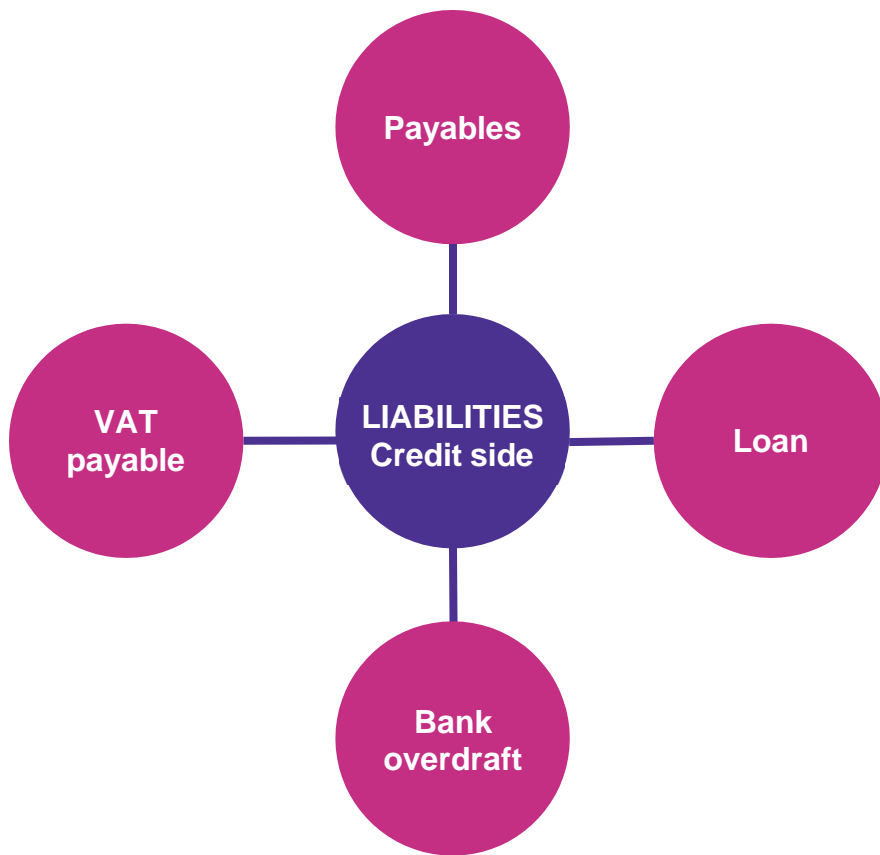
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Notes

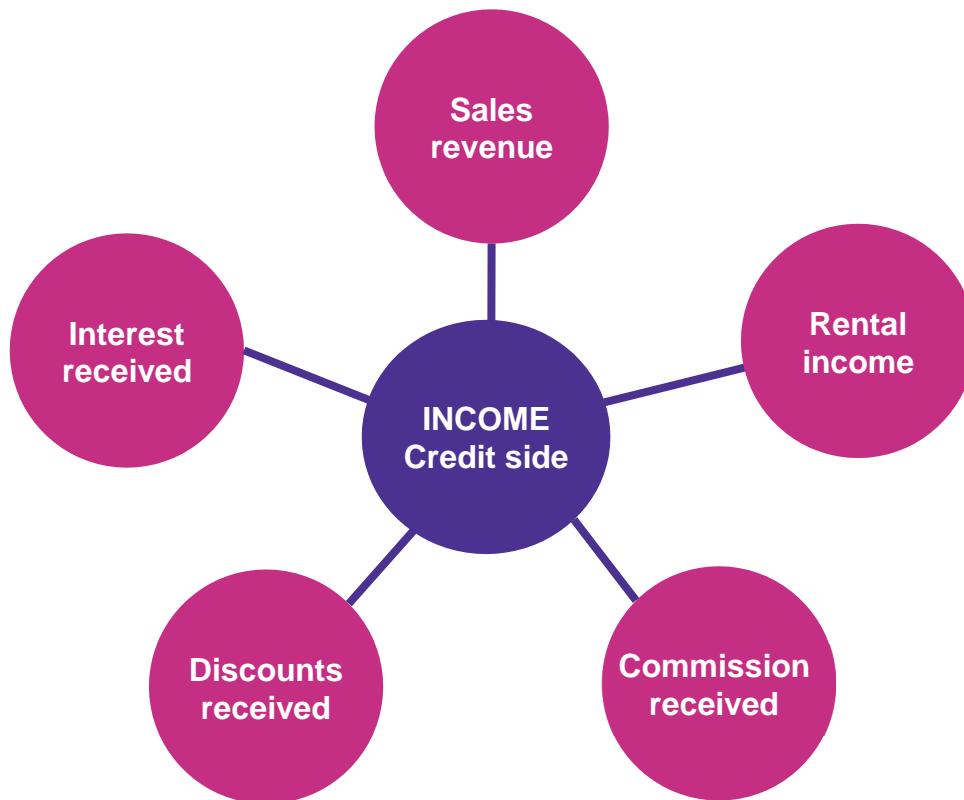




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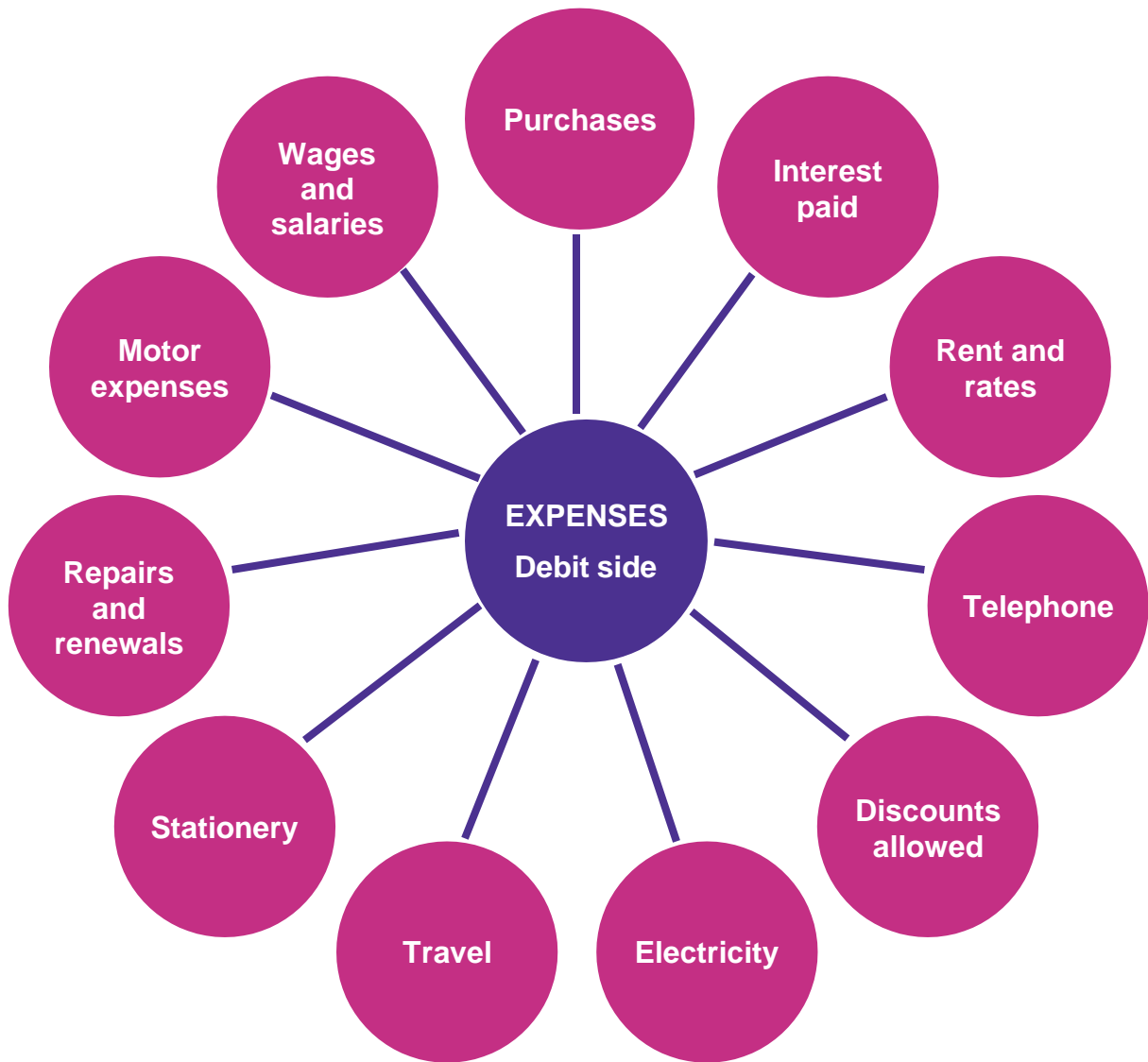
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Notes





Notes



# 5 Summary

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### Ledger accounting

- debits increase
  - expenses
  - assets
  - drawings
- credits increase
  - liabilities
  - income
  - capital

### Balancing a ledger account

- total each side, inserting highest amount to the bottom of both sides.
- on the lower side insert the balancing figure as 'bal c/d'.
- on the opposite side below the total, insert that same balancing figure as 'bal b/d'.

### Trial balance

- list of all general ledger account balances.
- the total of the debit and credit columns must balance to show that the basic principles of double entry bookkeeping have been applied.

## Notes

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## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 4 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 4 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 4 of the BTRN Study Text.

1 – 12

## Exam kit questions



You should now be able to answer the questions from this section of the Exam Kit

- drafting an initial trial balance

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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# Chapter 5

## Accounting for sales, VAT and discounts



### Outcome

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By the end of this session you should be able to:

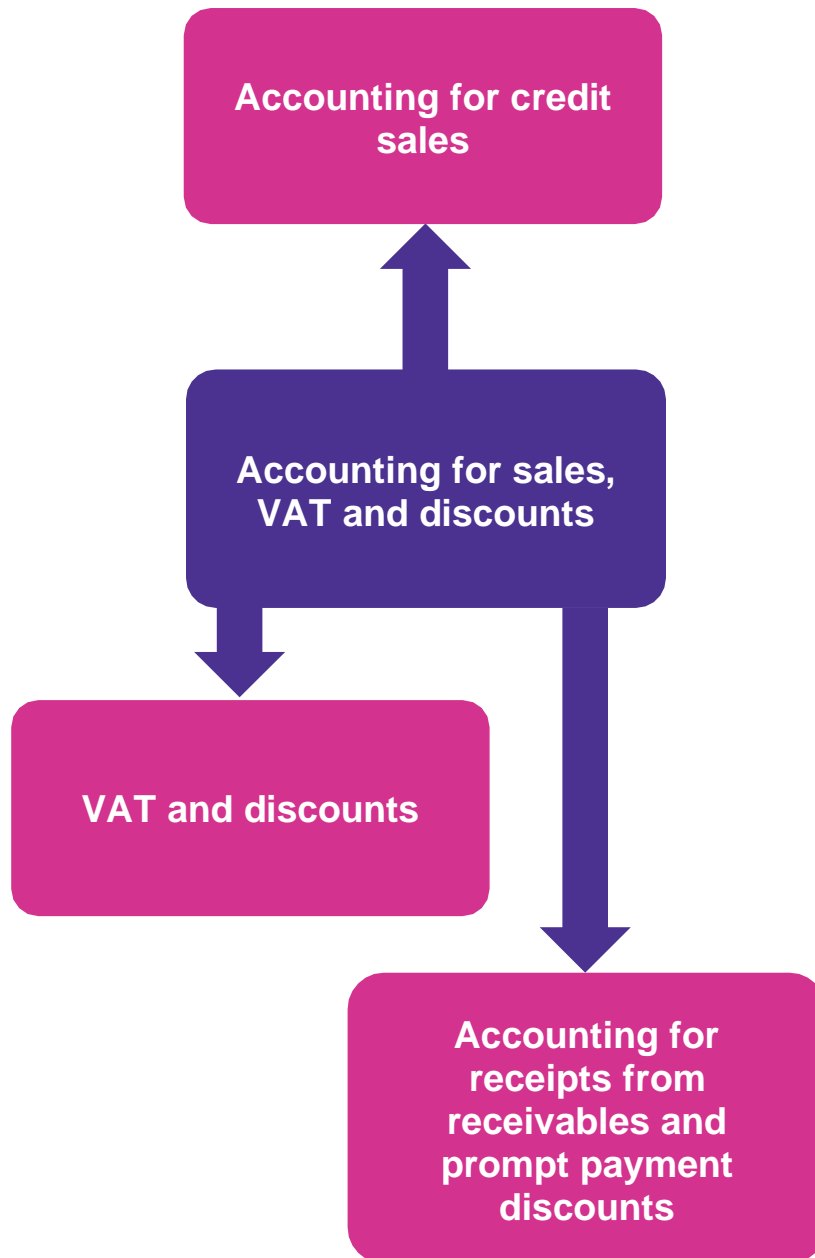
- account for credit sales
- calculate amounts to appear on an invoice (taking into consideration discounts)
- account for receipts from receivables and prompt payment discounts

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 5 of your Study Text



## Overview



# 1 Recording credit sales



### Credit sale

In chapter 2 we were introduced to the sales day book (SDB) which is where a credit sale is primarily recorded.

The sales day book details the names and references in relation to the customer we have sold goods to/provided a service to on credit. It also contains a breakdown of the transaction value (as detailed on the invoice):

- the net,
- the VAT,
- the gross (total) amounts.

### Accounting for credit sales and VAT

We were introduced to VAT in an earlier chapter. A VAT registered business adds VAT onto the net selling price to come to a gross amount. This gross amount is the amount charged and either received in cash (from a cash sale) or is recognised as a receivable (from a credit sale).

Although the gross amount is received from the customer (whether a cash or credit sale), the VAT registered business must only recognise the net amount (the amount excluding VAT) within the sales account. The VAT amount must be recognised in the VAT control account as being a liability, waiting to be paid to HMRC.

## Bookkeeping Transactions

The double entry for a credit sale including VAT:

Dr	Receivables	X	(gross – VAT inclusive)
Cr	VAT (sales tax)	X	(VAT)
Cr	Sales	X	(net – VAT exclusive)



### Example 1

Mr A sells goods to Mr B on credit for £2,000 plus VAT (20%).

**State the accounting entry required to record this transaction.**

**Solution**

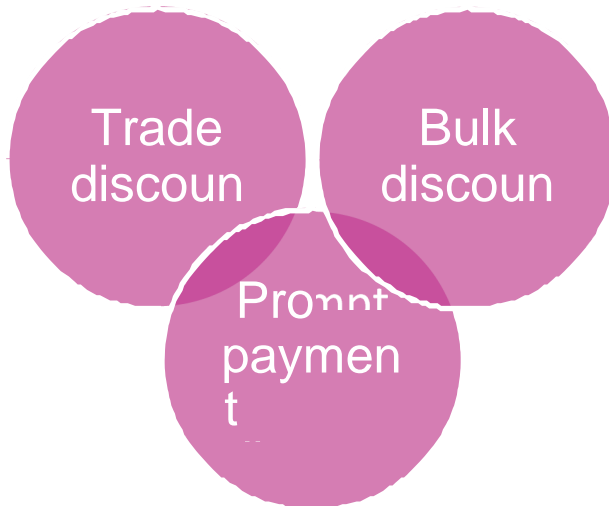
Account name	£	Debit	Credit

## Notes



## 2 VAT and discounts

We have already been introduced to different types of discounts in an earlier chapter:



At the time of generating and recording an invoice it is known if a bulk or trade discount has been given. There are no later conditions to be met.



VAT is calculated on the net amount of the transaction after the deduction of bulk and trade discounts.



Prompt payment VAT legislation was amended (Revenue and Customs Brief 49 (2014)) and the changes took effect from 1 April 2015. The AAT made these changes examinable for Bookkeeping Transactions from September 2016.

Although a customer may be offered a prompt payment discount no reflection of this discount is shown within the accounting records until the customer does take advantage of this, if they choose to do so. When initially raising an invoice, VAT should be charged on the full price of the goods or services (although this would be after deducting trade or bulk discounts).



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If the customer takes advantage of the prompt payment discount the VAT would be adjusted to reflect the discount taken. This adjustment could be by way of a credit note. The credit note to reflect this prompt payment discount is entered into the discounts allowed day book.



### Example 2

---

You are selling 20 items at £65 each.

A 10% trade discount is applied.

A 2% prompt payment discount is offered for settlement within 10 days.

**Calculate the amounts that will appear on the invoice:**

## Notes

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## Example 3

You are selling 10 Silver Photo Frames at £20 each.

A discount of 2% is offered for settlement within 20 days.

**Complete the invoice below, showing the net, VAT and gross amounts. Calculate the amount the customer will pay if they pay on the 15th day.**

INVOICE			
<i>Product</i>	<i>Quantity</i>	<i>Price per unit</i>	<i>Total</i>
		£	£
		VAT	
		Total	
Prompt payment discount of          available for settlement within 20 days.			

### 3 Receipts from receivables and prompt payment discounts

#### Accounting for a receipt from a receivable

When a receivable makes a payment for an amount owed the double entry is:

Debit Bank account  
Credit Receivable account



#### Accounting for a prompt payment discount

If a receivable takes advantage of a prompt payment discount, the receivable will pay less than what has been recorded within the accounting records. The adjustment required impacts the receivable account, the VAT account and the discounts allowed account.

When accounting for a discount allowed to a credit customer, we do not revise the original sales value, instead we recognise an expense for this discount.

When initially recording a discount allowed to a customer, due to the customer taking advantage of a prompt payment discount, the amounts will be recorded into the discounts allowed day book.

The double entry to record a discount allowed to a customer is:

Debit Discounts allowed account with the net amount  
Debit VAT account with the VAT amount  
Credit Receivable account with the gross amount

## Notes





## Example 4

Continuing with the information provided in example 3 – the silver photo frames.

**Record the following transactions in the ledger accounts below:**

- 1 The sales invoice.
- 2 The payment received from the customer on day 15.
- 3 The prompt payment discount.

### Receivables

--	--

### Sales

--	--

### VAT

--	--



## Example 4 – continued

Bank

Discounts allowed

Notes



# 4 Summary

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### Accounting for credit sales

- Dr Receivables  
Cr Sales  
Cr VAT

### Discounts and VAT

- trade and bulk discounts are deducted before the VAT is calculated
- prompt payment discount is deducted once the customer takes advantage of it

### Accounting for receipts from receivables

- Dr Bank  
Cr Receivables

### Accounting for prompt payment discount

- Dr Discounts allowed  
Dr VAT  
Cr Receivables

## Notes

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## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 5 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 5 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 5 of the BTRN Study Text.

1 – 3

## Additional tutor resources



Additional tutor guidance

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# Chapter 6

## Accounting for purchases, VAT and discounts



### Outcome

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By the end of this session you should be able to:

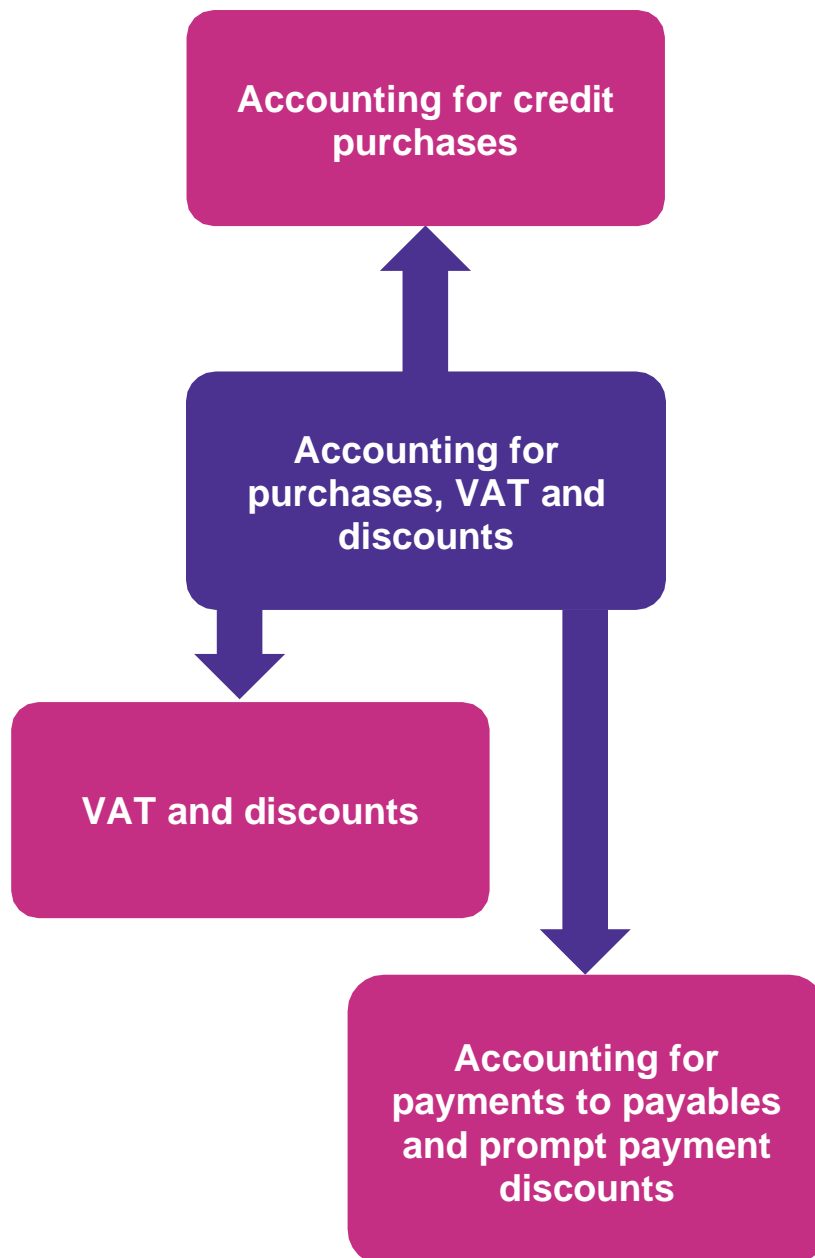
- account for credit purchases
- account for payments to payables and prompt payment discounts

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 6 of your Study Text



## Overview



## 1 Recording credit purchases



### Credit purchases

In chapter 2 we were introduced to the purchases day book (PDB) which is where a credit purchase is primarily recorded.

The purchases day book (PDB) details the names and references in relation to the supplier we have bought goods from/received a service from on credit. It also contains a breakdown of the transaction value (as detailed on the invoice):

- the net,
- the VAT,
- the gross (total) amounts.

### Accounting for credit purchases and VAT

When recording a credit purchase, the financial effects of the transaction include; the recognition of a payable, expense from a purchase and an amount of VAT that has been paid but which we can use to offset against a VAT liability to HM Revenue & Customs.

The double entry for a credit purchase including VAT:

Debit Purchases account with the net amount

Debit VAT account with the VAT

Credit Payables account with the gross amount

### 2 VAT and discounts

We studied discounts and VAT (sales tax) when studying sales in chapter 5. The calculation of VAT and discounts are **exactly** the same when considering purchases. Remember that it is the seller who offers the discounts and it is the seller who charges the VAT, the fact that we are now studying purchases does not change the calculations.

The purchaser will receive a 'sales invoice' from the seller. This will have details of discounts and VAT exactly as we saw before when studying sales. The purchaser will call this a 'purchase invoice'.



#### Example 1

Mr A purchases goods for £250 net of VAT and the supplier offers a prompt payment discount of 3% if it is paid in 5 days.

**Calculate the invoice amount, and the amount payable if paid within 5 days.**

## **3** Payments to credit suppliers and prompt payment discounts

### Accounting for a payment to payables

When we make a payment for an amount owed to a credit supplier the double entry is:

Debit Payable account

Credit Bank account



### Accounting for a prompt payment discount

If a business takes advantage of a prompt payment discount, the business will pay a lower amount to the payable than the amount that is recorded as the payable balance in the accounting records. The adjustment required for this discount received impacts the payable account; the VAT account and a discounts received account.

When accounting for a discount received from a credit supplier, we do not revise the original purchase value; instead we recognise this discount as a form of income.

When initially recording a prompt payment discount received from a supplier, the amounts will be recorded into a discounts received day book.

The double entry to record a discount received from a supplier is:

Debit Payables with the gross amount

Credit VAT account with the VAT amount

Credit Discounts received account with the net amount



## Example 2

Continuing with example 1 – Mr A.

**Record the following transactions in the ledger accounts below:**

- 1 The initial purchase of goods.
- 2 Payment for the goods on day 3.
- 3 Prompt payment discount.

### Payables

--	--

### Purchases

--	--

### VAT

--	--



# 4 Summary

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### Accounting for credit purchases

- Dr Purchases  
Dr VAT  
Cr Payables

### Discounts and VAT

- trade and bulk discounts are deducted before the VAT is calculated
- prompt payment discount is deducted once it is taken advantage of

### Accounting for payments to payables

- Dr Payables  
Cr Bank

### Accounting for prompt payment discount

- Dr Payables  
Cr VAT  
Cr Discounts received

## Notes

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## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 6 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 6 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 6 of the BTRN Study Text.

1 – 3

## Exam kit questions



You should now be able to answer the questions from this section of the Exam Kit

- making entries in an analysed day book

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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# Chapter 7

## Control accounts and subsidiary ledgers



### Outcome

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By the end of this session you should be able to:

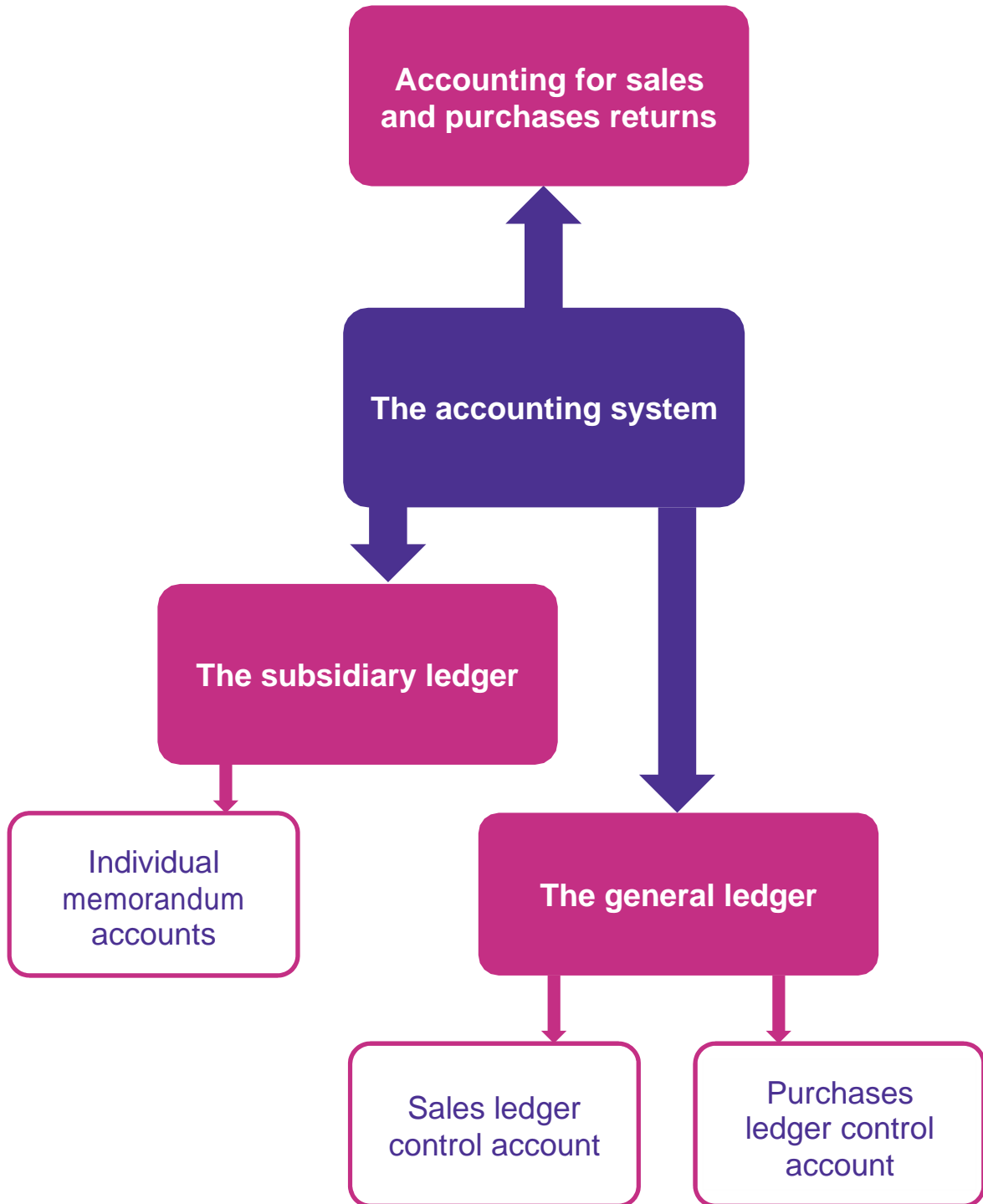
- define control accounts and subsidiary ledgers
- understand how books of prime entry are processed into the double entry bookkeeping system

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 7 of your Study Text



## Overview



# 1 The accounting system

---

In a typical business there will be a great number of sales and purchases transactions to a range of different customers and suppliers, to be recorded on a daily basis.

When sales are posted to the receivables account and purchases are posted to the payables account we can balance it off and see how much in total is owed to us by our customers and owed by us to our suppliers. However, we cannot see how much each individual customer owes us and how much we owe each individual supplier.

We need another set of ledger accounts, a subsidiary ledger, which records the individual amounts owed by the receivables and to the payables, as well as having the main receivables and payables account with the totals in it, in the general ledger.

In order to simplify the process of recording transactions and exercise greater control, we divide the recording of the transactions into three parts.

- (1) The first part is the **books of prime entry**.
- (2) The second part is transferring the amounts from the books of prime entry into the **ledger accounts** within the **general ledger** where the double entry takes place.
- (3) The third part is the **subsidiary (memorandum) ledgers** – individual receivable and payable accounts known as the '**sales ledger**' and the '**purchases ledger**'.

Invoices, credit notes, receipts and payments will form the basis of accounting entries in all parts.

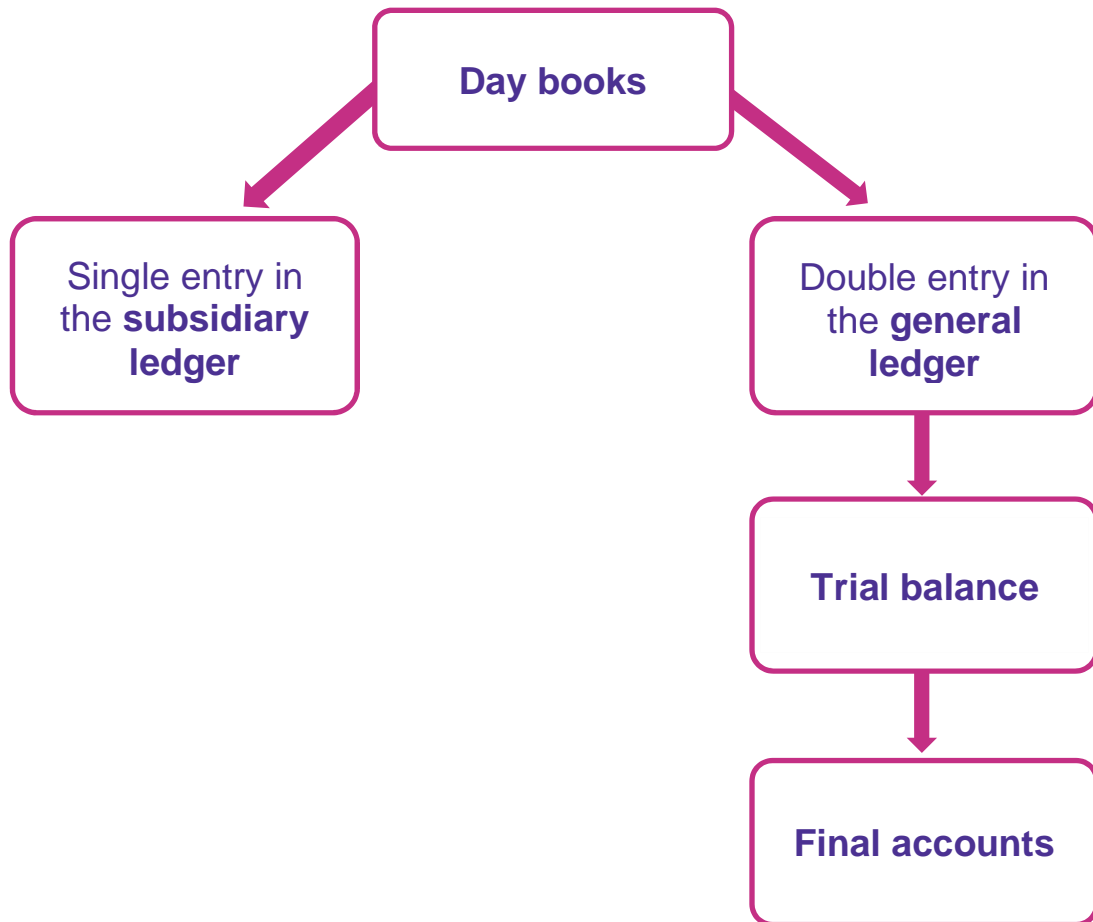
## Notes

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## Bookkeeping Transactions

This diagram shows how transactions are recorded in the general and subsidiary ledger:



Notes



## 2 The general and subsidiary ledgers

### The general ledger



A general ledger contains all the ledger accounts for recording transactions occurring within an entity.

Note: The AAT's preferred term is 'general ledger' but the general ledger may also be referred to as the 'main' or 'nominal' ledger.

The general ledger is the place where the double entry takes place in the appropriate ledger accounts.

Two of these typical accounts are the receivables and payables accounts.

When credit sales are posted to the receivables account and credit purchases are posted to the payables account we can balance it off and see how much in total is owed to us by our customers and owed by us to our suppliers. However, we cannot see how much each individual customer owes us and how much we owe each individual supplier.

We need another set of ledger accounts, a subsidiary ledger, which records the individual amounts owed by the receivables and to the payables, as well as having the main receivables and payables account with the totals in it, in the general ledger.

The receivables account in the general ledger will now be referred to as the **sales ledger control account**.



The sales ledger control account contains the total value of all the invoices and credit notes issued to and cash receipts from credit customers for a given period.

## Bookkeeping Transactions

The payables account in the general ledger will now be referred to as the **purchases ledger control account**.



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The purchases ledger control account contains the total value of all the invoices and credit notes received from and cash payments made to credit suppliers for a given period.

### The subsidiary ledger



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A subsidiary ledger provides details behind the entries in the general ledger. Subsidiary ledgers are maintained for individual receivables and payables.

**The subsidiary ledger** (which can also be known as a memorandum ledger) does not form part of the double entry system i.e. it does not require corresponding debit and credit entries.



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A subsidiary sales ledger is more commonly referred to as the 'sales ledger'. It is a set of accounts for individual receivables.

A subsidiary purchases ledger is more commonly referred to as the 'purchases ledger'. It is a set of accounts for individual payables.

## Notes





### Double entry in the general ledger:

- Total of **gross sales** are recorded in a **sales ledger control account (SLCA)** which we have previously called receivables.
- Total of **gross purchases** are recorded in a **purchases ledger control account (PLCA)** which we have previously called payables.

### Subsidiary ledgers:

- Subsidiary sales ledger – individual entries in the individual receivable accounts.
- Subsidiary purchases ledger – individual entries in the individual payable accounts.

The postings to the subsidiary ledgers are consistent with the postings to the control account in the general ledger:

A debit entry to the subsidiary sales ledger shows an increase to the amount owed by the receivable.

A credit entry to the subsidiary sales ledger shows a decrease to the amount owed by the receivable.

A credit entry to the subsidiary purchases ledger shows an increase to the amount owed to the payable.

A debit entry to the subsidiary purchases ledger shows a decrease to the amount owed to the payable.

## Notes





## Example 1

Nyah's Florist has both trade and retail sales.

Trade sales have a credit term of 14 days.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for receivables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 1 June 2012 with trade customers, and require recording in the sales day book

	<i>Net £</i>
Coopers Corporation	67.00
Kingdon Building	72.00
Ryan's Coffee Express	51.00
Smith's Salon	100.00

<b>Sales day book</b>					
<i>Date</i>	<i>Invoice no.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
		<b>Total</b>			



## Example 1 – continued

Show how the sales day book will be posted to the general and subsidiary sales ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

## Notes



### 3 Sales and purchases returns

#### Accounting for credit sales returns

For a variety of reasons an organisation will need to correct invoices raised e.g.

The general details contained on a credit note will be the same as for invoices but with an additional note stating the reason for its issue.

The double entry for a sales return including VAT is:

Dr	Sales returns	X	(net – VAT exclusive)
Dr	VAT	X	(VAT)
Cr	Receivables	X	(gross – VAT inclusive)

A separate account for sales returns is maintained as opposed to the debit entry being posted to the sales account. The VAT (sales tax) we originally recognised as being due to the tax authorities is reversed and the decrease to receivables balance must also be recorded.

Note that although this chapter covers sales returns on a credit basis, in the event of cash sales return, the credit entry to the receivables account would be replaced with a credit to the cash account.

#### Accounting for credit purchases returns

The double entry for a purchase return including VAT is:

Dr	Payables	X	(gross – VAT inclusive)
Cr	VAT	X	(VAT)
Cr	Purchases returns	X	(net – VAT exclusive)

A separate account for purchases returns is maintained as opposed to the credit entry being posted to the purchases account. The VAT we originally recognised as being reclaimable from the tax authorities is reversed and the decrease to our payables balance has to be recorded as we should not still recognise the liability.



## Example 2

Nyah (from example 1) has received several complaints about the quality of her roses and in response credit notes have been issued to those credit customers.

Record the following credit notes dated 2 June 2012 in a separate day book, the sales returns day book

	<i>Net £</i>
Ryan's Coffee Express	22.50
Kingdon's Building	45.00

<b>Sales returns day book</b>					
<i>Date</i>	<i>Credit note no.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
		<b>Total</b>			

Show how the sales return day book will be posted to the general and subsidiary sales ledger.



## Example 2 – continued

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

## Notes





### Example 3

Complete the missing cells from the sales day book.

Post the sales day book to the general and subsidiary ledgers, indicating whether the entries should be debits or credits.

<b>Sales day book</b>					
<i>Date</i>	<i>Invoice No.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
1/4/12		Henderson & Sons Building			550.00
1/4/12		Armstrong Carpentry	360.00	60.00	
1/4/12		Mullen's Roofing	216.00		
1/4/12		Keady's Ceilings	1,680.00		
		<b>Total</b>			

#### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

#### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>



## Example 4

The following credit transactions all took place on 31 July 2012 and have been entered into the sales returns day-book of AVB as shown below. No entries have yet been made in the ledgers.

<i>Date 2012</i>	<i>Details</i>	<i>Credit note number</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
31 July	Friedel	CN378	5,280	880	4,400
31 July	Naughton	CN379	10,680	1,780	8,900
	Totals		15,960	2,660	13,300

What will be the entries in the sales and general ledgers?

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

## Notes





## Example 5

Victor's Car Spares makes purchases by cash and on credit.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for payables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 1 June 2012, and require recording in the purchases day book.

	<i>Net £</i>
Will's Exhausts	620.00
Bumble Tyres	150.00
Paddy's Parts	50.00
Mosshill Motors	280.00

<b>Purchases day book</b>					
<i>Date</i>	<i>Invoice no.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
		Total			



## Example 5 – continued

Show how the transactions will be recorded in the general and the subsidiary purchases ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Postings to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

## Notes





## Example 6

Victor (from example 5) has had to return some of the parts he had received.

**Record the following return in the purchases returns day book on 5 June 2012.**

	<i>Net £</i>
Paddy's Parts	12.75

Purchases returns day book					
<i>Date</i>	<i>Credit note no.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
		<b>Total</b>			

Show how the purchases returns day book will be posted to the general and subsidiary purchases ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Posting to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>



## Example 7

Cooper's makes purchases by cash and on credit.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for payables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 31 December 2012, and require recording in the purchases day book.

	<i>Net £</i>
Fallowfield Fruits	50.00
Oxford & Co	100.00
Scoops'	75.00
Manchester Motor Repairs	115.00

<b>Purchases day book</b>					
<i>Date</i>	<i>Invoice No.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
		<b>Total</b>			



## Example 7 – continued

Show how the transactions will be recorded in the general and the subsidiary purchases ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

### Posting to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>

## Notes





## Example 8

The following credit transactions all took place on 31 January 2012 and have been entered into the purchases returns day-book of Adele as shown below. No entries have yet been made in the ledgers.

<i>Date 2012</i>	<i>Details</i>	<i>Credit note number</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
31 Jan	Dreams	CN197	384	64	320
31 Jan	Rumor	CN198	216	36	180
	<b>Totals</b>		600	100	500

What will be the entries in the purchases ledger?

### Purchases ledger

<i>Account name</i>	<i>Amount £</i>	<i>Debit</i> <input type="checkbox"/>	<i>Credit</i> ✓ <input type="checkbox"/>

What will be the entries in the general ledger?

### General ledger

<i>Account name</i>	<i>Amount £</i>	<i>Debit</i> ✓ <input type="checkbox"/>	<i>Credit</i> ✓ <input type="checkbox"/>

## 4 Summary

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### Subsidiary ledgers

- shows transactions of individual receivables and payables

### Control accounts

- shows totals of amount entered in the subsidiary ledgers – it is a summary account

### Recording transactions

- books of prime entry
- single entry in the subsidiary ledger
- double entry in the general ledger

## Notes

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### Illustrations and further practice



#### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 7 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 7 of the BTRN Pocket Notes.

#### Additional, more challenging questions

The following questions can be found within Chapter 7 of the BTRN Study Text.

1 – 8

### Exam kit questions



You should now be able to answer the questions from this section of the Exam Kit

- transferring data from day books to ledgers

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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## Notes

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# Chapter 8

## Receipts and payments



### Outcome

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By the end of this session you should be able to:

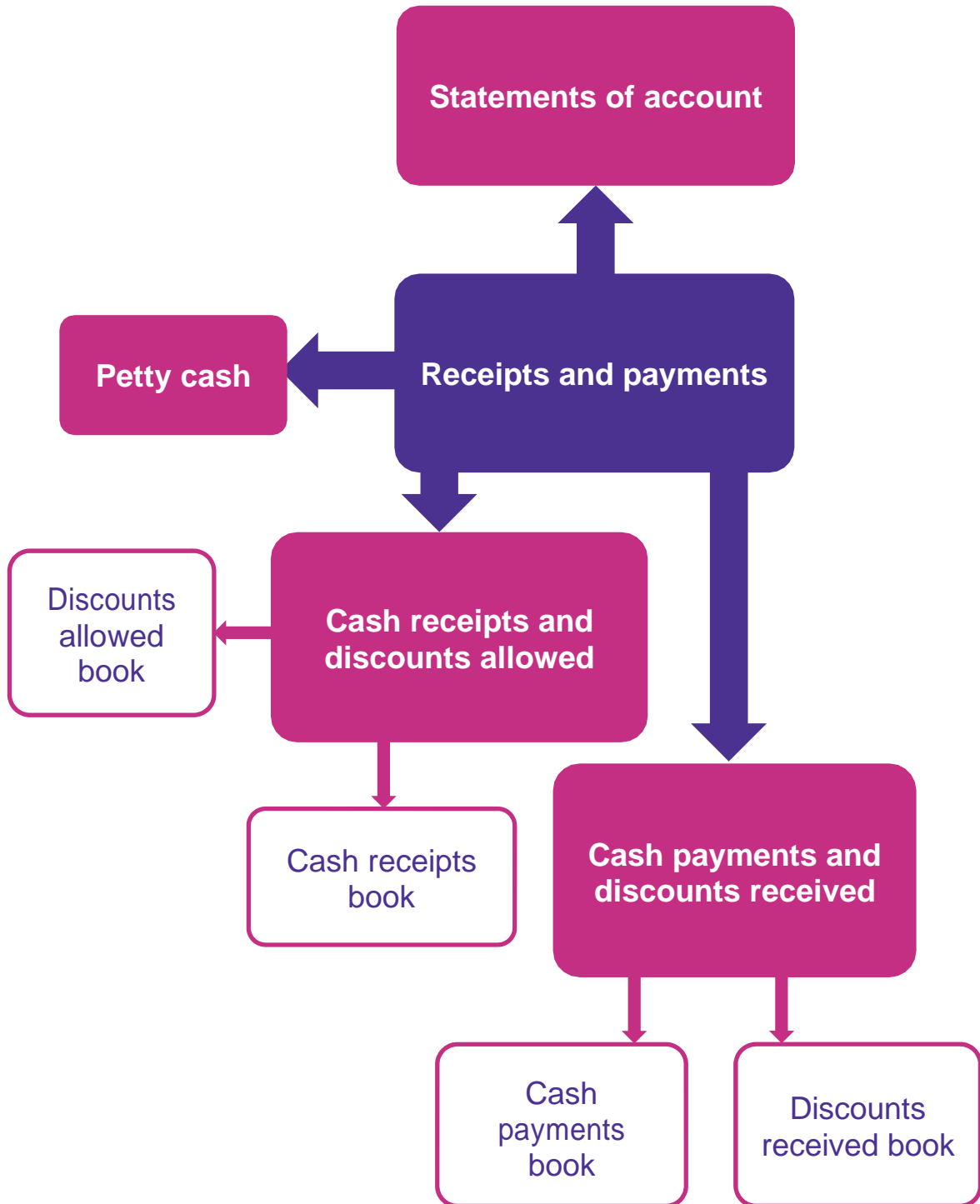
- outline the purpose and content of a statement of account
- record cash receipts and payments
- total and balance the cash book
- outline the purpose and content of a petty cash voucher
- maintain petty cash records

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Workbook can be found in Chapter 8 of your Study Text



## Overview



## 1 Statements of account

When sales to a customer are on a credit basis, it is important that there are procedures in place to ensure that the monies outstanding are received promptly.

Most customers do not settle their debt after receiving every invoice – customers can purchase from their suppliers numerous times within a month.

Payment will tend to be made when a statement has been sent by the supplier detailing all the invoices, credit notes and any payments that have occurred within the month. Information contained on the statement will come from the individual receivable's account within the subsidiary sales ledger.

When statements are sent out and then received by the customer, the customer should compare them to the account they hold for the supplier in their subsidiary purchases ledger.

Once the statement has been reconciled against the customer's own accounting records, the customer will then pay the amount due.



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**Receivable (customer) statement**

Notes



## Bookkeeping Transactions



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Payable (supplier) statement

Notes

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## Example 1

Prepare a receivable's statement for the customer Belle's Wedding Planners from the perspective of us being the supplier.

At 1 April 2012 there was an opening balance of £165 on Belle's Wedding Planners' account.

- £350 re invoice 1221 of 12 April 2012.
- £120 re credit note 223 of 16 April 2012.
- Cheque for £200 received 25 April 2012.



### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890 1235

### STATEMENT

**To:** Belle's Wedding Planners

**Date:** 30 April 2012

<i>Date</i>	<i>Transaction</i>	<i>Debit</i> £	<i>Credit</i> £	<i>Balance</i> £

May we remind you that our credit terms are 14 days.



## Example 2

Prepare a receivable's statement for the customer Cleo's Catering from the perspective of us being the supplier.

- £355 re invoice 120 of 12 June 2012.
- £175 re invoice 155 of 20 June 2012.
- £75 re credit note 21 of 21 June 2012.
- £275 re invoice 223 of 25 June 2012.
- Cheque for £355 received 26 June 2012.

**Complete the statement of account to be sent to the Cleo's Catering on 30 June 2012.**



### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890 1235

### STATEMENT

**To:** Cleo's Catering

**Date:** 30 June 2012

<i>Date</i>	<i>Transaction</i>	<i>Debit</i> £	<i>Credit</i> £	<i>Balance</i> £

May we remind you that our credit terms are 14 days.

## 2 Receiving and making payments

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Different organisations will receive money from their customers in different forms.

Examples of different payment types are:

- 
- 
- 
- 
- 
- 

Notes

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### 3 Remittances

When a customer makes a payment for a credit sale, they will also send a remittance advice to detail the invoices that are being paid.

When a business issues an invoice to a customer, the invoice will often have a detachable slip. This slip is called a remittance advice.



A remittance advice is a slip returned by the customer when paying an invoice so as to identify what the payment is for.

When receiving payments from a customer it is vital to ensure that the correct amount has been paid. This can be done by agreeing the amount of the payment to the details on the remittance advice and to the invoices or the customer's sales ledger account.

When agreeing receipts you should check:

- 
- 
- 
- 
- 

## Notes



Example of a remittance advice

<b>REMITTANCE ADVICE</b>				
<b>To:</b>  Little Miss Muffin Cake Shop 1 Baker Street London WC1 8QT	<b>Company name:</b>  Belle's Wedding Planners  <b>Address:</b> 11 Mountjoy Street London W12 6RS	<b>VAT reg no:</b> 32141108  <b>Date:</b> 31 March 2012		
<b>Date</b>	<b>Your ref</b>	<b>Amount</b> £	<b>Discount taken</b> £	<b>Paid</b> £
25/3/12	Invoice 005673	360.00	0	360.00
30/3/12	CN 02542	72.00	0	(72.00)
Total paid				£288.00
Cheque no				041261

**Discrepancies**

If a cheque is received and it does not reconcile to what was expected then you need to initially consider whether you can bank this.

If you are able to bank the cheque then you should record this and bank it as soon as possible. If a customer has underpaid or taken a discount when not eligible you should contact them and send them a new statement to show the amount outstanding as soon as possible.

If you are not able to bank a cheque received then you should contact the customer immediately and advise them of this. It is important to deal with discrepancies quickly and professionally as it is likely to be an honest mistake that can be rectified.

# 4 Recording cash receipts and payments

The cash book was introduced in chapter 2. It is the book of prime entry for recording receipts and payments.



A cash book is a record of cash receipts and payments that conforms to the double entry system.

An analysed cash book is a cash book with additional columns for analysing principal sources and payments for cash.

There are many different forms of the cash book that you may encounter. As already discussed in chapter 2, Bookkeeping Transactions requires knowledge of a two-column cash book which maintains separate columns for 'bank' and 'cash' transactions for both receipts and payments. You may also hear of a three-column cash book which in addition to a bank and a cash column for receipts and payments would also have a discount column for both receipts and payments.

A three-column cash book is not examinable for Bookkeeping Transactions as instead of incorporating discount columns within the cash book, the AAT has set out separate discount day books which we introduced in chapter 2 and also reviewed in chapters 5 and 6.

There are two ways a cash book can be used within the accounting system. As set out in the assessment criteria of Bookkeeping Transactions, you need to be aware that the cash book can be a book of prime entry on its own or it can be a book of prime entry that also forms part of the double entry bookkeeping system.

It will always be made clear if the cash book forms part of the double entry bookkeeping system as well as being a book of prime entry. If this is the case, the impact on the cash or bank account is already dealt with and no separate posting is required to the bank or cash ledger account – as effectively the cash book is forming the ledger account in the general ledger.



### Example 3

Three cheques have been received from the following credit customers:

- Susan's Tiles Ltd – £533.50 (taking discount of £16.50 including VAT)
- Tipps and Tipps – £350
- Floors R Us – £291 (taking discount of £9 including VAT)
- Cash has also been collected from cash sales of £60 including VAT.

You are required to:

- make entries into the cash receipts book and discounts allowed book,
- state the entries required to the general and subsidiary ledger accounts.

Note that the cash book forms part of the double entry bookkeeping system.

CASH RECEIPTS BOOK					
<i>Narrative</i>	<i>Bank £</i>	<i>Cash £</i>	<i>Cash sales £</i>	<i>VAT £</i>	<i>SLCA £</i>
Balance B/d	6,958.00	1,260.00			
Susan's Tiles Ltd					
Tipps and Tipps					
Floors R Us					
Cash Sales					
<b>Total</b>					



## Example 3 – continued

DISCOUNTS ALLOWED BOOK			
<i>Narrative</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
Susan's Tiles Ltd			
Floors R Us			
<b>Total</b>			

### Posting the cash receipts book to the general and subsidiary ledgers

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>



## Example 3 – continued

**Posting the discounts allowed book to the general and subsidiary ledgers**

**Postings to the general ledger**

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

**Postings to the subsidiary ledger**

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

Notes





## Example 4

Cash has been paid for the following purchases:

- Hardware by Homes – £240 (including VAT)
- Paint Supplies Ltd – £108 (including VAT)
- DIY Training – £150 (no VAT)

Cheques have been paid to the following parties:

- Harry Homes (a credit supplier) – £570 (claiming prompt payment discount of £30 including VAT)
- Van World – £2,000 (no VAT)

You are required to:

- make entries into the cash payments book and discounts received book,
- state the entries required to the general and subsidiary ledger accounts.

Note that the cash book forms part of the double entry bookkeeping system.

CASH PAYMENTS BOOK						
<i>Narrative</i>	<i>Bank</i> £	<i>Cash</i> £	<i>Cash purchases</i> £	<i>VAT</i> £	<i>PLCA</i> £	<i>Van</i> £
Hardware by Homes						
Paint Supplies Ltd						
DIY Training						
Harry Homes						
Van World						
<b>Total</b>						



## Example 4 – continued

DISCOUNTS RECEIVED BOOK			
<i>Narrative</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
Harry Homes			
<b>Total</b>			

### Posting the cash payments book to the general and subsidiary ledgers

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>



## Example 4 – continued

### Posting the discounts received book to the general and subsidiary ledgers

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

## Notes



## 5 The cash book in ledger account format

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Within this chapter we have already reviewed the cash receipts book and the cash payments book separately. The BTRN assessment may show the cash book containing receipts and payments in a ledger account format.

The cash book can appear in a ledger account format when the cash book is part of the general ledger. As seen in the earlier examples, when the cash book also forms part of the double entry bookkeeping system, you should complete the other side of the accounting entry within the general ledger, updating the subsidiary ledgers if required.

### Notes

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## Example 5

Referring to the cash account below, state the required entries to the general and subsidiary ledgers.

<i>Date</i>	<i>Details</i>	<i>Bank £</i>	<i>Date</i>	<i>Detail</i>	<i>Bank £</i>
30/6/12	Balance b/d	16,173	30/6/12	Plant & machinery	25,500
30/6/12	Invigor8	13,200	30/6/12	Loan repayment	1,500
			30/6/12	Motor expenses	1,440
			30/6/12	Balance c/d	933
		29,373			29,373

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>

## 6 Petty cash



Petty cash is the small amount of cash that most businesses hold in order to make small cash payments, such as payment for coffee and milk for the staff kitchen.

Holding cash on business premises is a security risk and therefore it is important the petty cash is secure. It should be kept in a locked petty cash box and usually this itself will be held in the safe. Only the person responsible for the petty cash should have access to the petty cash box.

When petty cash is taken out of the petty cash box, a voucher should be completed that states:

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Notes



## Bookkeeping Transactions

The voucher should be placed in the petty cash box and later it is reconciled with the receipt from the purchase.

An example of a petty cash voucher:

<b>Voucher No. 145</b>	
<b>Date:</b>	<i>10.08.2012</i>
<i>4 boxes of A4 Paper</i>	
<b>Net</b>	<i>£14.00</i>
<b>VAT</b>	<i>£2.80</i>
<b>Gross</b>	<i>£16.80</i>
<b>Paid to:</b>	<i>M Hussain</i>
<b>Authorised by:</b>	<i>H Cooper</i>

## Notes





## Example 6

Today's date is 11th August 2012.

**Complete the vouchers for the following petty cash transactions:**

Voucher number	£	Details
0123	6.00	Stationery supplies (incl. VAT)
0124	3.60	Tea and biscuits (incl. VAT)
0125	9.60	Taxi fare (incl. VAT)
0126	8.40	Taxi fare (incl. VAT)

Petty cash voucher
Date:
Number

Petty cash voucher
Date
Number



### Example 6 – continued

Petty cash voucher
Date:
Number

Petty cash voucher
Date:
Number

*The answer to the above example can be found in Chapter 9*

### Petty cash systems

There are two petty cash systems that can be used:

#### Imprest system

When operating an imprest system the business decides on a fixed level of petty cash e.g. £100.

Cash is withdrawn from the bank to replenish the amounts paid out of petty cash, as detailed on the petty cash vouchers.

As the business decides on a fixed amount and only replenishes the equivalent value of the amounts as per the petty cash vouchers, it is demonstrating good internal controls as it can keep track of unauthorised spending or poor record keeping.

### Non-imprest system

This is where a round sum amount of cash is withdrawn from the bank to top up the petty cash.

The sum taken out is regardless of the value of expenses paid since the last top up.

### Entering petty cash vouchers into the petty cash book

In Chapter 2 of the focus notes we were introduced to the petty cash book as a book of prime entry. We shall review how to enter petty cash vouchers with an example.

## Notes

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## Example 7

Given below are the petty cash vouchers that have been paid during the week commencing 20th August 2012 out of a petty cash box run on an imprest system of £150.

20/08/12	03526	13.68	Postage
21/08/12	03527	25.00	Staff welfare
21/08/12	03529	12.00	Taxi fare (including VAT)
22/08/12	03530	6.40	Staff welfare
23/08/12	03531	12.57	Postage
24/08/12	03532	6.80	Rail fare
26/08/12	03534	19.20	Taxi fare (including VAT)

Make the entries into the petty cash book below.

Receipts										
Date	Narrative	Total £	Date	Narrative	Voucher No	Total £	Postage £	Staff welfare £	Travel £	VAT £
20/8/12	Bal B/d	100.00								
20/8/12	Bank	50.00								

### Balancing the petty cash book and entering into the general ledger

We have reviewed how to enter petty cash transactions into the petty cash book. Using the scenario from example 7 we are now going to total and balance the petty cash book. Once we have totalled and balanced the cash book we will then summarise the accounting entries that are required to the general ledger.

Receipts										
Date	Narrative	Total £	Date	Narrative	Voucher No	Total £	Postage £	Staff welfare £	Travel £	VAT £
20/8/12	Bal B/d	100.00	20/8/12	Post	03526	13.68	13.68			
20/8/12	Bank	50.00	21/08/12	Welfare	03527	25.00		25.00		
			21/08/12	Taxi	03529	12.00			10.00	2.00
			22/08/12	Welfare	03530	6.40		6.40		
			23/08/12	Postage	03531	12.57	12.57			
			24/08/12	Rail fare	03532	6.80			6.80	
			26/08/12	Taxi	03534	19.20			16.00	3.20
			26/08/12	Bal c/d		54.35				
		150.00				150.00	26.25	31.40	32.80	5.20
27/08/12	Bal b/d	54.35								

#### STEP 1

As we do with a ledger account, both sides of the petty cash book are totalled with the higher balance going to the bottom of both sides.

#### STEP 2

Insert the balance carried down on the lower side to make it up to the higher total.

#### STEP 3

On the opposite side below the total insert the same balance as the balance carried down but refer to it as balance brought down

## Notes



## Bookkeeping Transactions

You must be able to post the entries from an analysed petty cash book to the general ledger accounts. The petty cash book can be a book of prime entry alone, or a book of prime entry and part of the double entry accounting system.

### Petty cash book as part of the double entry accounting system

When the petty cash book is part of the double entry accounting system as well as being a book of prime entry, there is no need for an entry to the petty cash control account as the petty cash book acts as the general ledger account and the closing balance on the account is taken from it when the trial balance is prepared.

The accounting entries required to the general ledger from the petty cash book in the example are:

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Postage	26.25	Dr
Staff Welfare	31.40	Dr
Travel	32.80	Dr
VAT control	5.20	Dr
Bank	50.00	Cr

## Notes



### Petty cash book not part of the double entry accounting system

When the petty cash book is not part of the double entry system, the accounting entries must show the impact on the expense accounts, the VAT account and the petty cash control account.

In the event of there being a top up to the petty cash, a separate entry will be required. We would need to show the money being withdrawn from the bank and deposited into petty cash.

The illustration that follows, reviews the general ledger postings required when the petty cash book is not part of the double entry accounting system.

## Notes

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## Illustration

Edge & Co maintains a petty cash book as a book of prime entry. It is not part of the double entry accounting system.

Receipts										
Date	Narrative	Total £	Date	Narrative	Voucher No	Total £	Postage £	Staff welfare £	Travel £	VAT £
8/1/12	Bal B/d	130.00	12/1/12	Post	03526	13.68	13.68			
8/1/12	Bank	20.00	12/1/12	Welfare	03527	25.00		25.00		
			12/1/12	Taxi	03529	12.00			10.00	2.00
			12/1/12	Welfare	03530	6.40		6.40		
			12/1/12	Postage	03531	12.57	12.57			
			12/1/12	Rail fare	03532	6.80			6.80	
			12/1/12	Taxi	03534	19.20			16.00	3.20
			12/1/12	Bal c/d		54.35				
		150.00				150.00	26.25	31.40	32.80	5.20
13/1/12	Bal b/d	54.35								

We have been told that the petty cash book is not part of the double entry accounting system. The expense accounts of postage, staff welfare and travel along with the VAT account will be debited. The corresponding impact on the petty cash control account will be to credit it (to reduce the balance) by the amount in total that has been paid out.

Remember that the account name in the general ledger should always match the analysis column headings in the petty cash-book and not the description of the expense given in the 'Details' column. For example above the account names to be selected would be postage, staff welfare, travel and not post, welfare, taxi and rail fare.

We must also record the impact of the top-up to the petty cash from the bank account. This will be shown as a credit from the bank ledger account and a debit to the petty cash control account.



## Illustration – continued

To summarise, the postings to the general ledger are:

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Petty cash control	20.00	Dr
Bank	20.00	Cr
Postage	26.25	Dr
Staff Welfare	31.40	Dr
Travel	32.80	Dr
VAT control	5.20	Dr
Petty cash control	95.65	Cr

## Notes



## 7 Summary

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### Cash book

- Records cash receipts and cash payments
- Can be split into two separate books – cash receipts book and cash payments book
- Transactions to be entered into the cash book and transferred to the general and subsidiary ledgers

### Petty Cash

- Small amounts of cash held for small purchases of items and reimbursing employees for small amounts of expenditure
- Transactions to be entered into the petty cash book and transferred to the general ledger
- of accounting entries for both scenarios is required

## Notes

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## Illustrations and further practice



### Further reading

For more detailed explanation, analysis and illustration of this topic please read Chapter 8 of the Bookkeeping Transactions Study Text.

Less detailed summaries can be found in Chapter 8 of the BTRN Pocket Notes.

### Additional, more challenging questions

The following questions can be found within Chapter 8 of the BTRN Study Text.

1 – 19

## Exam kit questions



You should now be able to answer these questions from the Exam Kit

- the cash book
- petty cash
- documentation and records for suppliers
- documentation and records for customers

If you are attending a revision course, please do not attempt the Exam Kit questions until your tutor instructs you to do so.

Additional tutor resources

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Additional tutor guidance

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# Chapter 9

## Answers

### Chapter 1



#### Example 1

Front Cover Designers code all purchase invoices with a supplier code and a general ledger code. A selection of the alphanumeric codes used is given below.

Supplier	Supplier account code	Item	General ledger code
Paper Mill	PAP113	T-shirts	GL0032
Sideline Printers	SID498	Leaflets	GL0045
XYZ Limited	XYZ221	Photo mugs	GL0101

The following invoice was received from a supplier.

Sideline Printers 34 Whitalel Street London E3 9IK VAT registration no: 298 5566 14	
Printed 800 leaflets @ £0.25 each	£200
VAT @ 20%	£40
<b>Total</b>	<b>£240</b>

**What codes would be used to code this invoice?**

Supplier account code: SID498

General ledger code: GL0045



### Example 2

Joyce Partners use a current coding system for their customers. Please see below for an extract of their system.

Customer	Code
JBR Limited	JBR001
Just Signs	JUS002
People Prints	PEO003

**Carry on from the above extract and assign appropriate alphanumeric codes to the two new customers below. There are no other customers that begin with the letter H.**

Hart Landscapes      HAR001

Princess Peas      PRI004

## Chapter 2

There are no Examples in this Chapter.

## Chapter 3



### Example 1

---

For each transaction write down the dual effect:

- 1 John started the business by putting £5,000 into his business bank account.  
  
The business has £5,000 more cash – asset (cash) increases  
  
The business owes £5,000 back to the owner – liability (capital) increases
- 2 John pays himself £200.  
  
The business has £200 less cash – asset (cash) decreases  
  
The business has repaid some of John's investment – drawings increase
- 3 John's business buys a van for £1,000 cash.  
  
The business has a van for £1,000 – asset (nca-vehicles) increases  
  
The business has £1,000 less cash – asset (cash) decreases
- 4 John's business buys a computer for £500 and promises to pay later (buys on credit).  
  
The business has a computer for £500 – asset (nca-computer) increases  
  
The business owes the supplier £500 – liability (payables) increases



## Example 2

The example is based on a business named TLC – it shows a number of transactions that a business may enter into and how the basic principles of accounting are applied. Once we have reviewed the example we will consider the need to account for profit which paves the way for us learning about double entry bookkeeping.

### 1 Introduce capital

You win £10,000 and use it to create a retail business (called TLC) selling hearts and roses. What is the effect?

Answer 1

*Dual effect*

Increase cash £10,000 (asset)

Increase capital £10,000 (capital)

TLC's position is:

	<i>Assets</i>		<i>Capital</i>
	£		£
Cash	10,000	Capital introduced	10,000

### 2 Buy inventory with cash

TLC buys 500 chocolate hearts for cash. The cost of each heart is £5. What is the effect?



## Example 2 – continued

Answer 2

*Dual effect*

Increase inventory £2,500 (asset)

Decrease cash £2,500 (asset)

TLC's position is:

	<i>Assets</i>		<i>Capital</i>
	£		£
Inventory	2,500	Capital introduced	10,000
Cash	7,500		

### 3 Buy inventory on credit

In reality a business will not always pay for its purchases with cash but is more likely to buy things on credit.

TLC buys inventory of 200 red roses on credit. Each red rose costs £10. What is the effect?

Answer 3

*Dual effect*

Increase Inventory £2,000 (asset)

Increase Payables £2,000 (liability)

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
Inventory	4,500	Capital introduced	10,000
Cash	7,500		
Payables	(2,000)		
	—————		
Net assets	10,000		

**Note:** 'Assets' column is now referred to 'Net assets' due to the liability being deducted from assets.



## Example 2 – continued

### 4 Buy a delivery van

The delivery van is bought for ongoing use within the business rather than for resale. Such assets are known as non-current assets.

TLC buys a delivery van for £1,000 cash. What is the effect?

Answer 4

*Dual effect*

Increase non-current asset £1,000 (asset)

Decrease cash £1,000 (asset)

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
NCA	1,000	Capital introduced	10,000
Inventory	4,500		
Cash	6,500		
Payables	(2,000)		
	—————		
Net assets	10,000		

### 5 Sell inventory for profit

TLC sells 200 red roses for £15 cash each. What is the effect?

Answer 5

*Dual effect*

Increase cash £3,000 (asset)

Decrease inventory £2,000 (asset)

Increase profit £1,000

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
NCA	1,000	Capital introduced	10,000
Inventory	2,500	Profit	1,000
Cash	9,500		
Payables	(2,000)		
	—————		
Net assets	11,000		



## Example 2 – continued

### 6 Sell inventory (on credit) for profit

It is equally likely that a business will sell goods on credit. When goods are sold on credit, an asset of the business called a receivable is generated.

TLC sells 400 chocolate hearts to Valentino for £12.50 each on credit. What is the effect?

Answer 6

*Dual effect*

Increase Receivables £5,000 (asset)

Decrease Inventory £2,000 (asset)

Increase profit £3,000

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
NCA	1,000	Capital introduced	10,000
Inventory	500	Profit	4,000
Receivables	5,000		
Cash	9,500		
Payables	(2,000)		
	<hr/>		
Net assets	14,000		

### 7 Pay expenses

In reality, TLC will have been incurring expenses from its commencement.

TLC received and paid a gas bill for £500. What is the effect?

Answer 7

*Dual effect*

Decrease cash £500 (asset)

Decrease profit £500

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
NCA	1,000	Capital introduced	10,000
Inventory	500	Profit	3,500
Receivables	5,000		
Cash	9,000		
Payables	(2,000)		
	<hr/>		
Net assets	13,500		



### Example 2 – continued

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#### 8 Take out a loan

In order to fund your future expansion plans for TLC, you persuade your Aunt to lend TLC £2,000.

TLC is loaned £2,000 cash by your Aunt. She expects to be repaid in two years' time. What is the effect?

Answer 8

*Dual effect*

Increase cash £2,000 (asset)

Increase loan £2,000 (liability)

TLC's position is:

	<i>Net assets</i>		<i>Capital</i>
	£		£
NCA	1,000	Capital introduced	10,000
Inventory	500	Profit	3,500
Receivables	5,000		
Cash	11,000		
Payables	(2,000)		
Loan	(2,000)		
	<hr/>		
Net assets	13,500		



## Example 3

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Our dual effects are now:

### **Buy inventory for cash**

Cash decreases

Purchases increase

### **Buy inventory on credit**

Payables increase

Purchases increase

### **Sell inventory for cash**

Sales increase

Cash increases

### **Sell inventory on credit**

Sales increase

Receivables increase

### **Pay a bill for gas with cash**

Cash decreases

Gas expense increases

### **Receive an electricity bill and don't pay it yet**

Payables increase

Electricity expense increases

## Chapter 4



### Example 1

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#### TLC

For each transaction, write out the double entry and then post the entries to the ledger accounts.

- (1) You win £10,000 and use it to create a retail business (called TLC) selling hearts and roses.

Dr Business bank account £10,000 (increase asset)

Cr Capital £10,000 (increase capital)

- (2) TLC buys 500 chocolate hearts and paid by cheque. The cost of each heart is £5.

Dr Purchases £2,500 (increase expense)

Cr Business bank account £2,500 (decrease asset)

- (3) TLC buys Inventory of 200 red roses on credit. Each red rose costs £10.

Dr Purchases £2,000 (increase expense)

Cr Trade payables £2,000 (increase liability)

- (4) TLC buys a delivery van for £1,000 and paid by cheque.

Dr Non-current asset – van £1,000 (increase asset)

Cr Business bank account £1,000 (decrease asset)

- (5) TLC sells 200 red roses for £15 cash each.

Dr Business bank account £3,000 (increase asset)

Cr Sales £3,000 (increase income)

- (6) TLC sells 400 chocolate hearts to Valentino for £12.50 each on credit.

Dr Trade receivables £5,000 (increase asset)

Cr Sales £5,000 (increase income)



## Example 1 – continued

(7) TLC received and paid a gas bill for £500.

Dr Gas £500 (increase expense)

Cr Business bank account £500 (decrease asset)

(8) TLC is loaned £2,000 cash by your Aunt. She expects it to be repaid in two years time.

Dr Business bank account £2,000 (increase asset)

Cr Loan £2,000 (increase liability)

(9) TLC pays £1,500 cash towards the £2,000 owed to the supplier.

Dr Trade payables £1,500 (decrease liability)

Cr Business bank account £1,500 (decrease asset)

(10) TLC's Receivable sends a cheque for £3,000.

Dr Business bank account £3,000 (increase asset)

Cr Trade receivables £3,000 (decrease asset)

(11) You withdraw £750 from the business.

Dr Drawings £750 (increase drawings)

Cr Business bank account £750 (decrease asset)

Business bank account					
Date	Detail	£	Date	Detail	£
	(1) capital	10,000		(2) purchases	2,500
	(5) sales	3,000		(4) van	1,000
	(8) loan	2,000		(7) gas	500
	(10) receivable	3,000		(9) payable	1,500
				(11) drawings	750

## Bookkeeping Transactions

Capital					
Date	Detail	£	Date	Detail	£
				(1) bank	10,000

Purchases					
Date	Detail	£	Date	Detail	£
	(2) bank	2,500			
	(3) payables	2,000			

Trade payables					
Date	Detail	£	Date	Detail	£
	(9) bank	1,500		(3) purchases	2,000

Non-current asset – van					
Date	Detail	£	Date	Detail	£
	(4) bank	1,000			

Sales					
Date	Detail	£	Date	Detail	£
				(5) Bank	3,000
				(6) Receivable	5,000

**Trade receivables**

Date	Detail	£	Date	Detail	£
	(6) sales	5,000		(10) bank	3,000

**Gas**

Date	Detail	£	Date	Detail	£
	(7) bank	500			

**Loan**

Date	Detail	£	Date	Detail	£
				(8) bank	2,000

**Drawings**

Date	Detail	£	Date	Detail	£
	(11) Bank	750			



## Example 2

We are now going to balance off the ledger accounts for the TLC question that we saw earlier in the chapter. Once these ledger accounts have been balance we will then be able to prepare an initial trial balance.

Business bank account					
Date	Detail	£	Date	Detail	£
	(1) capital	10,000		(2) purchases	2,500
	(5) sales	3,000		(4) van	1,000
	(8) loan	2,000		(7) gas	500
	(10) receivable	3,000		(9) payable	1,500
				(11) drawings	750
				Bal c/d	11,750
		<b>18,000</b>			<b>18,000</b>
	Bal b/d	11,750			

Capital					
Date	Detail	£	Date	Detail	£
				(1) bank	10,000
	Bal c/d	10,000			
		<b>10,000</b>			<b>10,000</b>
				Bal b/d	10,000

Purchases					
Date	Detail	£	Date	Detail	£
	(2) bank	2,500			
	(3) payables	2,000			
				Bal c/d	4,500
		<b>4,500</b>			<b>4,500</b>
	Bal b/d	4,500			



## Example 2 – continued

Trade payables					
Date	Detail	£	Date	Detail	£
	(9) bank	1,500		(3) purchases	2,000
	Bal c/d	500			
		<b>2,000</b>			<b>2,000</b>
				Bal b/d	500

Non-current asset – van					
Date	Detail	£	Date	Detail	£
	(4) bank	1,000			
				Bal c/d	1,000
		<b>1,000</b>			<b>1,000</b>
	Bal b/d	1,000			

Sales					
Date	Detail	£	Date	Detail	£
				(5) Bank	3,000
				(6) Receivable	5,000
	Bal c/d	8,000			
		<b>8,000</b>			<b>8,000</b>
				Bal b/d	8,000



## Example 2 – continued

Trade receivables					
Date	Detail	£	Date	Detail	£
	(6) sales	5,000		(10) bank	3,000
				Bal c/d	2,000
		<b>5,000</b>			<b>5,000</b>
	Bal b/d	2,000			

Gas					
Date	Detail	£	Date	Detail	£
	(7) bank	500			
				Bal c/d	500
		<b>500</b>			<b>500</b>
	Bal b/d	500			

Loan					
Date	Detail	£	Date	Detail	£
				(8) bank	2,000
	Bal c/d	2,000			
		<b>2,000</b>			<b>2,000</b>
				Bal b/d	2,000

Drawings					
Date	Detail	£	Date	Detail	£
	(11) Bank	750			
				Bal c/d	750
		<b>750</b>			<b>750</b>
	Bal b/d	750			



## Example 2 – continued

### Trial balance for TLC

	Dr £	Cr £
Business bank account	11,750	
Capital		10,000
Purchases	4,500	
Trade payables		500
Van	1,000	
Sales		8,000
Trade receivables	2,000	
Gas	500	
Loan		2,000
Drawings	750	
<b>Totals</b>	<b>20,500</b>	<b>20,500</b>

## Chapter 5



### Example 1

Mr A sells goods to Mr B on credit for £2,000 plus VAT (20%).

**State the accounting entry required to record this transaction.**

**Solution**

Account name	£	Debit	Credit
Receivables	2,400	x	
VAT	400		x
Sales	2,000		x



## Example 2

You are selling 20 items at £65 each.

A 10% trade discount is applied.

A 2% prompt payment discount is offered for settlement within 10 days.

**Calculate the amounts that will appear on the invoice:**

	£
20 × £65	1,300.00
Trade discount @10%	(130.00)
	—————
Net price	1,170.00
VAT (1,170 × 20%)	234.00
	—————
Gross total	1,404.00



## Example 3

You are selling 10 Silver Photo Frames at £20 each.

A discount of 2% is offered for settlement within 20 days.

**Complete the invoice below, showing the net, VAT and gross amounts. Calculate the amount the customer will pay if they pay on the 15th day.**

INVOICE			
<i>Product</i>	<i>Quantity</i>	<i>Price per unit</i>	<i>Total</i>
		£	£
Silver Photo Frame	10	20.00	200.00
		VAT	40.00
		Total	240.00

Prompt payment discount of 2% available for settlement within 20 days.

### Workings:

Net:

$$10 \text{ frames} \times \text{£}20.00 = \text{£}200$$

$$\text{VAT } \text{£}200 \times 20\% = \text{£}40$$

$$\text{Gross: } \text{£}200 + \text{£}40 = \text{£}240$$

Amount payable (if paid on 15th and taking advantage of the PPD):

$$\text{£}240 - (2\% \times \text{£}240) = \text{£}235.20$$

Proof of discount:

$$\text{Net } \text{£}200 \times 2\% = \text{£}4.00$$

$$\text{VAT @ } 20\% = \text{£}0.80$$

$$\text{Total (gross) discount} = \text{£}4.80$$

Alternate working:

$$\text{£}200 \text{ less } 2\% = \text{£}196$$

$$\text{VAT } \text{£}196 \times 20\% = \text{£}39.20$$

$$\text{Gross amount payable} = \text{£}235.20$$



## Example 4

Continuing with the information provided in example 3 – the silver photo frames.

**Record the following transactions in the ledger accounts below:**

- 1 The sales invoice.
- 2 The payment received from the customer on day 15.
- 3 The prompt payment discount.

### Receivables

Sales and VAT (1)	£240.00	Bank (2)	£235.20
		Discount allowed and VAT (3)	£4.80

### Sales

	Receivables (1) £200.00

### VAT

Receivables (3)	£0.80	Receivables (1)	£40.00
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## Example 4 – continued

Bank	
Receivables(2)	£235.20

Discounts allowed	
Receivables (3)	£4.00

## Chapter 6



## Example 1

---

Mr A purchases goods for £250 net of VAT and the supplier offers a prompt payment discount of 3% if it is paid in 5 days.

**Calculate the invoice amount, and the amount payable if paid within 5 days.**

**Workings:**

Invoice amount

Net £250

VAT £250 × 20% = £50

Gross: £250 + £50 = £300

Amount payable (if paid within 5 days and taking advantage of the PPD):

$£300 - (3\% \times £300) = £291$

Proof of discount:

Net £250 × 3% = £7.50

VAT @ 20% = £1.50

Total (gross) discount = £9.00

Alternate working:

£250 less 3% = £242.50

VAT £242.50 × 20% = £48.50

Gross amount payable = £291



## Example 2

Continuing with example 1 – Mr A.

Record the following transactions in the ledger accounts below:

- 1 The initial purchase of goods.
- 2 Payment for the goods on day 3.
- 3 Prompt payment discount.

### Payables

Bank (2)	£291.00	Purchases and VAT(1)	£300.00
Discount received and VAT (3)	£9.00		

### Purchases

Payables (1)	£250.00		
--------------	---------	--	--

### VAT

Payables (1)	£50.00	Payables (3)	£1.50
--------------	--------	--------------	-------



## Example 2 – continued

Bank	
	Payables (2)                      £291.00
Discounts received	
	Payables (3)                      £7.50

## Chapter 7



### Example 1

Nyah's Florist has both trade and retail sales.

Trade sales have a credit term of 14 days.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for receivables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 1 June 2012 with trade customers, and require recording in the sales day book

	<i>Net £</i>
Coopers Corporation	67.00
Kingdon Building	72.00
Ryan's Coffee Express	51.00
Smith's Salon	100.00

<b>Sales day book</b>					
<i>Date</i>	<i>Invoice no.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
1/6/12		Coopers Corporation	80.40	13.40	67.00
1/6/12		Kingdon Building	86.40	14.40	72.00
1/6/12		Ryan's Coffee Express	61.20	10.20	51.00
1/6/12		Smith's Salon	120.00	20.00	100.00
		<b>Total</b>	348.00	58.00	290.00



## Example 1 – continued

Show how the sales day book will be posted to the general and subsidiary sales ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Receivables (SLCA)	348.00	Dr
Sales	290.00	Cr
VAT	58.00	Cr

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Coopers Corp	80.40	Dr
Kingdon Building	86.40	Dr
Ryan's Coffee Express	61.20	Dr
Smith's Salon	120.00	Dr



## Example 2

Nyah (from example 1) has received several complaints about the quality of her roses and in response credit notes have been issued to those credit customers.

Record the following credit notes dated 2 June 2012 in a separate day book, the sales returns day book

	<i>Net £</i>
Ryan's Coffee Express	22.50
Kingdon's Building	45.00

<b>Sales returns day book</b>					
<i>Date</i>	<i>Credit note no.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
2/6/12		Ryan's Coffee Express	27.00	4.50	22.50
2/6/12		Kingdon Building	54.00	9.00	45.00
		<b>Total</b>	81.00	13.50	67.50

Show how the sales return day book will be posted to the general and subsidiary sales ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Receivables (SLCA)	81.00	Cr
Sales returns	67.50	Dr
VAT (sales tax)	13.50	Dr

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Ryan's Coffee Express	27.00	Cr
Kingdon Building	54.00	Cr



## Example 3

Complete the missing cells from the sales day book.

Post the sales day book to the general and subsidiary ledgers, indicating whether the entries should be debits or credits.

<b>Sales day book</b>					
<i>Date</i>	<i>Invoice No.</i>	<i>Customer name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
1/4/12		Henderson & Sons Building	660.00	110.00	550.00
1/4/12		Armstrong Carpentry	360.00	60.00	300.00
1/4/12		Mullen's Roofing	216.00	36.00	180.00
1/4/12		Keady's Ceilings	1,680.00	280.00	1,400.00
		<b>Total</b>	2,916.00	486.00	2,430.00

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Receivables (SLCA)	2,916.00	Dr
VAT control	486.00	Cr
Sales	2,430.00	Cr

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Henderson & Sons Building	660.00	Dr
Armstrong Carpentry	360.00	Dr
Mullen's Roofing	216.00	Dr
Keady's Ceilings	1,680.00	Dr



## Example 4

The following credit transactions all took place on 31 July 2012 and have been entered into the sales returns day-book of AVB as shown below. No entries have yet been made in the ledgers.

<i>Date 2012</i>	<i>Details</i>	<i>Credit note number</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
31 July	Friedel	CN378	5,280	880	4,400
31 July	Naughton	CN379	10,680	1,780	8,900
	Totals		15,960	2,660	13,300

What will be the entries in the sales and general ledgers?

### Postings to sales ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Friedel	5,280	Cr
Naughton	10,680	Cr

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Sales ledger control	15,960	Cr
VAT	2,660	Dr
Sales returns	13,300	Dr



## Example 5

Victor's Car Spares makes purchases by cash and on credit.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for payables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 1 June 2012, and require recording in the purchases day book.

	<i>Net £</i>
Will's Exhausts	620.00
Bumble Tyres	150.00
Paddy's Parts	50.00
Mosshill Motors	280.00

<b>Purchases day book</b>					
<i>Date</i>	<i>Invoice no.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
1/6/12		Will's Exhausts	744.00	124.00	620.00
1/6/12		Bumble Tyres	180.00	30.00	150.00
1/6/12		Paddy's Parts	60.00	10.00	50.00
1/6/12		Mosshill Motors	336.00	56.00	280.00
		<b>Total</b>	<b>1,320.00</b>	<b>220.00</b>	<b>1,100.00</b>



### Example 5 – continued

Show how the transactions will be recorded in the general and the subsidiary purchases ledger.

#### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
PLCA (Payables)	1,320	Cr
Purchases	1,100	Dr
VAT (sales tax)	220	Dr

#### Postings to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Will's Exhausts	744	Cr
Bumble Tyres	180	Cr
Paddy's Parts	60	Cr
Mosshill Motors	336	Cr



## Example 6

Victor (from example 5) has had to return some of the parts he had received.

**Record the following return in the purchases returns day book on 5 June 2012.**

	<i>Net £</i>
Paddy's Parts	12.75

Purchases returns day book					
<i>Date</i>	<i>Credit note no.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
5/6/12		Paddy's Parts	15.30	2.55	12.75
		<b>Total</b>	15.30	2.55	12.75

Show how the purchases returns day book will be posted to the general and subsidiary purchases ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
PLCA (Payables)	15.30	Dr
Purchases returns	12.75	Cr
VAT	2.55	Cr

### Posting to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Paddy's Parts	15.30	Dr



## Example 7

Cooper's makes purchases by cash and on credit.

You are employed by the business as a bookkeeper.

The business uses a manual accounting system.

Double entry takes place in the general ledger. Individual accounts for payables are kept in a subsidiary ledger as memorandum accounts.

The following transactions have taken place today, 31 December 2012, and require recording in the purchases day book.

	<i>Net £</i>
Fallowfield Fruits	50.00
Oxford & Co	100.00
Scoops'	75.00
Manchester Motor Repairs	115.00

<b>Purchases day book</b>					
<i>Date</i>	<i>Invoice No.</i>	<i>Supplier name</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
31/12/12		Fallowfield Fruits	60.00	10.00	50.00
31/12/12		Oxford & Co	120.00	20.00	100.00
31/12/12		Scoops'	90.00	15.00	75.00
31/12/12		Manchester Motor Repairs	138.00	23.00	115.00
		<b>Total</b>	408.00	68.00	340.00



## Example 7 – continued

Show how the transactions will be recorded in the general and the subsidiary purchases ledger.

### Postings to the general ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
PLCA (Payables)	408.00	Cr
Purchases	340.00	Dr
VAT	68.00	Dr

### Posting to purchases ledger

<i>Account</i>	<i>Amount</i>	<i>Dr or Cr</i>
Fallowfield Fruits	60.00	Cr
Oxford & Co	120.00	Cr
Scoops'	90.00	Cr
Manchester Motor Repairs	138.00	Cr



## Example 8

The following credit transactions all took place on 31 January 2012 and have been entered into the purchases returns day-book of Adele as shown below. No entries have yet been made in the ledgers.

<i>Date 2012</i>	<i>Details</i>	<i>Credit note number</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
31 Jan	Dreams	CN197	384	64	320
31 Jan	Rumor	CN198	216	36	180
	<b>Totals</b>		600	100	500

What will be the entries in the purchases ledger?

### Purchases ledger

<i>Account name</i>	<i>Amount £</i>	<i>Debit</i> <input type="checkbox"/>	<i>Credit</i> <input checked="" type="checkbox"/>
Dreams	384	<input checked="" type="checkbox"/>	
Rumor	216	<input checked="" type="checkbox"/>	

What will be the entries in the general ledger?

### General ledger

<i>Account name</i>	<i>Amount £</i>	<i>Debit</i> <input checked="" type="checkbox"/>	<i>Credit</i> <input checked="" type="checkbox"/>
PLCA (Payables)	600	<input checked="" type="checkbox"/>	
Purchases returns	500		<input checked="" type="checkbox"/>
VAT	100		<input checked="" type="checkbox"/>

## Chapter 8



### Example 1

Prepare a receivable's statement for the customer Belle's Wedding Planners from the perspective of us being the supplier.

At 1 April 2012 there was an opening balance of £165 on Belle's Wedding Planners' account.

- £350 re invoice 1221 of 12 April 2012.
- £120 re credit note 223 of 16 April 2012.
- Cheque for £200 received 25 April 2012.



### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890 1235

### STATEMENT

**To:** Belle's Wedding Planners

**Date:** 30 April 2012

<i>Date</i>	<i>Transaction</i>	<i>Debit £</i>	<i>Credit £</i>	<i>Balance £</i>
1 April	Balance b/d	165.00		165.00
12 April	Invoice 1221	350.00		515.00
16 April	Credit Note 223		120.00	395.00
25 April	Cheque		200.00	195.00

May we remind you that our credit terms are 14 days.



## Example 2

Prepare a receivable's statement for the customer Cleo's Catering from the perspective of us being the supplier.

- £355 re invoice 120 of 12 June 2012.
- £175 re invoice 155 of 20 June 2012.
- £75 re credit note 21 of 21 June 2012.
- £275 re invoice 223 of 25 June 2012.
- Cheque for £355 received 26 June 2012.

**Complete the statement of account to be sent to the Cleo's Catering on 30 June 2012.**



### *Little Miss Muffin Cake Shop*

*1 Baker Street*

*London*

*WC1 8QT*

Tel: 020 7890 1234 – Fax: 020 7890 1235

### STATEMENT

### NT

**To:** Cleo's Catering

**Date:** 30 June 2012

<i>Date</i>	<i>Transaction</i>	<i>Debit £</i>	<i>Credit £</i>	<i>Balance £</i>
12 June	Invoice 120	355.00		355.00
20 June	Invoice 155	175.00		530.00
21 June	Credit Note 21		75.00	455.00
25 June	Invoice 223	275.00		730.00
26 June	Cheque		355.00	375.00

May we remind you that our credit terms are 14 days.



## Example 3

Three cheques have been received from the following credit customers:

- Susan's Tiles Ltd – £533.50 (taking discount of £16.50 including VAT)
- Tipps and Tipps – £350
- Floors R Us – £291 (taking discount of £9 including VAT)
- Cash has also been collected from cash sales of £60 including VAT.

You are required to:

- make entries into the cash receipts book and discounts allowed book,
- state the entries required to the general and subsidiary ledger accounts.

Note that the cash book forms part of the double entry bookkeeping system.

CASH RECEIPTS BOOK					
<i>Narrative</i>	<i>Bank £</i>	<i>Cash £</i>	<i>Cash sales £</i>	<i>VAT £</i>	<i>SLCA £</i>
Balance B/d	6,958.00	1,260.00			
Susan's Tiles Ltd	533.50				533.50
Tipps and Tipps	350.00				350.00
Floors R Us	291.00				291.00
Cash Sales		60.00	50.00	10.00	
<b>Total</b>	<b>8,132.50</b>	<b>1,320.00</b>	<b>50.00</b>	<b>10.00</b>	<b>1,174.50</b>



## Example 3 – continued

DISCOUNTS ALLOWED BOOK			
<i>Narrative</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
Susan's Tiles Ltd	16.50	2.75	13.75
Floors R Us	9.00	1.50	7.50
<b>Total</b>	<b>25.50</b>	<b>4.25</b>	<b>21.25</b>

### Posting the cash receipts book to the general and subsidiary ledgers

#### Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
SLCA	1,174.50	Cr
VAT	10.00	Cr
Sales	50.00	Cr

#### Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Susan's Tiles Ltd	533.50	Cr
Tipps and Tipps	350.00	Cr
Floors R Us	291.00	Cr

### Posting the discounts allowed book to the general and subsidiary ledgers

#### Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Discounts allowed	21.25	Dr
VAT	4.25	Dr
SLCA	25.50	Cr

#### Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Susan's Tiles Ltd	16.50	Cr
Floors R Us	9.00	Cr



## Example 4

Cash has been paid for the following purchases:

- Hardware by Homes – £240 (including VAT)
- Paint Supplies Ltd – £108 (including VAT)
- DIY Training – £150 (no VAT)

Cheques have been paid to the following parties:

- Harry Homes (a credit supplier) – £570 (claiming prompt payment discount of £30 including VAT)
- Van World – £2,000 (no VAT)

You are required to:

- make entries into the cash payments book and discounts received book,
- state the entries required to the general and subsidiary ledger accounts.

Note that the cash book forms part of the double entry bookkeeping system.

CASH PAYMENTS BOOK						
<i>Narrative</i>	<i>Bank £</i>	<i>Cash £</i>	<i>Cash purchases £</i>	<i>VAT £</i>	<i>PLCA £</i>	<i>Van £</i>
Hardware by Homes		240.00	200.00	40.00		
Paint Supplies Ltd		108.00	90.00	18.00		
DIY Training		150.00	150.00			
Harry Homes	570.00				570.00	
Van World	2,000.00					2,000.00
<b>Total</b>	<b>2,570.00</b>	<b>498.00</b>	<b>440.00</b>	<b>58.00</b>	<b>570.00</b>	<b>2,000.00</b>



## Example 4 – continued

DISCOUNTS RECEIVED BOOK			
<i>Narrative</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
Harry Homes	30.00	5.00	25.00
<b>Total</b>	<b>30.00</b>	<b>5.00</b>	<b>25.00</b>

### Posting the cash payments book to the general and subsidiary ledgers

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
PLCA	570.00	Dr
VAT	58.00	Dr
Purchases	440.00	Dr
Van – NCA	2,000.00	Dr

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Harry Homes	570.00	Dr

### Posting the discounts received book to the general and subsidiary ledgers

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Discounts received	25.00	Cr
VAT	5.00	Cr
PLCA	30.00	Dr

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Harry Homes	30.00	Dr



## Example 5

Referring to the cash account below, state the required entries to the general and subsidiary ledgers.

<i>Date</i>	<i>Details</i>	<i>Bank £</i>	<i>Date</i>	<i>Detail</i>	<i>Bank £</i>
30/6/12	Balance b/d	16,173	30/6/12	Plant & machinery	25,500
30/6/12	Invigor8	13,200	30/6/12	Loan repayment	1,500
			30/6/12	Motor expenses	1,440
			30/6/12	Balance c/d	933
		29,373			29,373

Postings to the general ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
SLCA	13,200	Cr
Plant and machinery	25,500	Dr
Loan	1,500	Dr
Motor expenses	1,440	Dr

Postings to the subsidiary ledger

<i>Account</i>	<i>Amount £</i>	<i>Dr or Cr</i>
Invigor8	13,200	Cr



## Example 6

Today's date is 11th August 2012.

**Complete the vouchers for the following petty cash transactions:**

Voucher number	£	Details
0123	6.00	Stationery supplies (incl. VAT)
0124	3.60	Tea and biscuits (incl. VAT)
0125	9.60	Taxi fare (incl. VAT)
0126	8.40	Taxi fare (incl. VAT)

Petty cash voucher	
Date: 11/08/2012	
Number: 0123	
Stationery	
Net	£5.00
VAT	£1.00
Gross	£6.00

Petty cash voucher	
Date: 11/08/2012	
Tea and	
Net	£3.00
VAT	£0.60
Gross	£3.60



## Example 6 – continued

Petty cash voucher	
Date:	11/08/2012
Number:	0125
Taxi	
Net	£8.00
VAT	£1.60
Gross	£9.60

Petty cash voucher	
Date:	11/08/2012
Number:	0126
Taxi	
Net	£7.00
VAT	£1.40
Gross	£8.40

*The answer to the above example can be found in Chapter 9*



## Example 7

Given below are the petty cash vouchers that have been paid during the week commencing 20th August 2012 out of a petty cash box run on an imprest system of £150.

20/08/12	03526	13.68	Postage
21/08/12	03527	25.00	Staff welfare
21/08/12	03529	12.00	Taxi fare (including VAT)
22/08/12	03530	6.40	Staff welfare
23/08/12	03531	12.57	Postage
24/08/12	03532	6.80	Rail fare
26/08/12	03534	19.20	Taxi fare (including VAT)

Make the entries into the petty cash book below.

Receipts										
Date	Narrative	Total £	Date	Narrative	Voucher No	Total £	Postage £	Staff welfare £	Travel £	VAT £
20/8/12	Bal B/d	100.00	20/08/12	Post	03526	13.68	13.68			
20/8/12	Bank	50.00	21/08/12	Welfare	03527	25.00		25.00		
			21/08/12	Taxi	03529	12.00			10.00	2.00
			22/08/12	Welfare	03530	6.40		6.40		
			23/08/12	Postage	03531	12.57	12.57			
			24/08/12	Rail fare	03532	6.80			6.80	
			26/08/12	Taxi	03534	19.20			16.00	3.20