

INTRODUCTORY CERTIFICATE

Paper FA1

Recording Financial Transactions

STUDY NOTES

2014



SNFA1J15
FIA Study Notes Recording
Financial Transactions FA1 June
15



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Contents

	PAGE
INTRODUCTION TO THE PAPER	1
SESSION 1: TYPES OF BUSINESS TRANSACTION AND DOCUMENTATION	5
SESSION 2: INTRODUCTION TO ACCOUNTING	13
SESSION 3: DOUBLE ENTRY BOOKKEEPING	21
SESSION 4: SALES TAX	35
SESSION 5: DISCOUNTS	41
SESSION 6: BOOKS OF PRIME ENTRY AND CONTROL ACCOUNTS	49
SESSION 7: CONTROL ACCOUNT RECONCILIATIONS	69
SESSION 8: BANK RECONCILIATION STATEMENTS	77
SESSION 9: PAYROLL	87
SESSION 10: CORRECTION OF ERRORS AND SUSPENSE ACCOUNTS	91
SOLUTIONS TO EXAMPLES AND QUESTIONS	101

Introduction to the paper



PAPER BACKGROUND

Candidate requirements

At this level, students are required to apply their knowledge of the principles of accounting for:

- recording of transactions by the application of double entry bookkeeping
- documentation
- correction of errors
- reconciliation.

Format of the examination

	<i>Number of marks</i>
50 multiple-choice questions (2 marks each)	100

Time allowed: 2 hours

You can sit this paper as paper-based or computer-based exam.

Core areas of syllabus

The aim of FA1 is to introduce knowledge and understanding of the business and its environment and the influence this has on how organisations are structured. It also introduces the role of accounting and other key business functions in contributing to the efficient, effective and ethical management and development of an organisation and its people and systems.

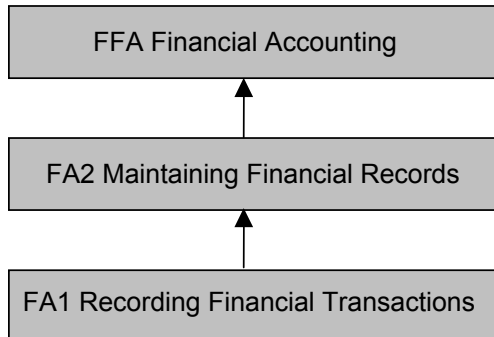
The syllabus introduces the fundamentals of preparing and recording financial documentation, including documentation and processing ledger transactions up to the trial balance stage. It also covers: relevant banking procedures associated with bookkeeping; maintaining and reconciling cash and petty cash records; preparing the journal and relevant control accounts; and identifying and correcting errors.

Upon successful completion of this paper candidates should be able to explain and understand the following:

- Types of business transaction and documentation
- Duality of transactions and the double entry system
- Banking systems and transactions
- Payroll
- Ledger accounts
- Cash and bank
- Sales and credit transactions
- Purchases and credit transactions
- Reconciliation; and
- Preparing the trial balance.

Links to other papers

No prior knowledge is required before commencing study for FA1. The knowledge gained in the paper is developed in FA2 *Maintaining Financial Records* and FA *Financial Accounting*.



RELEVANT ARTICLES FROM ACCA STUDENT ACCOUNTANT

Oct 1998 **Bank reconciliation**

Jul 2000 **Double-entry bookkeeping**

Jul 2003 **Suspense accounts and error correction**

April 2006 **Five steps to multiple choice questions**

Oct 2013 **How to answer multiple choice questions**

Oct 2013 **Computer based exams**

All articles can be found on the ACCA website: www.accaglobal.com

EXAMINATION TECHNIQUE

Computer-based examinations

- Be sure you understand how to use the **software** before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.
- Questions are **displayed on the screen** and answers are entered using keyboard and mouse. At the end of the examination, you are given a certificate showing the result you have achieved.
- **Don't panic** if you realise you've answered a question incorrectly – you can always go back and change your answer.

Answering the questions

Multiple-choice questions – read the questions carefully and work through any calculations required. This paper comprised a mixture of narrative and computational questions.

If you don't know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious. Remember that only one answer to a multiple-choice question can be right!

If you get stuck with a question skip it and return to it later. Answer every question – if you do not know the answer, you do not lose anything by guessing. Towards the end of the examination spend the last five minutes reading through your answers and making any corrections.

Equally divide the time you spend on questions. In a two-hour examination that has 50 questions you have about 2.4 minutes per a question.

If sitting a paper-based examination, before you finish, you must fill in the required information on the front of your answer booklet.

Do not treat multiple-choice questions as an easy option. **Do not skip any part of the syllabus** and make sure that you have *learnt* definitions, *know* key words and their meanings and importance, and *understand* the names and meanings of rules, concepts and theories.

Session 1

Types of business transaction and documentation



SYLLABUS CONTENT

- Outline the purpose and content of a range of business documents
- Prepare the financial documents to be sent to credit customers
- Describe the processing and security procedures relating to the use of cash, cheques, credit and debit cards
- Prepare remittance advices to accompany payments to suppliers
- Explain why it is important for an organisation to have formal document retention policy
- Identify the different categories of documents that may be stored as part of a document retention policy.

Types of business transaction

Every business sells goods or services to **customers** and gets paid for what it sells. Every business buys goods and services from **suppliers**, and pays for what it buys.

For example, retail businesses such as department stores and supermarkets have to buy goods for resale to shoppers, and a garage has to buy car parts and components to do repairs on customers' cars. Businesses buy stationery and computers for their office work.

Many businesses have employees, and have to pay for their labour.

All businesses incur expenses for various services, such as the supply of electricity, telephone services, property rental costs and local taxation (business rates).

Cash and credit transactions

Most business transactions for buying and selling goods or services are either cash transactions or credit transactions.

With a **cash transaction**, the buyer pays for the item either upon exchange of goods/services or they pay in advance.

With a **credit transaction**, the buyer doesn't have to pay for the item on receipt, but is allowed some time (a 'credit period') before having to make the payment.

Most transactions between two businesses are credit transactions. The credit terms, such as how long the buyer has to pay, are agreed between the buyer and the supplier in advance.

Terminology

Precise terminology is important in book-keeping and accounts. Key terms are given at the end of each chapter to highlight appropriate terminology. It is important to be clear on the following:

Sales – the exchange of goods or services for money. Terms such as commission and fees are also used instead of sales for some services.

Purchases – buying goods for resale or consumption.

Receipts – money received, often but not exclusively, from cash sales.

Payments – money paid out in cash or by cheque or other form of bank payment as described below.

Income – a more general term than sales including also interest received, rent received from letting part of the business premises and so on.

Expenses – indicates money spent for rent, electricity for lighting, telephone accounts and so on. This does not include purchases of goods for resale.

Expenditure – includes purchases, expenses and money spent on buying anything else for the organisation.

Methods of payment

Four common methods of receiving and making payments include:

- Cash
- Cheque
- Credit card; and
- Automated transactions, e.g. standing orders and direct debits.

Keeping a record

A business keeps detailed records of its sales, purchases, receipts and payments. There are several reasons for keeping records.

A business needs to keep track of how much it owes to its suppliers and how much it is owed by credit customers.

Records of sales and purchases are useful in the event of a query or dispute with a customer or supplier.

Keeping records of transactions means that checks can be carried out to make sure that they have been processed honestly, and that there have been no mistakes or fraud.

Keeping records of sales, purchases and other expenses allows a business to monitor how well it is performing, and whether it is making a profit or a loss.

Similar reasons apply to keeping petty cash records. Payroll records must also be maintained to ensure that employees are properly rewarded for their work and to ensure that correct deductions are made.

Transactions are recorded in **accounts**. The system of recording transactions is therefore called the **accounting system** or the **bookkeeping system**. The system organises transactions into sets of structured **ledger accounts**. Accounting records will be explained in later chapters.

To maintain records, it is important to maintain documents providing evidence of transactions. Chapter 2 looks at these documents in some depth.

Documents for business transactions

When a business sells or buys, each stage in the transaction is documented. Some businesses use electronic documents in their computer systems and that electronic information can be sent from the computer of suppliers to customers without the need for paper. Nevertheless, many transaction documents are still produced in a paper form.

We need to produce documents for business transactions for several reasons.

- As evidence of the transaction and its details.
- As evidence of the stage that the transaction has reached.
- For checking and confirming.
- For recording the transaction details.

Processing a cash transaction

Cash transactions are fairly straightforward. The buyer orders goods or services and pays for them immediately or on delivery. The seller delivers the goods or provides the service, and often gives the customer a **receipt** or an as evidence of payment. Many businesses also issues **invoices** confirming the goods/services supplied to the customer, the date of supply and the agreed price.

Credit transaction procedures

The procedures for credit transactions are a little more complex than for cash transactions. For any credit transaction, both parties to the transaction, buyer and seller, must agree what the **credit terms** should be. This is usually achieved via a some form of credit agreement or contract.

Businesses usually like to receive **order** in writing for a credit transaction. This helps in the event of any subsequent dispute with the customer. Even when a customer makes the order by telephone, the supplier usually asks the customer to confirm the order in writing.

On receipt of the order, a member of the sales team or order processing team must check the order details, to make sure that they are valid and correct. At this stage, it might be necessary to check that the customer has enough credit left, and that the order would not breach the customer's credit limit.

When the goods are ready they will be sent to the customer with a **goods despatched note**, which confirms the type and quantity of goods sent. This is signed by the customer as a proof of receipt and returned to the seller.

The customer is consequently sent a **sales invoice**. This details the quantity of goods despatched and the price to be paid. One or more copies of the invoice are kept by the seller. This can be used, when the customer eventually pays, to check that the payment is correct. The invoice might even be stamped 'PAID' to show that the customer no longer owes the money.

When a customer pays, the payment might be accompanied by a **remittance advice**. This is a document containing details of the payment, including the sales invoice number. A remittance advice can be valuable in helping the supplier to recognise what the payment is for, and which invoice or invoices is/are being paid.

Processing a credit transaction: a credit purchase

It is important that purchases are properly authorised. If they are not, anyone could order whatever goods they want.

Purchase requisition

To get a purchase authorised, it is usual to fill in a form known as a **purchase requisition**. The form is prepared by the person wanting the goods, and is then signed by another person who has the authority to agree to the order being made.

Purchase order

A **purchase order** is prepared and sent to the chosen supplier, once the details have been discussed with the supplier, and the sales price and credit terms agreed. Purchase orders should have a unique identity number (the purchase order number).

Delivery note and goods received note

When the goods are delivered, the supplier provides a **delivery note**. This confirms the quantity of goods received. The buyer should also confirm the quality by inspecting the goods received. The buyer should also confirm that the items delivered agree to the original order.

Purchase invoice

The goods will be accompanied or followed by a **purchase invoice**. This confirms the quantity and price of goods purchased. This is used by the buyer to process their accounting transactions and to act as a reminder of the amount owed to the seller.

Payment and remittance advice

Someone in the accounts department checks the details on the invoice against the purchase order. To do this, the purchase order and the invoice have to be matched together. If the purchase invoice shows the buyer's purchase order number, the task of matching the documents is made much easier and quicker.

If the invoice details appear correct, the invoice should be submitted for authorisation by a responsible person, possibly a senior manager. Usually, authorisation is given by means of adding a signature to the invoice.

The details of the authorised invoice are then recorded in the accounting system, and payment is made when the agreed credit period comes to an end.

When paying an invoice, some businesses send a **remittance advice** with their payment. A remittance advice is a document giving details of the invoice that is being paid (or possibly, of several invoices that are all being paid at the same time), including the supplier's invoice number. This will help the supplier to identify what the payment is for.

Statements of account

As a form of credit control many businesses send their credit customers a monthly statement of account. This shows how much the customer still owes. It might show the total amount owed by the customer at the date of the previous statement of account, the new invoices sent to the customer since then, the amounts the customer has paid, and so the total that the customer currently owes.

Credit notes

It is quite common in business for a customer to return goods to a supplier, because some of the goods are faulty, or not what the customer ordered. Sometimes, goods are sold to a retailer on a 'sale or return' basis, which means that if the retailer doesn't resell the goods, they can be sent back to the supplier.

Suppose for example that a book publisher sells 100 copies of a book on credit to a book distributor at a price of \$15 for each book. The publisher will send an invoice to the distributor for \$1,500. Some weeks later, the distributor might send back 20 of the books because they are not needed and there is a sale or return agreement. The amount owed by the distributor is now just \$1,200, not \$1,500.

It might seem logical to suppose that the publisher will issue a new invoice for \$1,200 to replace the original invoice for \$1,500. However, if the book distributor is a regular customer of the publisher (an 'account customer'), this isn't what happens. Instead the seller sends the customer a \$300 credit note, which is a confirmation of the reduction in the amount owed to the m.

Document retention policies

The documents used to process transactions are not thrown away, but are held on file for some years. For sales transactions, the customer's order, the delivery note and the sales invoice might all be stapled together and filed. Similarly, for purchase transactions, a copy of the purchase order, delivery note, goods received note and purchase invoice might be stapled together and filed.

The documents should be filed in a way that will make it possible to find them if they are needed at some time in the future, for example, in case of a dispute between the customer and the supplier.

There are good commercial reasons for retaining documents and there are also some legal requirements. Some tax laws, for example, require that documents are retained for a number of years in case of enquiry and investigation.

MULTIPLE-CHOICE QUESTIONS

- 1 Abdul is given a haircut by Michael, who is a self-employed hairdresser. Abdul pays with a \$10 note.
- What kind of transaction is this?
- A Sale of goods by Michael
 - B Sale of a service by Abdul
 - C Purchase of goods by Michael
 - D Purchase of a service by Abdul
- 2 What kind of transaction is this from Michael's point of view?
- A Cash sale
 - B Credit sale
 - C Cash purchase
 - D Credit purchase

- 3** Which of the following terms would be used to classify a payment for electricity to heat the business premises of a firm of plumbers?
- A** Expense
 - B** Purchase
 - C** Receipt
 - D** Sales
- 4** Which of the following would be paid for by petty cash?
- A** Car repairs on the business owner's private vehicle
 - B** Packet of envelopes at local store
 - C** Paying a supplier for goods bought on credit
 - D** Wages and salaries
- 5** Which of the following transactions are associated with payroll?
- A** Income from cash sale of computer used to calculate salaries
 - B** Postage and stationery, office expenses
 - C** Taxes on employee income, pension scheme payments, wages
 - D** Credit purchase of safety equipment for delivery staff
- 6** Which document is used to correct an overcharge in an original sales invoice?
- A** Credit note
 - B** Debit note
 - C** Dispatch note
 - D** Goods received note
- 7** Which document provides a summary of the credit transactions between a customer and supplier during the previous month?
- A** Advice note
 - B** Internal cheque requisition
 - C** Invoice
 - D** Statement of account

Session 2

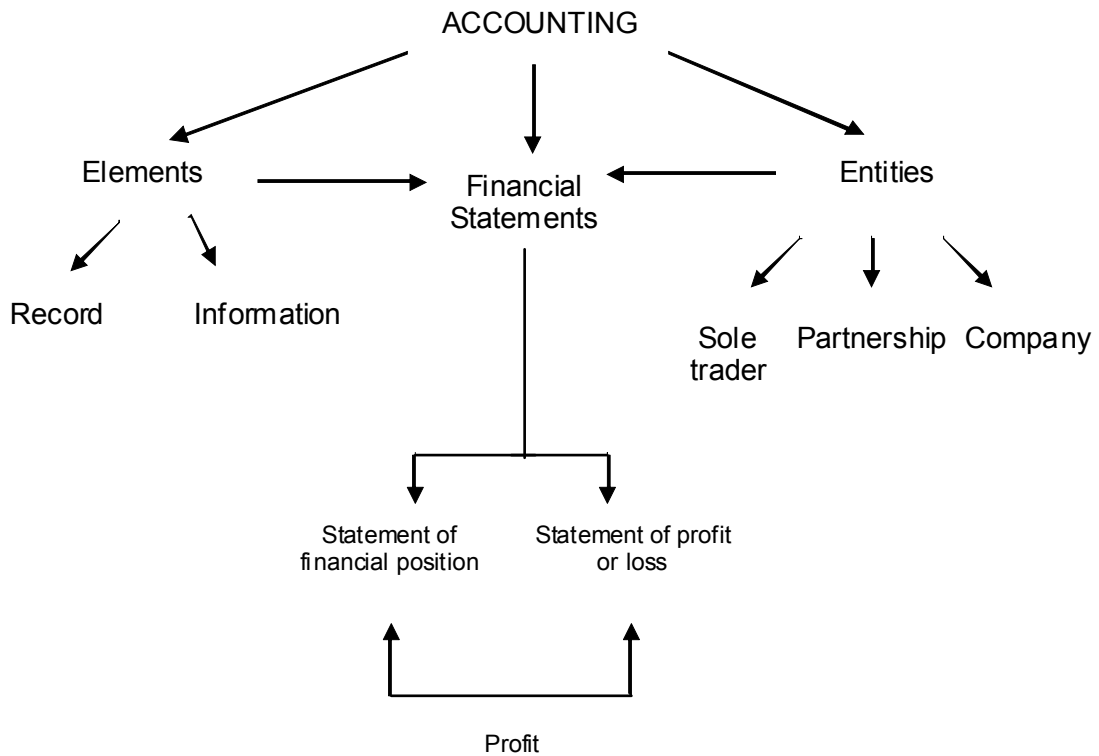
Introduction to accounting



SYLLABUS CONTENT

- Define and distinguish between the elements of the financial statements
- Identify the content of a statement of financial position and statement of profit or loss

SESSION CONTENT



Types of business

There are three types of business

- Sole trader
- Partnership
- Company

Sole trader

- Business is owned and run by one individual
- Business is usually small
- The owner is personally liable for business debts

Partnership

- Two or more people running a business together
- Partners are usually personally responsible for business debts
- Partners are usually jointly and severally liable for the business debts (unless an agreement has been drawn up that states otherwise)
- Business can be very large

Company

- An incorporated business – has its own legal entity in its own right, distinct from the owners of the business
- The owners of the business are shareholders. They are not usually liable for business debt
- A company must keep accounts in accordance with the Companies Act 2006

Types of accounts

Depending on why the financial statements are produced, we can describe them as being either **management accounts** or **financial accounts**.

Management accounts

Management accounts are usually prepared on a monthly basis for the managers of the business. They enable the management of the business to regularly review the financial performance and position of the business, so that timely decisions can be made with the intention of running the business effectively.

Management accounts can be tailored specifically to the needs of the management.

Financial statements

Prepared annually for the following stakeholders:

- Owners of business (i.e. the shareholders who are not involved in the day to day running of the business)
- Taxation authorities
- Banks/lenders
- Customers
- Suppliers
- Employees
- The public

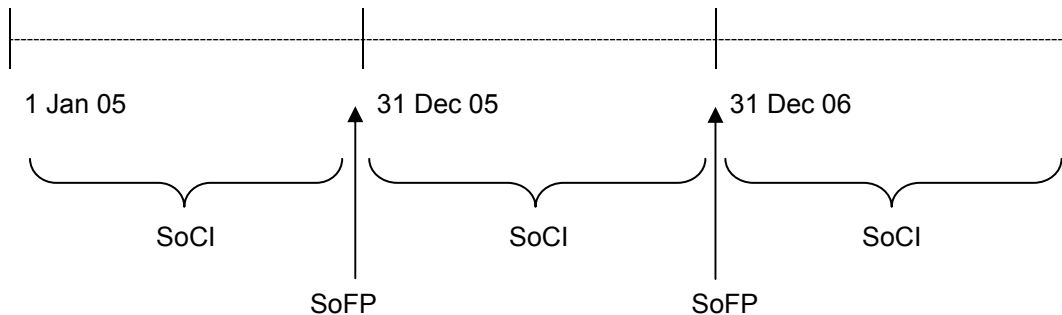
There are two key financial statements

- Statement of profit or loss

This summarises the income and expenditure of the business for a period of time (usually a year) up to the date of the statement of financial position.

- Statement of financial position

This lists the assets and liabilities of the business at a point in time and the amounts invested in the business by the owner(s), i.e. it is a snapshot of the financial position of the business at the end of the period.



STATEMENT OF FINANCIAL POSITION

The statement of financial position lists the assets and liabilities of a business at a point in time.

<p>Assets</p> <p>A <i>resource</i> controlled by a business that will provide future economic benefits as a result of a past transaction or event</p>	
<p>Non-current assets</p> <p>An asset acquired for continuing use in the business to generate future benefits and not held for resale</p> <p><i>Examples:</i></p> <p>Land and buildings Plant and machinery Motor vehicles</p>	<p>Current assets</p> <p>An asset that will be converted into cash in the ordinary course of business</p> <p><i>Examples:</i></p> <p>Inventory Receivables Cash</p>
<p>Liabilities</p> <p>An <i>obligation</i> to transfer economic benefits as a result of a past transaction or event</p>	
<p>Current liabilities</p> <p>A liability due within a year of the statement of financial position date</p> <p><i>Examples:</i></p> <p>Payables Bank overdraft Accrued expenses</p>	<p>Non-current (long-term) liabilities</p> <p>A liability due after more than one year from the statement of financial position date</p> <p><i>Examples:</i></p> <p>Bank loan Loans from family/friends</p>

The statement of financial position also shows the amount owed by the business to the owner/proprietor at the statement of financial position date.

Capital: the amount owed by the business to the owner. This amount is made up of three elements:

- funds introduced by the owner, e.g. cash
- profits earned by the business
- drawings, i.e. funds taken out of the business by the owner.

In the statement of financial position the total assets will be equal to the total capital plus the total liabilities (this will be dealt with in more detail in Session 2).

Proforma statement of financial position – for a sole trader

Statement of financial position as at 31 December 2006

	Cost	Accumulated depreciation	Net book value (NBV)
	\$	\$	\$
Non-current assets			
Land and buildings	X	(X)	X
Motor vehicles	X	(X)	X
	<hr/>	<hr/>	<hr/>
	X	(X)	X
	<hr/>	<hr/>	
Current assets			
Inventory		X	
Receivables	X		
Allowances for receivables	(X)	X	
	<hr/>		
Prepaid expenses and accrued income		X	
Cash		X	X
		<hr/>	
			X
			<hr/>
Capital			X
Profit			X
Drawings			(X)
			<hr/>
			X
Non-current liabilities			
Bank loan			X
Current liabilities			
Payables	X		
Bank overdraft	X		
Accrued expenses and prepaid income	X		X
	<hr/>		<hr/>
			X
			<hr/>

Capital in the statement of financial position

The statement of financial position shows the amount owed to the owner as follows:

Capital	X	Note 1
Capital introduced	X	Note 2
Net profit/(loss)	X/(X)	Note 3
Drawings	(X)	Note 4
	—	
	X	
	—	

Note 1

This figure should be the amount owed to the owner at the start of the accounting period.

Note 2

This is the additional amount that the owner has introduced during the year.

Note 3

This figure should be the net profit/net loss earned/incurred by the business in the accounting period.

Note 4

This figure should be the drawings taken out by the owner in the accounting period.

EXAMPLE 1

Percy started a grocery shop on 1 January 2005 investing \$10,000. In the year to 31 December 2005 the shop earned a profit of \$5,000 and Percy took \$3,000 drawings out of the business.

In the year to 31 December 2006, Percy introduced a further \$2,000 capital, the shop made a profit of \$7,000 and Percy took drawings of \$4,000.

Prepare the capital section of the statement of financial position as at 31 December 2005 and as at 31 December 2006.

	31 December 2005	31 December 2006
	\$	\$
Opening capital	-----	-----
Capital introduced	-----	-----
Profit	-----	-----
Drawings	-----	-----
Closing capital	-----	-----

STATEMENT OF PROFIT OR LOSS

The statement of profit or loss shows all the income earned by the business and all the expenditure incurred by the business over a period of time, typically a year.

Proforma statement of profit or loss – for a sole trader

Statement of profit or loss for the year ended 31 December 2006

	\$	\$
Sales revenue		X
Sales returns		(X)
		<hr/>
		X
Cost of sales		
Opening inventory	X	
Purchases	X	
Purchase returns	(X)	
Carriage inwards	X	
	<hr/>	
	X	
Closing inventory	(X)	
	<hr/>	
		(X)
		<hr/>
Gross profit		X
Sundry income		
Rent receivable		X
Bank interest income		X
Discounts received		X
Expenses		
Light and heat	X	
Wages	X	
Rent and rates	X	
Depreciation	X	
(Profit)/loss on disposal of non-current asset	(X)/X	
Carriage outwards	X	
Discounts allowed	X	
Increase/(decrease) in allowances for receivables	X/(X)	
Bad debts	X	
	<hr/>	
		(X)
		<hr/>
Net profit/(loss)		X/(X)
		<hr/>

Session 3

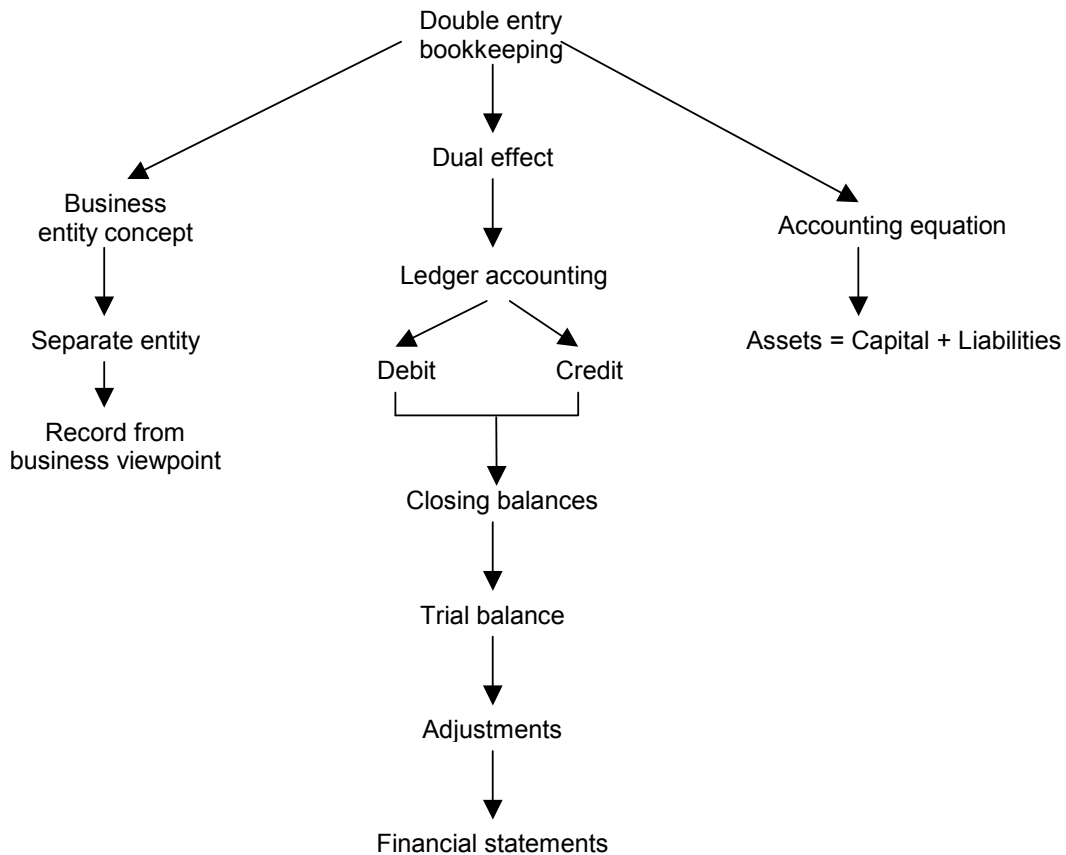
Double entry bookkeeping



SYLLABUS CONTENT

- Define the accounting equation
- Understand and apply the accounting equation
- Explain how the accounting equation relates to the double entry bookkeeping system
- Process financial transactions from the books of prime entry into the double entry bookkeeping system
- Record journal entries in the ledger accounts
- Balance and close off ledger accounts
- Prepare ledger balances, clearly showing the balances carried down and brought down as appropriate
- Extract an initial trial balance.

SESSION CONTENT



INTRODUCTION

Double entry bookkeeping is the method used by accountants to record the transactions of a business.

PRINCIPLES OF DOUBLE ENTRY BOOKKEEPING

The business entity concept

For accounting purposes, a business is a separate entity from its owner and transactions are always recorded from the business' point of view.

EXAMPLE 1

Suppose that Percy starts a business as a grocer by investing \$10,000 of his life savings into a business bank account.

How would this transaction be accounted for?

The dual effect principle

Every transaction has two equal effects.

EXAMPLE 2

What are the two effects of the following transactions?

- (a) Percy invests \$10,000 into a business bank account.
- (b) Percy buys \$2,000 of non-current assets for the business, paying by cheque.
- (c) Percy buys \$500 of inventory for the business and agrees to pay the supplier in one month's time.

The accounting equation

Assets – Liabilities = Capital (NB: this can be re-written as assets = capital + liabilities).

EXAMPLE 3

Write out the accounting equation after each of the following transactions within Percy's business:

- (a) Percy invests \$10,000 into a business bank account.
- (b) Percy buys \$2,000 of non-current assets paying by cheque.
- (c) Percy buys \$500 of inventory and agrees to pay the supplier in one month's time.
- (d) Percy sells inventory that had cost \$200 for \$320. The customer pays by cheque.
- (e) Percy pays \$80 for rent by cheque.
- (f) Percy sells inventory that had cost \$100 for \$150. The customer agrees to pay in one month's time.
- (g) Percy takes \$70 out of the business for personal living expenses.

LEDGER ACCOUNTING

Double entry bookkeeping involves recording transactions in ledger accounts. Ledger accounts are used to summarise all transactions that relate to a particular item. Periodically the information contained in the ledger accounts can then be used to prepare the financial statements.

A ledger account is kept for each item within the financial statements, e.g. sales, purchases, receivables, bank, etc.

A ledger account looks like:

Debit (Dr)			Name of account e.g. sales, bank	Credit (Cr)		
Date	Narrative	\$	Date	Narrative	\$	

Because of the dual effect principle, every transaction will affect two ledger accounts. We must always debit one account and credit another.

The narrative included in the ledger account is the name of the other ledger account where the transaction has been recorded.

The accounting equation expanded

$$\text{Assets} = \text{Capital} + \text{Income} - \text{Expense} - \text{Drawings} + \text{Liabilities}$$

Every transaction has a dual impact upon this equation. For example a sale for \$100 cash increases cash assets and also increases income. This can be summarised in our ledger accounts as follows:

Debit cash assets \$100

Credit sales revenue \$100

To help you identify whether a debit or credit entry is required you can use the well known mnemonics 'DEAD CLIC' or 'PEARLS.'

Debit	Credit
Assets	Liability
Expenses	Income
Drawings	Capital
Debit	Credit
Purchases	Revenue
Expenses	Liabilities
Assets	Shareholder's capital

NOTE: the above represents where items are placed when there is an increase, i.e. an increase in an asset is a debit. Decreases in these items are recorded on the opposite side, so a decrease in an asset value would be a credit.

Summary of steps to record a transaction

- 1 Identify the two items that are affected.
- 2 Consider whether they are being increased or decreased.
- 3 Decide whether each account should be debited or credited. The general rule is to debit the receiving account whilst crediting the giving account.
- 4 Check that matching debit and credit entries have been made of the same amount.

EXAMPLE 4

For each of the following transactions state:

- (a) The two ledger accounts that are affected.
- (b) Whether the ledger account should be debited or credited.
 - Oliver invests \$10,000 of his life savings into a business bank account.
 - Oliver buys goods from a supplier for \$1,000 and pays by cheque.
 - Oliver makes a sale for \$400 and the customer pays by cheque.
 - Oliver makes a sale for \$600 and the customer promises to pay in one month's time.
 - Oliver buys further goods from his supplier for \$500 on credit.
 - Oliver's credit customer returns \$50 worth of goods.
 - Oliver pays a telephone bill of \$150 by cheque.
 - Oliver receives an invoice for \$300 of stationery bought on credit.
 - The credit customer pays the balance due on her account.
 - Oliver pays the amount owed to his supplier.
 - Oliver receives bank interest income of \$350.

BALANCING OFF A LEDGER ACCOUNT

Once the transactions for a period have been recorded it will be necessary to find the balance on the ledger account.

- 1 Total both sides and find the larger total.
- 2 Put the larger total in both total boxes.
- 3 Find the difference between the small and the big side.
- 4 Add the difference to the smaller side and call it 'bal c/d' or 'bal c/f'.
- 5 Carry the balance down to the other side below the total box and call it 'bal b/d' or bal b/f.

EXAMPLE 5

Balance off the bank account below:

Bank account			
Capital	150,000	Premises	100,000
		Motor vehicle	20,000
	150,000		150,000

TRIAL BALANCE

Once the ledger accounts have been balanced off a trial balance is prepared.

A trial balance is a list of the 'balance b/d' on the ledger accounts according to whether they are on the debit or credit side.

Trial balance as at 31 December 2006

Name of account	Dr		Cr
	\$		\$
Sales			X
Purchases	X		
Receivables	X		
Payables			X
Capital			X
	X		X

What does the trial balance prove?

The trial balance will balance if for every debit entry made, an equal credit entry was made and the balances were correctly extracted and casted.

The purpose of a trial balance is:

- to check that for every debit entry made, an equal credit entry has been made
- as a first step in preparing the financial statements.

PERIOD END ADJUSTMENTS

Once a trial balance has been prepared, some adjustments have to be recorded. These will be covered in later sessions.

CLOSING OFF THE LEDGER ACCOUNTS – PART 1

After any period end adjustments have been recorded the ledger accounts need to be closed off in preparation for recording the transactions of the next accounting period.

Statement of financial position ledger accounts

Assets/liabilities at end of a period = Assets/liabilities at start of the next period, e.g. the cash in your bank account at the end of one day will be the cash in your bank account at the start of the following day.

Bal c/d = asset/liability at the end of the accounting period

=

Bal b/d = asset/liability at the start of the next accounting period

Therefore there is no need to close off any T accounts that end up on the statement of financial position.

EXAMPLE 6

Matthew set up a business and in the first nine days of trading the following transactions occurred:

- | | |
|-----------|---|
| 1 January | Matthew introduces \$10,000 capital by cheque. |
| 2 January | Matthew buys supplies worth \$4,000 and pays by cheque. |
| 3 January | Matthew buys a delivery van for \$2,000 and pays by cheque. |
| 4 January | Matthew buys \$1,000 of purchases on credit. |
| 5 January | Matthew sells goods for \$1,500 and receives a cheque of that amount. |
| 6 January | Matthew sells all his remaining goods for \$5,000 on credit. |
| 7 January | Matthew pays \$800 to his supplier by cheque. |
| 8 January | Matthew pays rent of \$200 by cheque. |
| 9 January | Matthew draws \$100 for living expenses from the business bank account. |

Required:

- (a) Complete the relevant ledger accounts.
- (b) Extract a trial balance.

Bank					

EXAMPLE 7**Mark**

- July 1 Started business with \$10,000 in cash.
- 2 Paid \$9,000 of the opening cash into a bank account.
- 4 Bought goods on credit for \$780 from S. Holmes.
- 5 Bought a motor van paying by cheque for \$5,000.
- 7 Sold goods on credit to D. Moore for \$980.
- 10 Returned \$180 of goods to S. Holmes.
- 12 Bought goods for cash for \$550.
- 19 Sold goods for \$700 cash.
- 22 Bought fixtures on credit from Kingston Equipment for \$1,500.
- 24 D Watson loaned Mark \$1,000, paying by cheque.
- 29 Paid S Holmes \$600 by cheque.
- 31 Paid Kingston Equipment \$1,500 by cheque.

Required:

Write up the above transactions in the books of Mark, balance off each account and extract a trial balance as at 31 July.

(Note: You need to open both a cash account and a bank account.)

When a credit sale is made the double entry is:

Dr Receivables

Cr Sales

We can recognise the sale because most receivables will be turned into cash, i.e. they will pay and therefore there is reasonable certainty that the income will be realised.

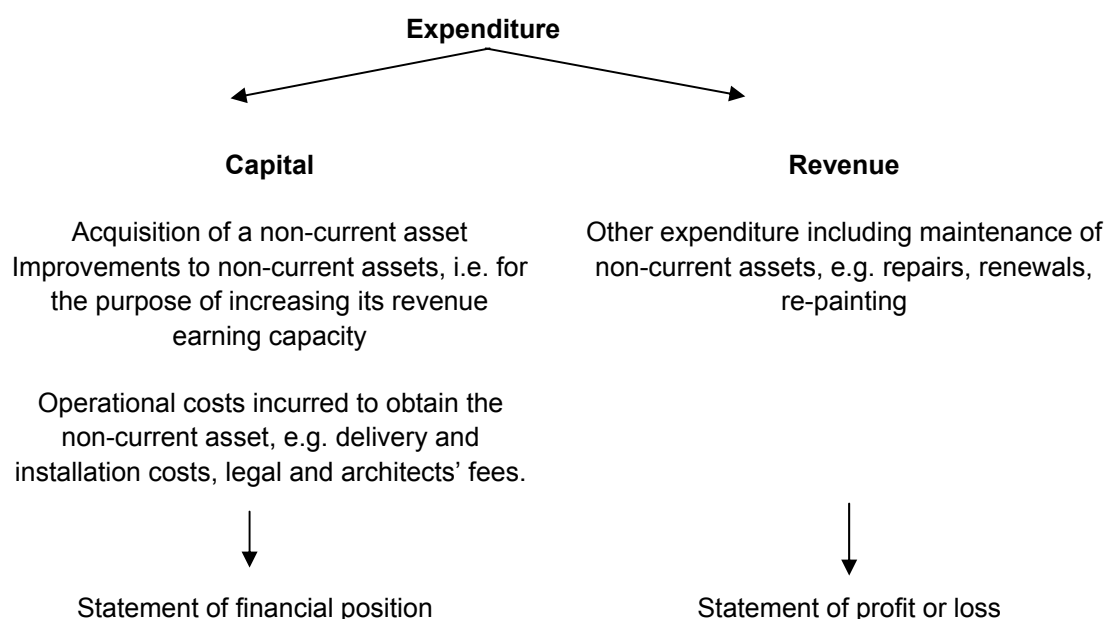
ACCOUNTING FOR ACQUIRING A NON-CURRENT ASSET

Dr Non-current assets

Cr Bank/cash/payables

A separate cost account should be kept for each category of non-current assets, e.g. motor vehicles, fixtures and fittings.

How much can be debited to the non-current asset account



A tangible non-current asset should initially be measured at cost and only costs directly attributable to bringing the asset into working condition for its intended use (per IAS 16).

EXAMPLE 8

For each of the following, state whether they are capital or revenue expenditure:

	Capital	Revenue
The list price of a new car
Annual car tax for the new vehicle
A piece of new machinery
Spare parts to repair machinery
Stationery
Building materials for a new extension
Labour costs to build new extension
Decoration of new extension
Redecoration of original building

- The double entry to record the acquisition of a non-current asset is:
Dr Non-current asset – cost
Cr Bank/Payables
- The non-current asset cost account should be debited with capital expenditure only.

SESSION SUMMARY

- Double entry bookkeeping is the method used to record the transactions of a business.
- Ledger accounts are used to record transactions.
- The left hand side is called the debit side and the right hand side is called the credit side.
- For every transaction, a debit and credit entry of the same amount must be made.
- Ledger accounts are balanced off at the end of the accounting period.
- Once the ledger accounts have been balanced off, a trial balance is prepared using the balance b/d on the ledger accounts.
- The trial balance will balance provided that for every debit entry that has been made, an equal credit entry has been made.

MULTIPLE-CHOICE QUESTIONS

- 1 The *main* aim of accounting is to:
- A maintain ledger accounts for every asset and liability
 - B provide financial information to users of such information
 - C produce a trial balance
 - D record every financial transaction individually
- 2 Which of the following is the accounting equation?
- A $\text{Assets} - \text{Liabilities} - \text{Capital} = \text{Drawings} + \text{Profit}$
 - B $\text{Assets} = \text{Liabilities} - \text{Capital} + \text{Profit} - \text{Drawings}$
 - C $\text{Assets} - \text{Liabilities} - \text{Capital} = \text{Profit} - \text{Drawings}$
 - D $\text{Assets} + \text{Liabilities} = \text{Capital} + \text{Profit} - \text{Drawings}$

- 3** Which of the following is correct?
- A** A debit entry will increase non-current assets
A debit entry will increase drawings
A debit entry will increase profit
- B** A credit entry will increase a bank overdraft
A debit entry will decrease payables
A credit entry will increase receivables
- C** A debit entry will increase profit
A debit entry will increase receivables
A debit entry will decrease payables
- D** A debit entry will increase receivables
A credit entry will decrease non-current assets
A credit entry will increase profit
- 4** A credit balance on a ledger account indicates:
- A** an asset or an expense
- B** a liability or an expense
- C** an amount owing to the organisation
- D** a liability or a revenue
- 5** The double entry system of bookkeeping normally results in which of the following balances on the ledger accounts?
- | Debit balances | Credit balances |
|--|-----------------------------------|
| A Assets and revenues | Liabilities, capital and expenses |
| B Revenues, capital and liabilities | Assets and expenses |
| C Assets and expenses | Liabilities, capital and revenues |
| D Assets, expenses and capital | Liabilities and revenues |

Session 4

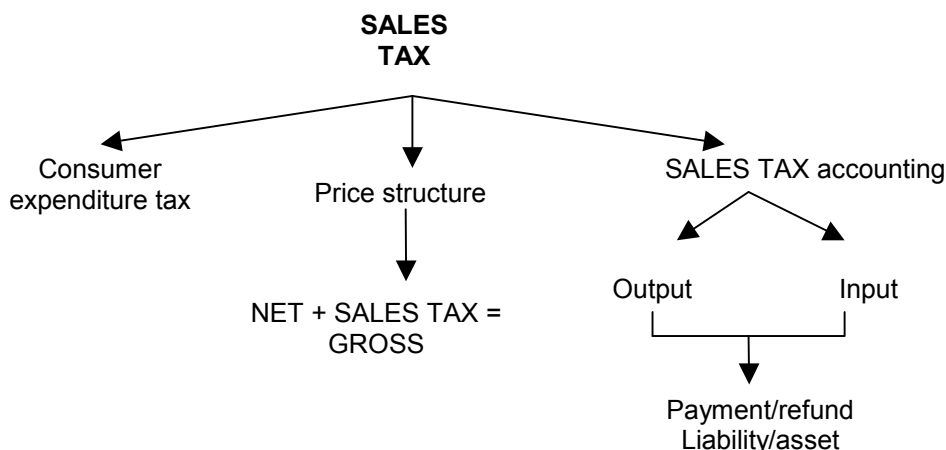
Sales tax



SYLLABUS CONTENT

- Record sales transactions and account for the various types of discount including the sales tax effect where applicable
- Record purchase transactions and account for the various types of discount including the sales tax effect where applicable

SESSION CONTENT



INTRODUCTION

Sales tax is a tax on consumer expenditure, i.e. it is the ultimate customer that bears the cost of sales tax. Businesses do not earn any income as a result of sales tax and, in most cases, businesses do not incur any expense as a result of sales tax. However, they act as the collector of sales tax on the government’s behalf.

If a business charges sales tax on its sales, then the customer pays it the sales tax. The business will then pay this sales tax to the government.

If a business is charged sales tax on its purchases then, although it pays the sales tax to its supplier, the business can generally reclaim this sales tax back from the government.

Therefore, at any point in time a business will either owe sales tax to the government or will be owed sales tax from the government, i.e. it will either have a receivables or payables in relation to sales tax which will be shown on the statement of financial position.

PRICE STRUCTURES OF SALES TAX

In the UK, Sales Tax is currently charged at a standard rate of 20 %. Therefore the following price structures hold:

	%
Gross price (including sales tax)	120
Net price (excluding sales tax)	100
	———
Sales tax	20
	———

EXAMPLE 1

Using the above price structures, complete the following table:

	Gross	Net	Sales tax
1			\$700
2		\$1,980	
3	\$1,440		
4			\$398
5		\$250	
6	\$2,592		

DOUBLE ENTRIES WITH SALES TAX**Double entry for a sale**

When a business makes a sale on which they charge sales tax, the following double entry needs to be made:

Dr	Bank/Receivables	\$ gross amount
Cr	Sales	\$ net amount
Cr	Sales tax	\$ sales tax

Double entry for expenditure

Sales tax can be recovered:

Dr	Purchases/Expenses/Non-current assets	\$ net amount
Dr	Sales tax	\$ sales tax
Cr	Bank/Payables	\$ gross amount

Sales tax cannot be recovered:

Dr	Purchases/Expenses/Non-current assets	\$ gross amount
Cr	Bank/Payables	\$ gross amount

The balance on the sales tax account at the end of an accounting period will then represent the net amount that is either due to the government or is due from the government. This balance should be included as a current liability or current asset on the statement of financial position.

SALES TAX ACCOUNT FORMAT

Sales tax account

Bal b/d (refund due)	x	Bal b/d (amount due)	x
Bank (payment made for opening amount due)	x	Bank (refund received)	x
Purchases/expenses	x	Sales	x
Bal c/d (amount due)	x	Bal c/d (refund due)	x
	—		—
	x		x
	—		—
Bal b/d (refund due)	x	Bal b/d (amount due)	x

EXAMPLE 2

Valerie's business is registered for sales tax purposes. Her opening sales tax liability is \$1900, which was paid during the quarter. During the quarter ending 31 March 2006 Valerie made the following sales, all of which were subject to sales tax at 20%:

\$10,000 excluding sales tax

\$7,200 including sales tax

\$6,745 excluding sales tax

\$9,870 including sales tax

\$12,600 including sales tax

She also made the following purchases all of which were subject to sales tax at 17.5%:

\$15,000 excluding sales tax

\$13,200 including sales tax

\$12,000 including sales tax

Required:

Prepare the sales tax ledger account for the quarter ending 31 March 2006.

SESSION SUMMARY

- Sales tax is a tax on consumer expenditure.
- Businesses act as a collection agent for sales tax and do not earn any income or suffer any expense as a result of sales tax (unless sales tax on the expenditure is irrecoverable).
- When recording a sale with sales tax, the sales account should be credited with the net amount and the sales tax element recorded as a liability.
- When recording a purchase with sales tax that is recoverable, the purchases account should be debited with the net amount and the sales tax element recorded as an asset.
- The balance on the sales tax account should be shown as a current asset or current liability on the statement of financial position.

MULTIPLE-CHOICE QUESTIONS

- 1** All the sales of Gail, a retailer, were made at a price inclusive of sales tax at the standard rate of 20% and all purchases and expenses bore sales tax at the standard rate. For the three months ended 31 March 2006 gross sales were \$24,000, purchases were \$12,000 (net) and expenses \$800 (net).

How much is due to the tax authority for the quarter?

- A** \$1,260
 - B** \$1,440
 - C** \$1,594
 - D** \$1,873
- 2** The sales account is:
- A** credited with the total of sales made, including sales tax
 - B** credited with the total of sales made, excluding sales tax
 - C** debited with the total of sales made, including sales tax
 - D** debited with the total of sales made, excluding sales tax

- 3** If sales (including sales tax) amounted to \$28,200 and purchases (excluding sales tax) amounted to \$18,000, the balance on the sales tax account, assuming all items are subject to sales tax at 20% would be:
- A** \$2,040 debit
 - B** \$2,040 credit
 - C** \$1,100 debit
 - D** \$1,100 credit
- 4** A business commenced with capital in cash of \$1,000. Inventory costing \$800 net of sales tax is purchased on credit. Half of this Inventory is then sold for \$1,000 plus sales tax, the customer paying in cash at once. Assume sales tax rates are 20%.
- The accounting equation after these transactions would show:
- A** assets \$1,600 less liabilities \$1,000 equals capital \$600
 - B** assets \$2,760 less liabilities \$1,160 equals capital \$1,600
 - C** assets \$2,600 less liabilities \$1,600 equals capital \$1,000
 - D** assets \$2,600 less liabilities \$1,000 equals capital \$1,600

Session 5

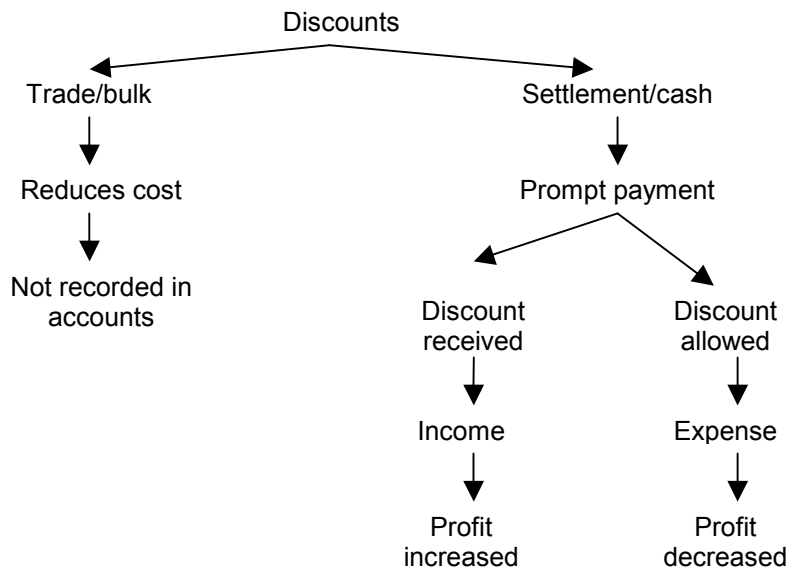
Discounts



SYLLABUS CONTENT

- Record sales transactions and account for the various types of discount including the sales tax effect where applicable
- Record purchase transactions and account for the various types of discount including the sales tax effect where applicable

SESSION CONTENT



INTRODUCTION

Discounts may either be received from suppliers or given, i.e. allowed to customers. In both cases there are two types of discounts:

Trade

Are taken into account when the invoice is calculated

Bulk buying, frequent customer

Purchase/sale is recorded at the discounted amount

⇒ No further action

Settlement

We do not know if the discount will be taken when the invoice is calculated

Prompt payment

Purchase/sale is recorded at full amount, discount is known when cash is received/paid

⇒ Record discount at time of receipt/payment if it is taken

TRADE DISCOUNT

EXAMPLE 1			
A wholesaler sells \$180 of goods to a trade customer and offers him a 10% trade discount.			
Record this sale.			
	Sales		Receivables

CASH DISCOUNT

Discount allowed – an expense in the statement of profit or loss

The double entry is as follows:

- Dr Discount allowed
- Cr Receivables

EXAMPLE 2			
Sold \$2,000 worth of goods to Kim, on terms of 2% cash discount if payment is within 30 days. Payment was received on day 29.			
	Receivables – Kim		Discounts allowed

Discount received – sundry income in the statement of profit or loss.

The double entry is as follows:

- Dr Payables
- Cr Discounts received

EXAMPLE 3			
Purchased \$1,000 worth of goods from Dave on terms of 5% settlement discount if payment is made within 10 days. Payment was made on day 9.			
Payables – Dave		Discounts received	
_____	_____	_____	_____
_____	_____	_____	_____

TRADE AND CASH DISCOUNTS

If a trade and cash discount is being offered, the cash discount will be calculated after the trade discount has been deducted.

EXAMPLE 4
A purchase is for 20 items at \$5 each. A trade discount of 10% is given.
A 2% cash discount is also offered for settlement within 30 days.
Calculate the amount that the business will pay for the goods if they take advantage of the cash discount.

OTHER ITEMS IN THE TRADING ACCOUNT

The trading account may also contain the following items:

Returns inwards/sales returns: goods returned in to us by our customers.

These are recorded in a separate T account and deducted from sales in the trading account.

Dr Returns inwards (or Sales)

Cr Receivables/Bank

Returns outwards/purchases returns: goods returned out by us to our suppliers.

These are recorded in a separate T account and deducted from purchases in the trading account.

Dr Payables/Bank

Cr Returns outwards (or Purchases)

Carriage inwards: the cost of transporting goods from our suppliers to us, i.e. the cost of transporting *in* to us.

These are recorded in a separate T account and added to purchases in the trading account.

Dr Carriage inwards

Cr Bank

Carriage outwards: the cost of transporting goods to our customers, i.e. the cost of transporting *out* from us.

These are recorded in a separate T account and included in expenses in the statement of profit or loss.

Dr Carriage outwards

Cr Bank

Goods withdrawn by the owner: the cost price of goods withdrawn by the owner for their own use (i.e. for personal consumption).

These are recorded in a separate T account and deducted from purchases in the trading account.

Dr Drawings

Cr Purchases

- Sales returns are netted off against sales in the trading account.
- Purchase returns are netted off against purchases within cost of sales.
- Goods withdrawn by the owner are deducted from purchases.
- Carriage inwards costs are added within cost of sales.
- Carriage outwards costs are a business expense included below gross profit.

SESSION SUMMARY

- If a trade discount is offered, then the purchase or sale is recorded at the discounted amount.
- When a cash discount is offered, then the purchase or sale is recorded at the full amount.
- When the cash is paid or received, it will be known whether the cash discount is being taken and therefore it is at this point that the discount is recorded.
- Discounts allowed are an expense in the statement of profit or loss.
- Discounts received are sundry income in the statement of profit or loss.

MULTIPLE-CHOICE QUESTIONS

1 A company received an invoice from ABC for 40 units at \$10 each, less 25% trade discount, these being items purchased on credit and for resale. It paid this invoice minus a cash discount of 2%. Which of the following journal entries correctly records the effect of the whole transaction in the company's books?

		Dr	Cr
		\$	\$
A	ABC	300	
	Purchases		300
	Cash	292	
	Discount allowed	8	
	ABC		300
B	Purchases	300	
	ABC		300
	ABC	300	
	Discount allowed		8
	Cash		292
C	Purchases	300	
	ABC		300
	ABC	300	
	Discount received		6
	Cash		294
D	ABC	400	
	Purchases		400
	Cash	294	
	Discount received	106	
	ABC		400

2 A trader who is not registered for sales tax purposes buys goods on credit. These goods have a list price of \$2,000 and the trader is given a trade discount of 20%. The goods carry sales tax at 20%.

The correct ledger entries to record this purchase are to debit the purchases account and to credit the supplier's account with:

- A** \$1,600
- B** \$1,920
- C** \$2,000
- D** \$2,350

- 3** A business had a balance at the bank of \$2,500 at the start of the month. During the following month it paid for materials invoiced at \$1,000 less trade discount of 20% and cash discount of 10%. It received a cheque from a credit customer in respect of an invoice for \$200, subject to cash discount of 5%.

The balance at the bank at the end of the month was:

- A** \$1,970
- B** \$1,980
- C** \$1,990
- D** \$2,000

- 4** The following is an extract from the trial balance of Arthur's business at the year end:

	Dr	Cr
	\$	\$
Purchases and sales	65,287	73,716
Returns	5,863	3,492

The figure to be shown in the statement of profit or loss for net sales is:

- A** \$59,424
- B** \$61,795
- C** \$67,853
- D** \$70,224

- 5** David had the following balances in his trial balance at the year end:

Opening inventory	\$7,500
Sales	\$85,000
Purchases	\$58,000
Carriage inwards	\$3,000
Carriage outwards	\$2,000
Purchase returns	\$2,500
Sales returns	\$4,600

David's closing inventory at the year end had a value of \$6,000.

The figure to be shown in the statement of profit or loss for cost of sales is:

- A** \$60,000
- B** \$65,000
- C** \$55,400
- D** \$51,900

- 6** Which of the following best explains gross profit?
- A** Gross profit is the profit made by the business for the period
 - B** Gross profit is the trading profit made by the business for the period
 - C** Gross profit is the net cash received from buying and selling in the period
 - D** Gross profit is the difference between sales and purchases for the period
- 7** Martha imports radios and sells them to wholesalers. Her supplier's price includes free delivery of the radios to Southampton port. She transports them herself to her warehouse in London and from there delivers the radios free of charge to her customers. Her cost of sales will include:
- A** purchase price of radios
 - B** purchase price and delivery costs to London
 - C** purchase price and delivery costs to customer
 - D** purchase price and delivery costs to London and to the customer

Session 6

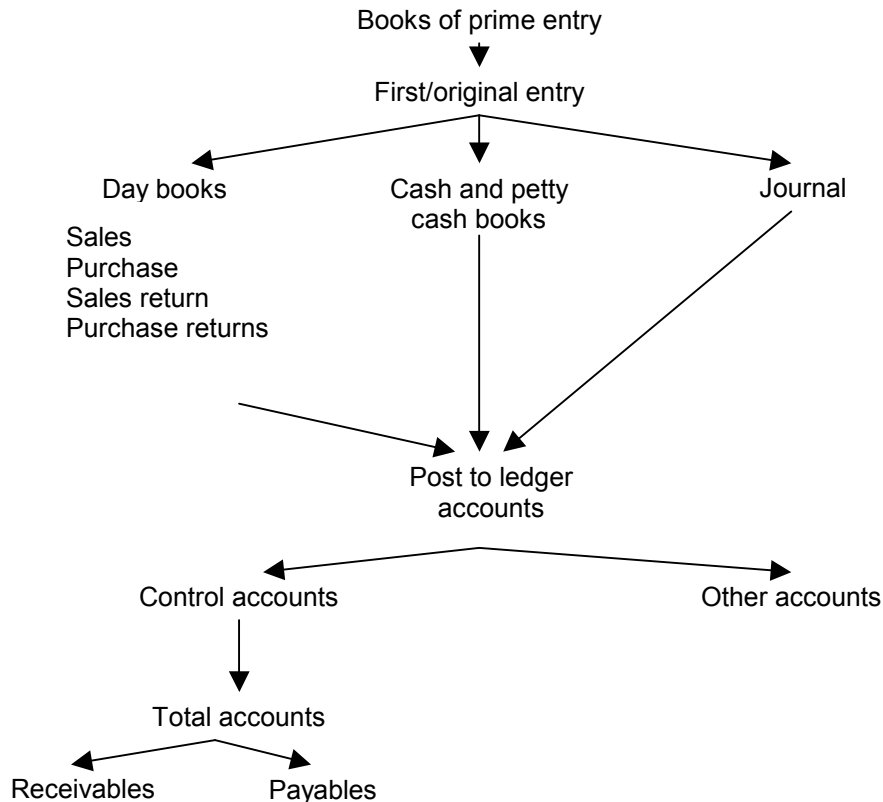
Books of prime entry and control accounts



SYLLABUS CONTENT

- Outline the purpose and content of the books of prime entry including their format
- Explain how transactions are entered in the books of prime entry
- Outline how the books of prime entry integrate with the double entry bookkeeping system
- Enter transactions including the sales tax effect where applicable into the books of prime entry
- Prepare the receivables ledger control account or receivables ledger
- Prepare the payables ledger control account or payables ledger

SESSION CONTENT



Books of prime entry

If we had to make a double entry every time a transaction happened within a business, then our ledger accounts would become very cluttered and it would be difficult to ensure that all entries are being made and being made correctly.

Therefore, transactions are initially recorded in a 'book of prime entry'. A book of prime entry is maintained for several different types of transactions.

Book of prime entry	Transactions recorded
Sales day book	Credit sales
Purchase day book	Credit purchases
Sales returns day book	Returns of goods sold on credit
Purchase returns day book	Returns of goods purchased on credit
Cash book	All bank transactions and discounts
Petty cash book	All small cash transactions
The Journal	See correction of errors

A book of prime entry just lists the relevant transaction. Entries in a book of prime entry are not part of a double entry. But the book of prime entry provides us with the information to make a double entry, i.e. it is the SOURCE for double entries.

Transactions will be listed in a book of prime entry in chronological order. Then every week or month (depending on the volume of transactions), the total of the items listed will be used to make a double entry.

Entries made from day books in a system where separate T accounts are kept for individual receivables and payables

Day book	Total of day book posted to	Each entry in day book posted to
Sales day book	Cr Sales	Dr Individual receivable a/c's
Purchases day book	Dr Purchases	Cr Individual payable a/c's
Sales returns book	Dr Returns inwards	Cr Individual receivable a/c's
Purchases Returns book	Cr Returns outwards	Dr Individual payable a/c's
Cash book		
Receipts	Dr Bank	Cr Individual receivable/Income a/c
Payments	Cr Bank	Dr Individual payable/Expense a/c
Petty cash book	Dr Cash	Cr Sundry income/Bank
	Cr Cash	Dr Sundry expenses/Individual payable a/c

The double entry will be completed in the sales/receivable ledger for individual receivables and the purchase/payables/bought ledger for individual payables.

The double entry for sales/purchases/returns inwards/returns outwards will be completed in the general/nominal ledger.

EXAMPLE 1

Sales day book (SDB)

	\$
Mr X	100
Mr Y	150
Mr Z	200
	———
	450
	———

Required:

Record the above in the business bookkeeping system.

Double entry system

Mr X

———	———
———	———

Mr Y

———	———
———	———

Mr Z	
Sales	

Sales accounting system – with individual accounts kept for each receivable as part of double entry system

Sales day book

Date	Inv	Customer	Ref	\$
4.1.07	1	A. Jones	SL1	2,000
12.1.07	2	A. Jones	SL1	1,000
18.1.07	3	R. Smith	SL2	200
21.1.07	4	D. Adams	SL3	400
Total for January				<u>3,600</u>

A. Jones SL1			
Sales	2,000	Bank	1,960
Sales	1,000	Disc. allowed	40
		Bal c/d	1,000
	<u>3,000</u>		<u>3,000</u>
Bal b/d	1,000		
R. Smith SL2			
Sales	200	Cash	180
		Returns in	20
	<u>200</u>		<u>200</u>
D. Adams SL3			
Sales	400	Bank	200
		Returns in	100
		Bal c/d	100
	<u>400</u>		<u>400</u>
Bal b/d	100		

Cash book – Receipts

Date	Details	Discount allowed	Cash	Bank
16.1.07	A. Jones	40		1,960
22.1.07	R. Smith		180	
26.1.07	D. Adams			200
Total for January		<u>40</u>	<u>180</u>	<u>2,160</u>
memo				

Sales	
Sales day book	3,600
Discounts allowed	
Cash book	40
Returns inwards a/c	
Return in book	120

Receivables balances as at 31.3.07	
	\$
A. Jones	1,000
R. Smith	0
D. Adams	100
	<u>1,100</u>

Returns inwards book				
Date	Credit note	Customer	Ref	\$
22.1.07	1	R. Smith	SL2	20
26.1.07	2	D. Adams	SL3	100
Total for January				<u>120</u>

Purchases accounting system – with individual accounts kept for each payable as part of double entry system

Purchases day book

Date	Inv	Supplier	Ref	\$
2.1.07	1	B. Button	PL1	1,500
10.1.07	2	B. Button	PL1	800
16.1.07	3	S. Morrow	PL2	400
19.1.07	4	M. Brick	PL3	800
Total for January				<u>3,500</u>

B. Button PL1			
Bank	1,600	Purchases	1,500
Disc.	100	Purchases	800
Bal c/d	600		
	<u>2,300</u>		<u>2,300</u>
		Bal b/d	600

S. Morrow PL2			
Cash	300	Purchases	400
Returns	100		
	<u>400</u>		<u>400</u>

M. Brick PL3			
Bank	500	Purchases	800
Returns	50		
Bal c/d	250		
	<u>800</u>		<u>800</u>
		Bal b/d	250

Cash book - Payments

Date	Details	Discount received	Cash	Bank
12.1.07	B. Button	100		1,600
20.1.07	S. Morrow		300	
26.1.07	M. Brick			500
Total for January		<u>100</u>	<u>300</u>	<u>2,100</u>
		memo		

Purchases	
Purchase day book	3,500
Discounts received	
Cash book	100
Returns outwards a/c	
Return out book	150

Payables balances as at 31.3.07	
	\$
B. Button	600
S. Morrow	0
M. Brick	250
	<u>850</u>

Returns outwards book				
Date	Credit note	Supplier	Ref	\$
20.1.07	1	S. Morrow	PL2	100
22.1.07	2	M. Brick	PL3	50
Total for January				<u>150</u>

PETTY CASH BOOK

In this book the business will record small cash transactions.

The cash receipts will be recorded together with the payments which will be analysed in the same way as a cash book.

An imprest system will be adopted for the petty cash book.

An amount is withdrawn from the bank account which is referred as a 'petty cash float'.

This 'float' will be used to pay for the various sundry expenses. The petty cash book cashier will record any payments.

Any expenditure must be evidenced by an expense receipt and the petty cashier will attach a petty cash voucher to each expense.

At any point in time the cash together with the expense vouchers should agree to the total float.

At the end of the period the petty cash float is 'topped up' by withdrawing an amount from the bank totalling the petty cash payment made during the period.

CONTROL ACCOUNTS

If a system is maintained where receivables and payables accounts are kept for each individual, then to determine how much is owed by receivables in total and to payables in total it is necessary to add up the balances in the receivables and payables ledger. This could be very time consuming.

To avoid this problem, some businesses will maintain a **total receivables** account called the **receivables ledger control account** and a **total payables** account called the **payables ledger control account**.

When control accounts are maintained, the flow of information from the books of prime entry works slightly differently:

Day book	Total of day book posted to		Each entry posted to
Sales day book	Cr Sales	Dr Receivables ledger control a/c	Individual receivables a/c's
Purchases day book	Dr Purchases	Cr Payables ledger control a/c	Individual payables a/c's
Sales returns book	Dr Returns inwards	Cr Receivables ledger control a/c	Individual receivables a/c's
Purchases returns book	Cr Returns outwards	Dr Payables ledger control a/c	Individual payables a/c's
Cash book			
Receipts	Dr Bank	Cr SLCA	Individual receivables a/c's
Payments	Cr Bank	Dr PLCA	Individual payables a/c's

The control accounts are part of the double entry. Since the control accounts duplicate the information contained within the sales and payables ledger, the sales and payables ledgers can no longer be part of double entry and are now just for memorandum purposes. The sales and payables ledger are still maintained since it is useful for businesses to be able to easily determine how much credit customers owe in total and how much an individual credit customer owes and similarly for payables.

EXAMPLE 2

Sales day book

	\$
Mr X	100
Mr Y	150
Mr Z	200
	——
	450
	——

Required:

Record the above in the business bookkeeping system.

Double entry system

Receivables ledger control

Sales

Receivables ledger (memorandum)

Mr X

<hr/>	
<hr/>	<hr/>
<hr/>	<hr/>

Mr Y

<hr/>	
<hr/>	<hr/>
<hr/>	<hr/>

Mr Z

<hr/>	
<hr/>	<hr/>
<hr/>	<hr/>

Sales accounting system – with control accounts as part of double entry system

Sales day book

Date	Inv	Customer	Ref	\$
4.1.07	1	A. Jones	SL1	2,000
12.1.07	2	A. Jones	SL1	1,000
18.1.07	3	R. Smith	SL2	200
21.1.07	4	D. Adams	SL3	400
Total for January				<u>3,600</u>

Receivables ledger/Receivables ledger

A Jones SL1			
Sales	2,000	Bank	1,960
Sales	1,000	Disc. allowed	40
		Bal c/d	<u>1,000</u>
	<u>3,000</u>		<u>3,000</u>
Bal b/d	1,000		
R. Smith SL2			
Sales	200	Cash	180
		Returns in	20
	<u>200</u>		<u>200</u>
D. Adams SL3			
Sales	400	Bank	200
		Returns in	100
		Bal c/d	<u>100</u>
	<u>400</u>		<u>400</u>
Bal b/d	100		

Cash book – Receipts

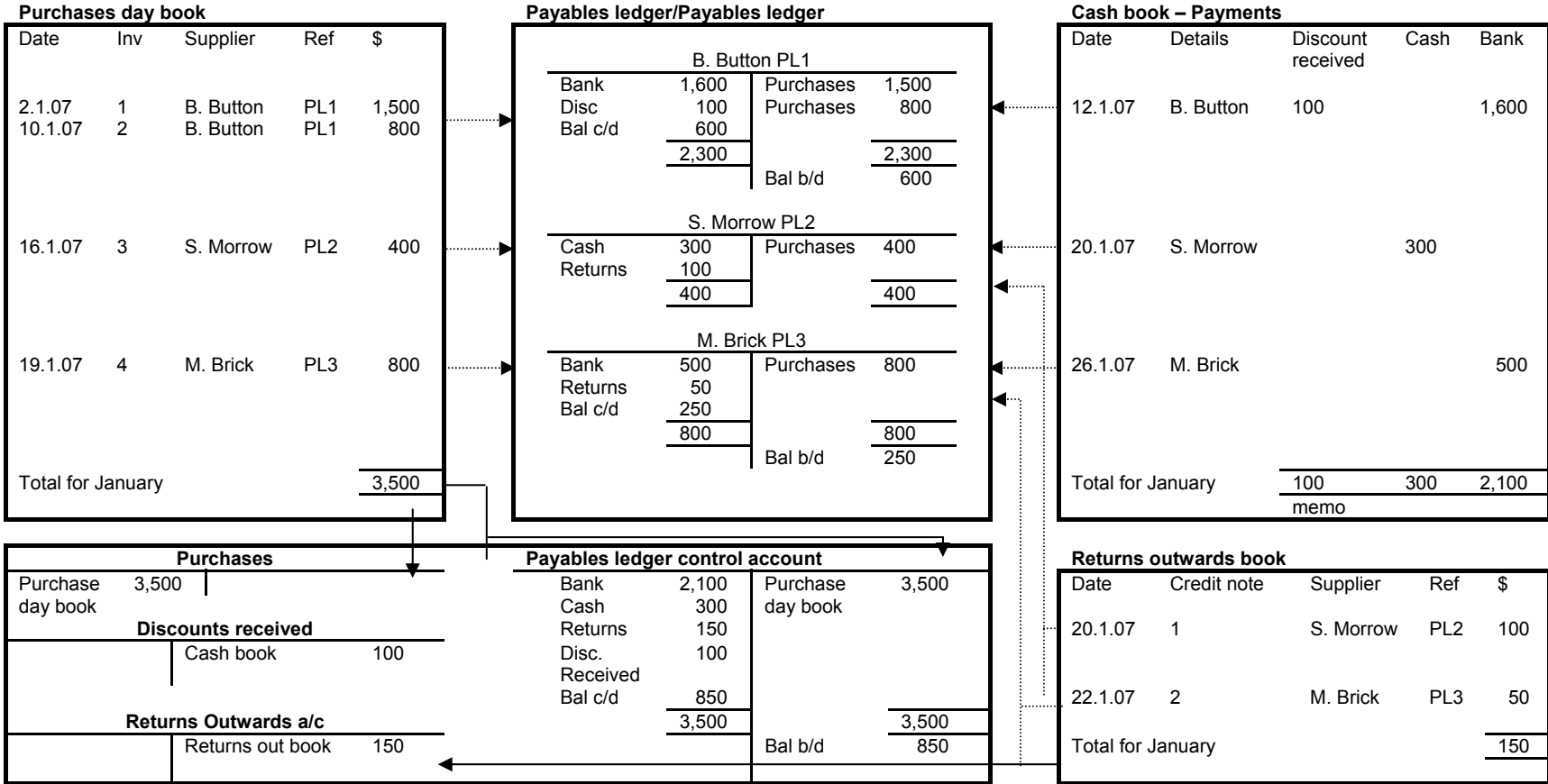
Date	Details	Discount allowed	Cash	Bank
16.1.07	A. Jones	40		1,960
22.1.07	R. Smith		180	
26.1.07	D. Adams			200
Total for January		<u>40</u>	<u>180</u>	<u>2,160</u>
	memo			

Sales	
Sales day book	3,600
Discounts allowed	
Cash book	40
Returns inwards a/c	
Return in book	120

Receivables ledger control account			
Sales day book	3,600	Disc allowed	40
		Bank	2,160
		Cash	180
		Returns in	120
		Bal c/d	<u>1,100</u>
	<u>3,600</u>		<u>3,600</u>
Bal b/d	1,100		

Returns inwards book				
Date	Credit note	Customer	Ref	\$
22.1.07	1	R. Smith	SL2	20
26.1.07	2	D. Adams	SL3	100
Total for January				<u>120</u>

Purchases accounting system – with control accounts as part of double entry system



Receivables with credit balances

Sometimes a receivables account may show a credit balance, i.e. we owe him money. These are usually small amounts and arise when:

- overpayment is made by customer
- credit notes are issued for goods fully paid for
- payment is received in advance of raising invoices.

Payables accounts may also show debit balances for similar reasons.

Contra entries

The situation may arise when a customer is also a supplier. Instead of both owing each other money, it may be agreed that the balances are contra'd (i.e. cancelled).

EXAMPLE 3

Bob is both a customer and supplier. He owes us \$75 and we owe him \$100. We have agreed to 'contra' these balances, i.e. we are going to set off these balances so that we owe Bob \$25 and he doesn't owe us anything.

Required:

Record the above in the ledger accounts of the business.

Receivables ledger – Bob

--	--

Payables ledger – Bob

--	--

The contra must also be reflected in the control accounts.

Dr Payables ledger control account

Cr Receivables ledger control account

PROFORMA CONTROL ACCOUNTS

The control accounts may contain any of the following entries:

Receivables ledger control account			
Bal b/d (given)	x	Bal b/d (given)	x
Credit sales (SDB)	x	Sales returns (SRDB)	x
Bank (CB – dishonoured cheques)	x	Bank (CB)	x
Bank (CB – refunds of credit balances)	x	Discounts allowed (CB)	x
Interest charged	x	Bad debts (Journal)	x
Bad debts recovered	x	Contra (PLC – journal)	x
Bal c/d (given)	x	Bal c/d (to be derived)	x
	—		—
	x		x
	—		—
Bal b/d (to be derived)	x	Bal b/d (given)	x
SDB = Sales day book		SRDB = Sales return day book	
CB = Cash book		PLC = Payables ledger control account	

Payables ledger control account			
Bal b/d (given)	x	Bal b/d (given)	x
Bank (CB)	x	Credit purchases (PBD)	x
Purchase returns (PRDB)	x		
Discounts received(CB)	x	Bank (CB – refunds of debit balances)	x
Contra (SLC – journal)	x		
Bal c/d (to be derived)	x	Bal c/d (given)	x
	—		—
	x		x
	—		—
Bal b/d (given)	x	Bal b/d (to be derived)	x
SLC = Receivables ledger control account		PDB = Purchase day book	
		PRDB = Purchase return day book	

EXAMPLE 4

Jones prepares monthly sales and payables ledger control accounts. At 1 November 2006 the following balances existed in the company's records.

	Dr	Cr
	\$	\$
Receivables ledger control account	54,000	1,000
Payables ledger control account	200	43,000

The following information is extracted in November 2006 from the company's records:

	\$
Credit sales	251,000
Cash sales	34,000
Credit purchases	77,000
Cash purchases	29,000
Sales returns	11,000
Purchases returns	3,000
Amounts received from credit customers	242,000
Dishonoured cheques	500
Amounts paid to credit suppliers	74,000
Cash discounts allowed	3,000
Cash discounts received	2,000
Bad debts written off	1,000
Increase in allowances for receivables	1,200
Refunds to credit customers	500
Interest charged to customers	1,400
Contra settlements	800

At 30 November 2006 the balances in the sales and payables ledgers, as extracted, totalled:

	Dr	Cr
	\$	\$
Receivables ledger balances	To be calculated	2,000
Payables ledger balances	200	To be calculated

Required:

Prepare the receivables ledger control account and the payables ledger control account for the month of November 2006 to determine the closing debit and closing credit balances on the receivables ledger control account and payables ledger control account respectively.

Receivables ledger control account

2006	\$	2006	\$
1 Nov Balance b/d	.....	1 Nov Balance b/d	.....
Credit sales	.....	Sales returns	.....
Bank (dishonoured cheques)	.....	Bank/Cash	.....
Bank (refunds)	.....	Cash discounts allowed	.....
Interest charged	.....	Bad debts	.....
	.....	Payables control (contra)	.....

30 Nov Balance c/d	<u>.....</u>	30 Nov Balance c/d	<u>.....</u>

1 Dec Balance b/d	.....	1 Dec Balance b/d	.....
(derived)			

Payables ledger control account

2006	\$	2006	\$
1 Nov Balance b/d	.....	1 Nov Balance b/d	.....
Purchase returns	.....	Credit purchases	.....
Cash/Bank	.....		.....
Cash discount received	.....		.....
Receivables control (contra)	.....		.....

30 Nov Balance c/d	.....	30 Nov Balance c/d	.....

1 Dec Balance b/d	.....	1 Dec Balance b/d (derived)	.....

EXAMPLE 5

Dustin the bookkeeper for Zig and Zag is encountering problems because his trial balance will not balance. He has decided to ask you to prepare the purchase and receivables ledger control accounts in order to locate the error(s).

Dustin supplies you with the following information and he wishes to know if the error(s) is in either the sales or purchases accounts.

2006

Jan 1	Opening payables ledger and control balances	\$11,874
	Opening receivables ledger and control balances	\$19,744
Totals for the year 2006		
	Purchase day book	\$154,562
	Sales day book	\$199,662
	Returns outwards book	\$2,648
	Returns inwards book	\$4,556
	Cheques paid to suppliers	\$146,100
	Cash paid to suppliers	\$78
	Cheques and cash received from customers	\$185,960
	Discount allowed	\$5,830
	Discount received	\$2,134
	Balances on the receivables ledger set off against balances in the payables ledger	\$1,036
Dec 31	The list of balances from the payables ledger shows a total of \$14,530 and from the receivables ledger is a total of \$22,024.	

Required:

Prepare the receivables ledger control account.

Prepare the payables ledger control account.

Tell Dustin where to investigate to balance his trial balance.

SESSION SUMMARY

- Books of prime entry/original/first entry.
- Comprises day books, cash/petty cash book and the journal.
- Entries from books of prime entry are posted to the individual credit customer/suppliers accounts and the sales/purchase/sales returns/purchases returns accounts.
- Entries posted to receivables ledger/purchases control accounts and thus individual credit customer/suppliers will be treated as memorandum entries.
- Receivables ledger control account is an asset account.
- Payables ledger control is a liability account.
- Learn format of control accounts.

MULTIPLE-CHOICE QUESTIONS

- 1** A book of prime entry is one in which:
- A** the rules of double entry bookkeeping do not apply
 - B** ledger accounts are maintained
 - C** subsidiary records are kept
 - D** transactions are entered prior to being recorded in the ledger accounts
- 2** What double entry should be made with the total of the sales returns day book?
- A** Dr Receivables ledger control account
Cr Sales returns
 - B** Dr Sales returns
Cr Receivables ledger control account
 - C** Dr Sales returns
Cr Payables ledger control account
 - D** Dr Returns outwards
Cr Receivables ledger control account

- 3** Which of the following is not the purpose of a receivables ledger control account?
- A** A receivables ledger control account provides a check on the arithmetic accuracy of the personal ledger
 - B** A receivables ledger control account helps to locate errors in the trial balance
 - C** A receivables ledger control account ensures that there are no errors in the personal ledger
 - D** Control accounts deter fraud
- 4** Which *one* of the following is a book of prime entry *and* part of the double-entry system?
- A** The journal
 - B** The petty cash book
 - C** The sales day book
 - D** The payables ledger
- 5** On 1 January 2007 the balance of receivables was \$22,000. Calculate the closing receivables after taking the following into consideration:

	\$
Sales	120,000
Bank receipts	115,000
Discount allowed	1,000
Discount received	3,000
Dishonoured cheque	9,000
Contra – Set off	5,000

- A** 30,000
- B** 23,000
- C** 12,000
- D** 28,000

Session 7

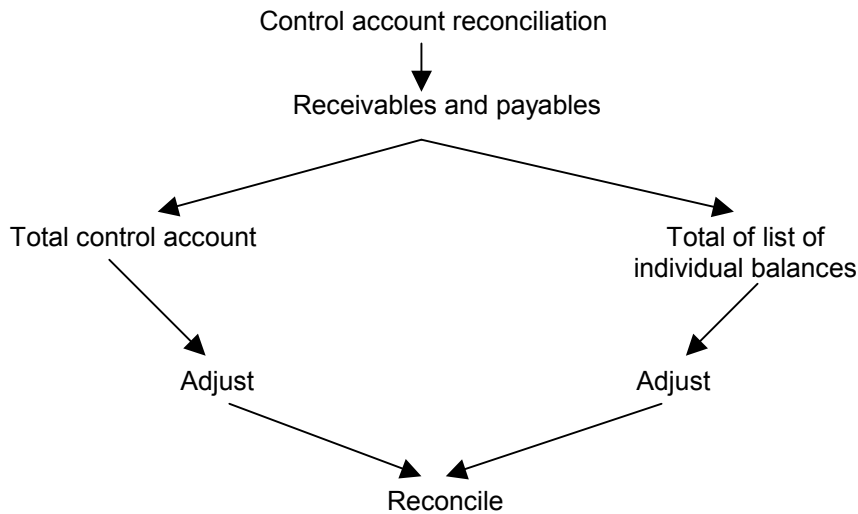
Control account reconciliations



SYLLABUS CONTENT

- Describe the purpose of control accounts as a checking device to aid management and help identify bookkeeping errors
- Explain why it is important to reconcile control accounts regularly and deal with discrepancies quickly and professionally
- Reconcile the balance on the receivables control account with the list of balances
- Reconcile the balance on the payables control account with the list of balances

SESSION CONTENT



Introduction

In an accounting system where control accounts are maintained, if transactions have all been recorded correctly, then:

Bal b/d per receivables ledger control a/c = Total of bal b/d per receivables ledger individual accounts

and

Bal b/d per payables ledger control a/c = Total of bal b/d per payables ledger individual accounts

We can therefore perform a check of our accounting records by ensuring that the above holds. This is called control account reconciliation.

Mistakes in accounting systems with control accounts

EXAMPLE 1

For each of the following mistakes, determine whether the receivables ledger control account is affected, the list of balances per the receivables ledger is affected or both are affected:

- (a) The sales day book has been overcast.
- (b) A sales invoice has been incorrectly recorded in the sales day book.
- (c) A debit balance on an individual customer's account has been omitted from the list of balances per the receivables ledger.

Sales accounting system – with control accounts – mistake in casting day book

Sales day book

Date	Inv	Customer	Ref	\$
4.1.07	1	A. Jones	SL1	2,000
12.1.07	2	A. Jones	SL1	1,000
18.1.07	3	R. Smith	SL2	200
21.1.07	4	D. Adams	SL3	400
Total for January				<u>8,600</u>

Overcast by \$5,000

Receivables ledger/Receivables ledger

A. Jones SL1			
Sales	2,000	Bank	1,960
Sales	1,000	Disc. allowed	40
		Bal c/d	1,000
	<u>3,000</u>		<u>3,000</u>
Bal b/d	1,000		
R. Smith SL2			
Sales	200	Cash	180
		Returns in	20
	<u>200</u>		<u>200</u>
D. Adams SL3			
Sales	400	Bank	200
		Returns in	100
		Bal c/d	100
	<u>400</u>		<u>400</u>
Bal b/d	100		

Cash book – Receipts

Date	Details	Discount allowed	Cash	Bank
16.1.07	A. Jones	40		1,960
22.1.07	R. Smith		180	
26.1.07	.D Adams			200
Total for January		<u>40</u>	<u>180</u>	<u>2,160</u>

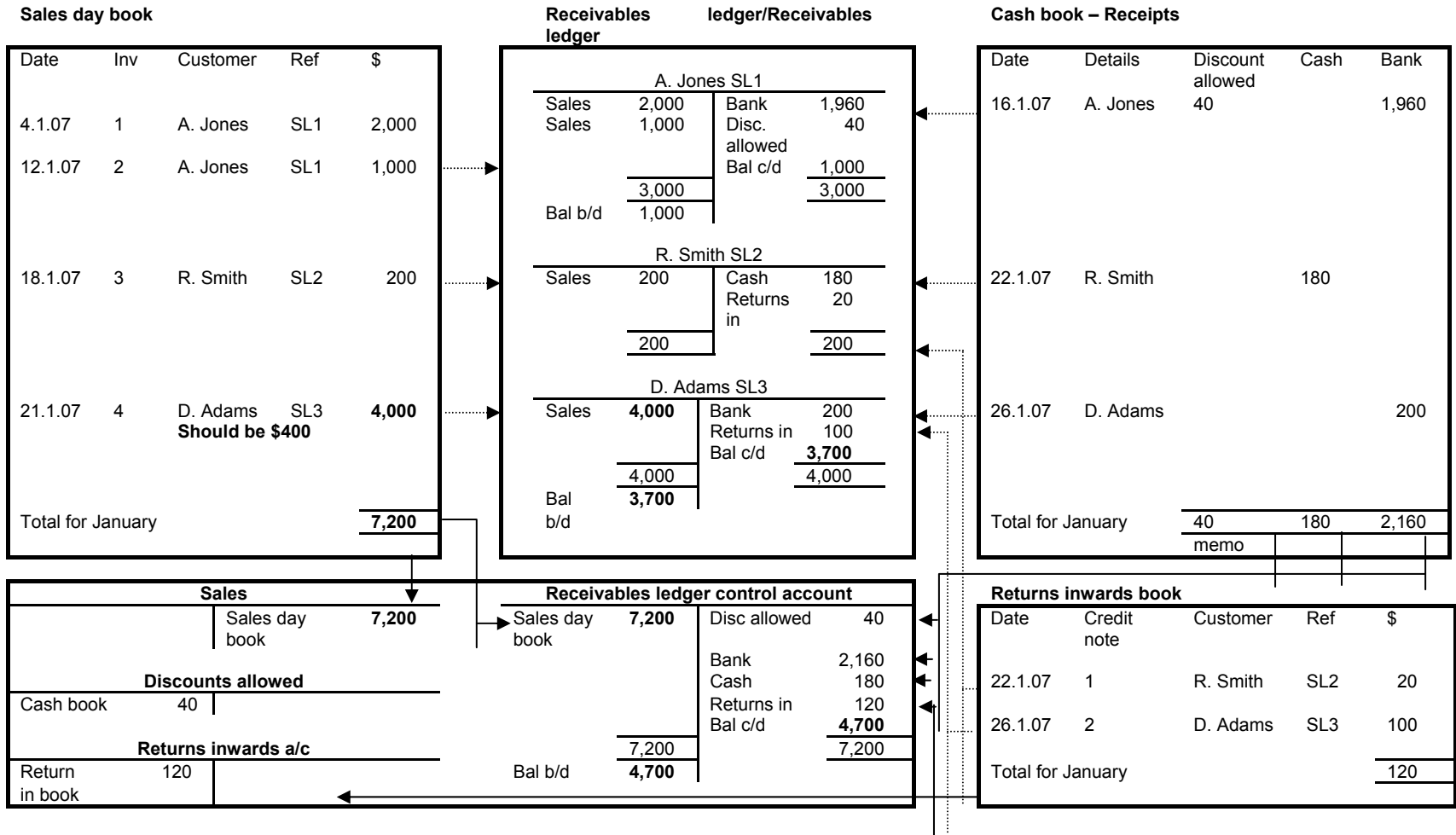
memo

Sales		Receivables ledger control account	
Sales day book	8,600	Sales day book	8,600
Discounts allowed		Disc allowed	40
Cash book	40	Bank	2,160
Returns inwards a/c		Cash	180
Return in book	120	Returns in	120
		Bal c/d	6,100
		<u>8,600</u>	<u>8,600</u>
		Bal b/d	6,100

Returns inwards book

Date	Credit note	Customer	Ref	\$
22.1.07	1	R Smith	SL2	20
26.1.07	2	D Adams	SL3	100
Total for January				<u>120</u>

Sales accounting system – with control accounts – mistake in initial recording of transaction



CONTROL ACCOUNT RECONCILIATIONS

EXAMPLE 2

The total balances extracted from Ben's receivables ledger on 31 March 2006 amounted to \$13,000 which did not agree with the balance on the receivables ledger control account of \$15,000.

The following errors were identified:

- 1 James' ledger account had been credited for goods returned by him, price \$100, but no other entry has been made.
- 2 The sales day book had been overcast by \$500.
- 3 Debit balances on the receivables ledger amounting to \$1,600 have been omitted from the list of balances.
- 4 A contra entry of \$200 has not been recorded in the control accounts.
- 5 Credit balances on the receivables ledger amounting to \$900 have been omitted from the list of balances.
- 6 Debit balances totalling \$250 have been listed as credit balances in the list of balances per the receivables ledger.

Required:

Prepare the receivables ledger control account and the reconciliation of the individual total receivables ledger balances with the control account.

Receivables ledger control account

	\$
Total of list of balances per receivables ledger	

EXAMPLE 3

The net total balances extracted from Paul's payables ledger on 31 March 2006 amounted to \$12,320 which did not agree with the balance on the payables ledger control account of \$13,014.

A detailed examination revealed the following errors:

- 1 A debit balance of \$40 in the payables ledger has been listed as a credit balance.
- 2 James' ledger account had been debited for goods returned to him, price \$90, but no other entry has been made.
- 3 The purchase day book had been overcast by \$100.
- 4 Credit balances on the payables ledger amounting to \$480 and debit balances amounting to \$24 have been omitted from the balances.
- 5 A payment of \$8 to Ann for a cash purchase of goods had been recorded in the petty cash book and posted to her account in the payables ledger, no other entry has been made.
- 6 The transfer of \$120 from John's account in the receivables ledger to the debit of his account in the payables ledger had not been entered in the control account.

Required:

Make the necessary corrections to the payables ledger control account.

A statement to adjust the payables ledger balance, this should agree with your corrected control account balance.

SESSION SUMMARY

- Control account reconciliations involve comparing the balance per the sales/payables ledger control account to the sum of the balances per the sales/payables ledger and ensuring that the two agree.
- For each error, consider whether that error affects the control account only, the list of ledger balances only, or both.
- Casting errors in a day book will only ever affect the control account.
- Invoices that have been recorded in the day book incorrectly will affect both the control account and the list of balances.
- Debit/Credit balances omitted from the list of balances will only affect the list of balances. Be careful as to whether debit balances or credit balances should be added or subtracted to the list of balances.
- Debit balances that have been listed as credit balances (or vice versa) will only affect the list of balances. Double up the amount and then add or subtract as appropriate.

MULTIPLE-CHOICE QUESTIONS

- 1** A receivables ledger control account had a closing balance of \$8,500. It contained a contra to the payables ledger of \$400, but this had been entered on the wrong side of the control account.
- The correct balance on the control account should be:
- A** \$7,700 debit
 - B** \$8,100 debit
 - C** \$8,400 debit
 - D** \$8,900 debit
- 2** The receivables ledger control account at 1 May had balances of \$32,750 debit and \$1,275 credit. During May sales of \$125,000 were made on credit. Receipts from receivables amounted to \$122,500 and cash discounts of \$550 were allowed. Refunds of \$1,300 were made to customers. The closing credit balance is \$2,000. The closing debit balances at 31 May should be:
- A** \$35,175
 - B** \$35,675
 - C** \$36,725
 - D** \$34,725

- 3** A supplier sends you a statement showing a balance outstanding of \$14,350. Your own records show a balance outstanding of \$14,500.

The reason for this difference could be that:

- A** the supplier sent an invoice for \$150 which you have not yet received
 - B** the supplier has allowed you \$150 cash discount which you had omitted to enter in your ledgers
 - C** you have paid the supplier \$150 for which he has not yet accounted
 - D** you have returned goods worth \$150 for which the supplier has not yet accounted
- 4** A credit balance of \$917 brought down on Y's account in the books of X means that:
- A** X owes Y \$917
 - B** Y owes X \$917
 - C** X has paid Y \$917
 - D** X is owed \$917 by Y

Session 8

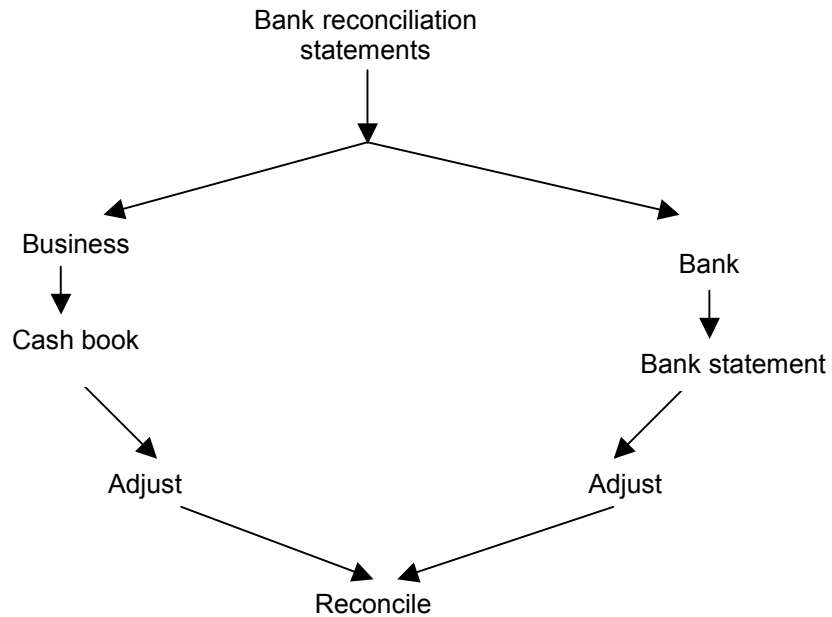
Bank reconciliation statements



SYLLABUS CONTENT

- Reconcile a bank statement with the cash book.

SESSION CONTENT



Introduction

The objective of bank reconciliations is to reconcile the difference between:

- the cash book balance, i.e. the businesses' record of their bank account; and
- the bank statement balance, i.e. the bank's records of the bank account.

Debits and credits in bank statements

EXAMPLE 1			
Record the fact that Helen has \$1,000 in her bank account in Helen's books and then in the bank's books.			
Helen's books		Bank's books	

Conclusion

Debits and credits are reversed in bank statements because the bank will be recording the transaction from its point of view, in accordance with the business entity concept

DIFFERENCES BETWEEN THE BANK STATEMENT AND THE CASH BOOK

EXAMPLE 2

Items in the bank statements, not yet recorded in the cash book

Which side of the cash book?

Dr

Cr

- Bank charges
- Direct debits/Standing orders
- Direct credits
- Dishonoured cheques

The cash book balance needs to be adjusted for these items.

Items in the cash book, not yet recorded in the bank statement:

- Outstanding/unpresented cheques
- Outstanding/uncleared lodgements.

The bank statement balance needs to be adjusted for these items:

Balance per bank statement	X
• Less: Outstanding/unpresented cheques	(X)
Add: Outstanding/uncleared lodgements	X
	—
Balance per cash book (revised)	X
	—

Errors in the cash book

The client may make a mistake in their cash book. The cash book balance will need to be adjusted for these items.

Errors in the bank statement

The bank may make a mistake, e.g. record a transaction relating to a different person within our clients bank statement. The bank statement balance will need to be adjusted for these items.

PROFORMA BANK RECONCILIATION

Cash book			
Bal b/d	X		
Adjustments	X	Adjustments	X
		Revised bal c/d	X
	—		—
	X		X
	—		—
Revised bal b/d	X		

Bank reconciliation statement as at

	\$
Balance per bank statement	X
Outstanding cheques	(X)
Outstanding lodgements	X
Other adjustments to the bank statement	X/(X)
	—
Balance per cash book (revised)	X
	—

Additional notes

- Beware of overdrawn balances on the bank statement.
- Beware of debits/credits to bank statements.
- Beware of aggregation of deposits in a bank statement.
- Beware that the bank balance on the statement of financial position is always the balance per the revised cash book.

EXAMPLE 3

Angus' cash book and bank statement for the month of July are as follows:

Cash book

1 July	Bal b/d	9,670	3 July	Grey's supplies	1,340
15 July	D. Osprey	450	12 July	White's stationery	250
15 July	M. Jones	1,900	30 July	Green's	980
28 July	G. Smith	670			
			31 July	Bal c/d	10,120
		12,690			12,690
	Bal b/d	10,120			

Bank statement

Date		Dr	Cr	Balance
1 July				9,850
2 July	Cheque	180		9,670
6 July	Cheque	1,340		8,330
10 July	Interest		40	8,370
12 July	Cheque	250		8,120
18 July	Cheque receipts		2,350	10,470
20 July	Electricity DD	120		10,350
26 July	Direct credits/BACS		700	11,050

Prepare a bank reconciliation statement as at 31 July.

Cash book

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Bank reconciliation statement as at 31 July

	\$	
Balance per bank statement	.....
Less: Unpresented cheque	.....
Add: Uncleared lodgement	.....
Balance per cash book	.....
	
	

EXAMPLE 4

The following information has been extracted from the records of N. Patel:

Bank account

		\$	Chq. no.	\$
1 Dec	Balance b/d	16,491	1 Dec	Alexander 782 857
2 Dec	Able	962	6 Dec	Burgess 783 221
	Baker	1,103	14 Dec	Barry 784 511
10 Dec	Charlie	2,312	17 Dec	Cook 785 97
14 Dec	Delta	419	24 Dec	Hay 786 343
21 Dec	Echo	327	29 Dec	Rent 787 260
23 Dec	Cash sales	529		
30 Dec	Fred	119		
		22,262	31 Dec	Balance c/d 19,973
		22,262		22,262

High Street Bank

Bank Statement – N. Patel

Date	Details	Withdrawals	Deposits	Balance
		\$	\$	\$
1 December	Balance b/f			17,478
2 December	780	426		
2 December	781	737		16,315
2 December	Deposit		176	16,491
5 December	782	857		
5 December	Bank charges	47		15,587

6 December	Deposit		2,065	17,652
10 December	Standing order (rates)	137		17,515
11 December	783	212		17,303
13 December	Deposit		2,312	19,615
17 December	784	511		19,104
17 December	Deposit		419	19,523
23 December	Deposit		327	19,850
24 December	Deposit		528	20,378
28 December	786	343		20,035
30 December	310923	297		19,738
31 December	Balance c/f			19,738

Required:

- Prepare a bank reconciliation statement at 1 December.
- Update the cash book for December.
- Prepare a bank reconciliation statement at 31 December.
- Why do we prepare a monthly reconciliation statement?
- Comment briefly upon any aspects of your reconciliation which will require further investigation.

SESSION SUMMARY

These are the steps to completing a bank reconciliation statement:

- Tick off the common entries (tick from the cash book to the bank statement).
- Ensure that the opening balances can be reconciled:

If the opening balances do not agree, identify the outstanding items from the previous month. Establish the first cheque number of the current month – all previous cheque numbers are outstanding cheques. If there is still a difference, look at the first lodgements of the month. Tick off these outstanding items in the bank statement.

- Update the cash book with unticked items on the bank statement.
- Enter outstanding items in the reconciliation statement, i.e. unticked items in the cash book.
- Correct any errors and complete the reconciliation statement.

MULTIPLE-CHOICE QUESTIONS

- 1** The following information relates to a bank reconciliation.
- (i) The bank balance in the cash book before taking the items below into account was \$5,670 overdrawn.
 - (ii) Bank charges of \$250 on the bank statement have not been entered in the cash book.
 - (iii) The bank has credited the account in error with \$40 which belongs to another customer.
 - (iv) Cheque payments totalling \$325 have been correctly entered in the cash book, but have not been presented for payment.
 - (v) Cheques totalling \$545 have been correctly entered on the debit side of the cash book, but have not been paid in at the bank.

What was the balance as shown by the bank statement before taking the items above into account?

- A** \$5,670 overdrawn
- B** \$5,600 overdrawn
- C** \$5,740 overdrawn
- D** \$6,100 overdrawn

- 2** At 31 August 2005 the balance on the company's cash book was \$3,600 credit. Examination of the bank statements revealed the following:

- Standing orders amounting to \$180 had not been recorded in the cash book.
- Cheques paid to suppliers of \$1,420 did not appear on the bank statements.

What was the balance on the bank statement at 31 August 2005?

- A** \$5,200 o/d
- B** \$5,020 o/d
- C** \$2,360 o/d
- D** \$3,780 o/d

3 An organisation's cash book has an operating balance of \$485 credit. The following transactions then took place:

- cash sales \$1,450 including sales tax of \$242
- receipts from customers of debts of \$2,400
- payments to payables of debts of \$1,800 less 5% cash discount
- dishonoured cheques from customers amounting to \$250.

The resulting balance in the bank column of the cash book should be:

- A** \$1,255 debit
- B** \$1,405 debit
- C** \$1,905 credit
- D** \$2,375 credit

4 The cash book shows a bank balance of \$5,675 overdrawn at 31 March 2005. It is subsequently discovered that a standing order for \$125 has been entered twice and that a dishonoured cheque for \$450 has been debited in the cash book instead of credited.

The correct bank balance should be:

- A** \$5,100 overdrawn
- B** \$6,000 overdrawn
- C** \$6,250 overdrawn
- D** 450 overdrawn

Session 9

Payroll



SYLLABUS CONTENT

- Prepare and enter the journal entries in the general ledger to process payroll transactions
- Identify the different payment methods in a payroll system, e.g. cash, cheques, automated payment
- Explain why authorisation of payroll transactions and security of payroll information is important in an organisation.

Gross pay and net pay: deductions

The total amount earned in a week or month by an employee is called their **gross pay**.

This is not the amount of money that the employee receives, because deductions are taken away from the gross pay, and the employee receives just the gross pay less deductions. This is known as the employee's **net pay**.

The deductions from pay are usually a combination of:

- statutory deductions, e.g. income tax and social security; and
- non-statutory/voluntary deductions, e.g. pension contributions.

Processing the payroll

To process the payroll, an employer must, **for each employee**:

- Calculate the gross wage or salary for the period.
- Calculate the income tax payable out of these earnings.
- Calculate the employee's state benefit contributions that are deductible.
- Calculate any non-statutory deductions.
- Prepare a **payslip** showing the gross pay, deductions and net pay.
- Make the payment of net pay to the employee.
- Calculate the employer's state benefit contributions.

For all employees collectively, the employer must:

- Make the payments of all the deductions from pay and the employer's state benefit contributions to the appropriate other organisations.
- Record the payroll costs in the accounting system.

Authorisation

Where an employee is paid on the basis of hours worked, or work done, their pay varies from week to week. It is the payroll department's responsibility to calculate gross pay each payday.

The payroll department can only calculate the gross pay on the basis of the documentation they receive recording the employee's hours of work, which is often documented by the employee. There is therefore a risk that employees can overstate their hours worked to try and earn more income. This would result in them being overpaid.

Any documentation completed by the employee should be authorised by the employee's supervisor, or other person in a managerial capacity. The records should be countersigned to indicate that they have been authorised.

The rate at which an employee is paid will be recorded on payroll records. Only changes to the rates of pay which are authorised and notified through the personnel department should be recorded.

Accounting for payroll

Payroll costs are a form of expenditure for an employer. The totals for each element of the payroll are posted to the main ledger accounts for recording in the accounting system.

The net wages or salaries have to be paid to the employees immediately. The various deductions from pay have to be paid to the outside agencies to which they are payable. These payments are likely to occur some days after the employees have been paid. Any unpaid amounts must initially be recorded as payables.

The basic double entry for wages and salaries is as follows:

Dr payroll expenses (gross payroll cost)	X	
Cr cash payments (net pay to employee)		X
Cr income tax/social security payables		X
Cr pension contribution liabilities		X

EXAMPLE 1

Here are the totals from TTC's January payroll:

Total gross pay	\$6,172.20
Total employer's state benefit	\$488.20
Total income tax	\$1,029.96
Total employees' state benefit	\$445.20
Total net pay	\$4,697.04

Task: Post the above to the relevant main ledger accounts and balance the control account.

EXAMPLE 2

Post the following payroll to the appropriate nominal (*general*) ledger accounts, and balance the control account.

Week 40

<i>Employee</i>	<i>Gross pay</i>	<i>Pension</i>	<i>Income tax</i>	<i>Employees' state benefit</i>	<i>Net pay</i>	<i>Employer's pension</i>	<i>Employer's state benefit</i>
	\$	\$	\$	\$	\$	\$	\$
P Smith	395.00	15.00	57.92	30.85	291.23	15.00	36.71
M Brown	406.25	22.00	64.77	41.33	278.15	15.00	43.82
	801.25	37.00	122.69	72.18	569.38	30.00	80.53

MULTIPLE-CHOICE QUESTIONS

- 1** Wilson has a basic salary of \$2,000 for the month. His income tax on the salary is \$350 and state benefit contributions amount to \$180. His employers also pay state benefit contributions of \$210.

In June Wilson is also entitled to a bonus of \$100 on which no tax or deductions are payable.

How much is Wilson's take-home pay for June?

- A** \$1,260
- B** \$1,360
- C** \$1,540
- D** \$1,570

- 2** Sue earns a basic rate of \$5.00 per hour for a 35-hour week. She is paid time and a half for any additional hours. Last week Sue worked 43 hours.

What is Sue's gross pay for last week?

- A** \$175
- B** \$215
- C** \$235
- D** \$322.50

- 3** From which account are wages and salaries paid directly to employees?

- A** Bank
- B** Payroll
- C** Wages and salaries control
- D** Wages and salaries expense

Session 10

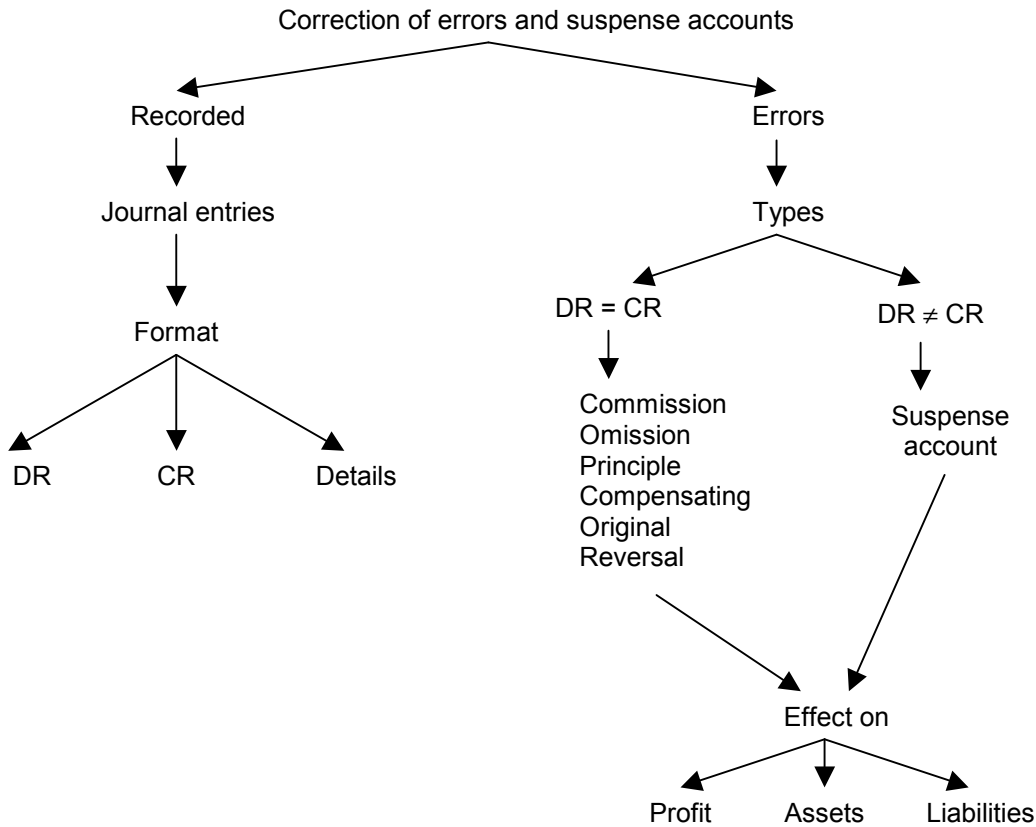
Correction of errors and suspense accounts



SYLLABUS CONTENT

- Identify types of error in a bookkeeping system that are disclosed by extracting a trial balance
- Identify type of error in a bookkeeping system that are not disclosed by extracting a trial balance
- Use the journal to correct errors disclosed by the trial balance
- Use the journal to correct errors not disclosed by the trial balance
- Identify when a suspense account is required and clear the suspense account using the journal
- Redraft the trial balance following correction of all errors.

SESSION CONTENT



THE JOURNAL

The journal is a special day book which records transactions which are not recorded in other day books or elsewhere in the accounting system, i.e. unusual transactions. For example:

- 1 adjustments to the final accounts
- 2 acquisitions and disposals of non-current assets
- 3 opening balances for statement of financial position items
- 4 correction of errors.

It records the double entry of these transactions together with a narrative, i.e. an explanation of the transaction.

Format of a journal

Name of account/s	Dr	Cr
	\$	\$
Being .....(narrative of journal)		

EXAMPLE 1

Jane bought a motor van for \$10,000 and incorrectly debited it to purchases.

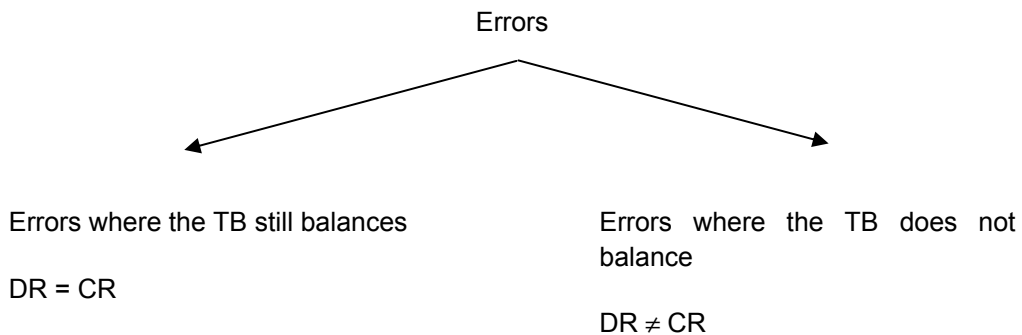
Write out the journal entry to correct this error.

Dr	Cr
\$	\$

TYPES OF ERROR

When we first produced a trial balance we said that it can only provide us with a check that for every debit entry, a corresponding credit entry has been made.

Errors can therefore fall into two categories:



Six errors not detected by the trial balance

The trial balance still balances despite the error having been made. Therefore, even though an error has been made, an equal debit and credit have been recorded.

- 1 Error of omission** – A transaction has been completely omitted from the accounting records.

EXAMPLE 2

A cash sale of \$100 was not recorded.

	Dr	Cr
	\$	\$

- 2 **Error of commission** – A transaction has been posted, i.e. recorded in the correct ledger but in the wrong account.

EXAMPLE 3		
Expenditure of \$360 on rates has been posted to the rent account in error.		
	Dr	Cr
	\$	\$

- 3 **Error of principle** – A transaction has conceptually been recorded incorrectly.

EXAMPLE 4		
The cost of a new car of \$3,400 has been debited to motor expenses.		
	Dr	Cr
	\$	\$

Warning: If any journal affects a non-current asset account then you may also have to correct the annual depreciation charge. However, this can only be done if you are given details of the depreciation policy in the question.

- 4 **Compensating errors** – Two different errors may have been made which cancel each other out.

EXAMPLE 5		
The balance on the sales account is overstated by \$200 due to a casting error.		
A rent bill of \$1,200 has been debited to the rent account as \$1,400.		
	Dr	Cr
	\$	\$

- 5 Error of original entry** – The correct double entry has been made but with the wrong amount.

EXAMPLE 6		
A cash sale of \$76 has been recorded as \$67.		
	Dr	Cr
	\$	\$

This error is an example of a transposition error, i.e. the right numbers but in the wrong order. If a transposition error has occurred the difference between the two numbers is always divisible by 9.

- 6 Reversal of entries** – The correct amount has been posted to the correct accounts but on the wrong side.

EXAMPLE 7		
A cash sale of \$200 has been debited to sales and credited to bank.		
	Dr	Cr
	\$	\$

Six errors detected by the trial balance

These are errors that cause the trial balance not to balance. Since the trial balance does not balance, the debit and credit entries are not equal.

There are six types of error that will be detected by preparing a trial balance:

- Single sided entry – a debit entry has been made but no corresponding credit entry or vice versa.
- Debit and credit entries have been made but at different values.
- Two entries have been made on the same side.
- An incorrect addition in any individual account, i.e. miscasting.
- Opening balance has not been brought down.
- Extraction error – the balance in the trial balance is different from the balance in the relevant account.

Suspense account

If there is a difference on the trial balance, the difference may be recorded in a suspense account. The balance on the suspense account must be cleared before final accounts can be prepared.

It is only when correcting one of the six errors that cause a difference on the trial balance that the suspense account will be affected.

EXAMPLE 8

The trial balance totals are:

Debits	\$99,700
Credits	\$100,000

It has been discovered that the sales balance has been recorded as \$60,800 and that the account has been undercast by \$400.

It has also been discovered that a payment of \$700 for rent has been correctly recorded in the bank account, but no other entry has been made. The rent account currently shows a balance of \$7,700.

Draw up the suspense account, work out the correcting journal entries and show how the suspense account is cleared.

Suspense a/c

_____	_____
_____	_____

Sales

Rent

_____	_____	_____	_____
_____	_____	_____	_____

SESSION SUMMARY

- The journal is a book of prime entry which records the double entry that needs to be made in the ledger accounts for various transactions.
- The following six errors do not stop the trial balance from balancing:
 - error of omission
 - error of commission
 - error of principle
 - compensating errors
 - error of original entry
 - reversal of entries.
- The following six errors do stop the trial balance from balancing:
 - single sided entry
 - two entries but at different values
 - two entries on the same side
 - a casting error in a ledger account
 - an opening balance not brought down
 - extraction errors.
- The suspense account is a temporary account used to record a difference in the trial balance.
- Corrections of errors only involve the suspense account when the error is one of the six that stops the trial balance from balancing.
- When trying to correct an error which involves the suspense account:
 - correct the account(s) which is wrong first
 - take the other side to the suspense account.
- To calculate the effect of a correction on profit, ask:

Does the account end up in the statement of profit or loss?

MULTIPLE-CHOICE QUESTIONS

1 Faulty goods costing \$210 were returned to a supplier, but this was recorded as \$120 in the ledger accounts.

What is the journal entry necessary to correct the error?

	<i>Dr</i>	\$	<i>Cr</i>	\$
A	Suspense	90	Purchases returns	90
B	Purchases	90	Payables	90
C	Payables	90	Suspense	90
D	Payables	90	Purchases returns	90

2 A suspense account was opened when a trial balance failed to agree. The following errors were later discovered:

- a gas bill of \$420 had been recorded in the gas account as \$240
- discount of \$50 given to a customer had been credited to discounts received
- interest received of \$70 had been entered in the bank account only.

The original balance on the suspense account was:

- A** debit \$210
- B** credit \$210
- C** debit \$160
- D** credit \$160

3 Molly starts up in business as a florist on 1 April 2005. For the first six months, she has a draft profit of \$12,355.

On investigation you discover the following:

- Rent paid for the 12 months ending 31 March 2006 of \$800 has not been recorded in the accounts.
- Closing inventory in the accounts at a cost of \$1,000 has a net realisable value of \$800.

What is the adjusted profit for the period?

- A** \$11,355
- B** \$11,755
- C** \$12,155
- D** \$12,555

4 In an accounting system where individual receivables and payables ledger accounts are maintained as an integral part of the double entry, which of the following errors will not be identified by a trial balance?

- A** Overcasting of the sales day book
- B** Undercasting of the analysed cash book
- C** Failure to transfer a non-current asset to the disposal account when sold
- D** Transposition error in an individual receivables account

5 A trial balance has been extracted and a suspense account opened. One error relates to the misposting of an amount of \$400, being a discount received from suppliers, which was posted to the wrong side of the discount received account.

What is the correcting journal entry?

		<i>Dr</i>	<i>Cr</i>
A	Discount received	\$400	
	Suspense		\$400
B	Suspense	\$400	
	Discount received		\$400
C	Discount received	\$800	
	Suspense		\$800
D	Suspense	\$800	
	Discount received		\$800

Solutions to examples and questions



SESSION 1

Answers to multiple-choice questions

- 1 **D** Michael has provided the service for Abdul.
- 2 **A** Abdul has paid immediately by cash for the service 'sold' by Michael.
- 3 **A** Paying for electricity is for the provision of a service rather than a purchase of goods. C and D relate to income rather than payments.
- 4 **B** This is a small payment made for convenience as it prevents the need for a full stationery order. The car repairs (A) is personal expenditure and is not a business payment. Petty cash expenditure is on cash terms so paying for goods supplied on credit cannot be correct. Wages and salaries are for larger amounts than would be paid by petty cash.
- 5 **C** These are all payroll items although not all may apply in all countries.
- 6 **A** Credit note, which serves to decrease the amount owed. The debit note would increase the amount and corrects an underpayment. The despatch note and goods received note do not affect the amount a customer owes the supplier.
- 7 **D** Statement of account. It includes details of invoices and amounts received. The cheque requisition is an internal document used within the customer's business. The advice note is issued before delivery.

SESSION 2

Solution to Example 1

	31 December 2005	31 December 2006
	\$	\$
Opening capital	10,000	12,000
Capital introduced	–	2,000
Profit	5,000	7,000
Drawings	(3,000)	(4,000)
	<hr/>	<hr/>
Closing capital	12,000	17,000
	<hr/>	<hr/>

SESSION 3

Solution to Example 1

The business has capital of \$10,000

AND

The business has cash of \$10,000

Solution to Example 2

- (a) The business has \$10,000 capital
 The business has \$10,000 in the bank
- (b) The business has \$2,000 non-current assets
 The business has \$2,000 less in the bank
- (c) The business has \$500 inventory
 The business has \$500 payables

Solution to Example 3

(a)

Assets		Capital	
Bank	10,000		10,000

(b)

Assets		Capital	
Non-current assets	2,000		10,000
Bank	8,000		
	<hr/>		<hr/>
	10,000		10,000
	<hr/>		<hr/>

(c)

Assets				Liabilities	
Non-current assets	2,000	Capital	10,000	Payables	500
Inventory	500				
Bank	8,000				
	<u>10,500</u>		<u>10,000</u>		<u>500</u>

(d)

Assets				Liabilities	
Non-current assets	2,000	Capital	10,000	Payables	500
Inventory	300	Profit	120		
Bank	8,320				
	<u>10,620</u>		<u>10,120</u>		<u>500</u>

(e)

Assets				Liabilities	
Non-current assets	2,000	Capital	10,000	Payables	500
Inventory	300	Profit	40		
Bank	8,240				
	<u>10,540</u>		<u>10,040</u>		<u>500</u>

(f)

Assets				Liabilities	
Non-current assets	2,000	Capital	10,000	Payables	500
Inventory	200	Profit	90		
Receivables	150				
Bank	8,240				
	<u>10,590</u>		<u>10,090</u>		<u>500</u>

(g)

Assets				Liabilities	
Non-current assets	2,000	Capital	10,000	Payables	500
Inventory	200	Profit	90		
Receivables	150	Drawings	(70)		
Bank	8,170				
	<u>10,520</u>		<u>10,020</u>		<u>500</u>

Solution to Example 4

For each of the following transactions state:

- (a) the two ledger accounts which are affected
- (b) whether the ledger account should be debited or credited.

Oliver invests \$10,000 of his life savings into a business bank account.

Debit	Bank
Credit	Capital

Oliver buys goods from a supplier for \$1,000 and pays by cheque.

Debit	Purchases
Credit	Bank

Oliver makes a sale for \$400 and the customer pays by cheque.

Debit	Bank
Credit	Sales

Oliver makes a sale for \$600 and the customer promises to pay in one month's time.

Debit	Receivables
Credit	Sales

Oliver buys further goods from his supplier for \$500 on credit.

Debit	Purchases
Credit	Payables

Oliver's credit customer returns \$50 worth of goods.

Debit	Sales returns
Credit	Receivables

Oliver pays a telephone bill of \$150 by cheque.

Debit	Telephone
Credit	Bank

Oliver receives an invoice for \$300 of stationery bought on credit.

Debit	Stationery
Credit	Other payables – stationery

The credit customer pays the balance due on her account.

Debit Bank
 Credit Receivables

Oliver pays the amount owed to his supplier.

Debit Payables
 Credit Bank

Oliver receives bank interest income of \$350.

Debit Bank
 Credit Bank interest income

Solution to Example 5

Bank account			
		Capital	150,000
		Premises	100,000
		Motor vehicle	20,000
		Balance c/d	30,000
			150,000
		Balance b/d	30,000

Solution to Example 6

Bank							
(a)	1 Jan	Capital	10,000		2 Jan	Purchases	4,000
	5 Jan	Sales	1,500		3 Jan	Delivery van	2,000
					7 Jan	Payables	800
					8 Jan	Rent	200
					9 Jan	Drawings	100
						Bal c/d	4,400
			11,500				11,500
		Bal b/d	4,400				

Capital

Bal c/d	10,000	1 Jan	Bank	10,000
	<u>10,000</u>			<u>10,000</u>
			Bal b/d	10,000

Purchases

2 Jan	Bank	4,000	Bal c/d	5,000
4 Jan	Payables	1,000		
		<u>5,000</u>		<u>5,000</u>
	Bal b/d	5,000		

Delivery van

3 Jan	Bank	2,000	Bal c/d	2,000
		<u>2,000</u>		<u>2,000</u>
	Bal b/d	2,000		

Payables

7 Jan	Bank	800	4 Jan	Purchases	1,000
	Bal c/d	200			
		<u>1,000</u>			<u>1,000</u>
				Bal b/d	200

Sales

Bal c/d	6,500	5 Jan	Bank	1,500
	<u>6,500</u>	6 Jan	Receivables	5,000
				<u>6,500</u>
			Bal b/d	6,500

Receivables

7 Jan	Sales	5,000		Bal c/d	5,000
		5,000			5,000
	Bal b/d	5,000			

Rent

8 Jan	Bank	200		Bal c/d	200
		200			200
	Bal b/d	200			

Drawings

9 Jan	Bank	100		Bal c/d	100
		100			100
	Bal b/d	100			

(b) **Trial balance as at 9 January**

	Dr	Cr
	\$	\$
Bank	4,400	
Capital		10,000
Purchases	5,000	
Delivery van	2,000	
Payables		200
Sales		6,500
Receivables	5,000	
Rent	200	
Drawings	100	
	16,700	16,700

Solution to Example 7

Cash			
Capital	10,000	Bank	9,000
Sales	700	Purchases	550
		Bal c/d	1,150
	<u>10,700</u>		<u>10,700</u>
Bal b/d	1,150		

Bank			
Cash	9,000	Van	5,000
Loan	1,000	S Holmes	600
		Kingston	1,500
		Bal c/d	2,900
	<u>10,000</u>		<u>10,000</u>
Bal b/d	2,900		

Capital			
		Cash	10,000
Bal c/d	10,000		
	<u>10,000</u>		<u>10,000</u>
		Bal b/d	10,000

Purchases			
Payables	780		
Cash	550		
		Bal c/d	1,330
	<u>1,330</u>		<u>1,330</u>
Bal b/d	1,330		

Payables – S. Holmes			
Returns	180	Purchases	780
Bank	600		
	<u>780</u>		<u>780</u>

Motor vehicles			
Bank	5,000		
		Bal c/d	5,000
	<u>5,000</u>		<u>5,000</u>
Bal b/d	5,000		

Sales			
		Receivable	980
		Cash	700
Bal c/d	1,680		
	<u>1,680</u>		<u>1,680</u>
		Bal b/d	1,680

Receivables – D. Moore			
Sales	980		
		Bal c/d	980
	<u>980</u>		<u>980</u>
Bal b/d	980		

Fixtures			
Payables	1,500		
		Bal c/d	1,500
	<u>1,500</u>		<u>1,500</u>
Bal b/d	1,500		

Payables – Kingston Equipment			
Bank	1,500	Fixtures	1,500
	<u>1,500</u>		<u>1,500</u>

Loan – D. Watson			
		Bank	1,000
Bal c/d	1,000		
	<u>1,000</u>		<u>1,000</u>
		Bal b/d	1,000

Returns outwards			
		Payables	180
Bal c/d	180		
	<u>180</u>		<u>180</u>
		Bal b/d	180

Trial balance as at 31 July	Dr	Cr
	\$	\$
Cash	1,150	
Bank	2,900	
Capital		10,000
Purchases	1,330	
Motor Vehicles	5,000	
Sales		1,680
Receivables – D Moore	980	
Fixtures	1,500	
Loan – D Watson		1,000
Returns outwards		180
	12,860	12,860

Solution to Example 8

	Capital	Revenue
The list price of a new car	Yes	
Annual car tax for the new vehicle		Yes
A piece of new machinery	Yes	
Spare parts to repair machinery		Yes
Stationery		Yes
Building materials for a new extension	Yes	
Labour costs to build new extension	Yes	
Decoration of new extension	Yes	
Redecoration of original building		Yes

Answers to multiple-choice questions

- 1 B
- 2 C
- 3 D
- 4 D
- 5 C

SESSION 4

Solution to Example 1

	Gross	Net	Sales tax
1	\$4,200	\$3,500	\$700
2	\$2,376	\$1,980	\$396
3	\$1,440	\$1,200	\$240
4	\$2,388	\$1,990	\$398
5	\$300	\$250	\$50
6	\$2,592	\$2,160	\$432

Solution to Example 2

Sales tax			
Bank	1,900	Balance b/d	1,900
Purchases		Sales:	
15,000 × 20%	3,000	10,000 × 20%	2,000
13,200 × 20/120	2,200	7,200 × 20/120	1,200
1,200 × 20/120	2,000	6,745 × 20%	1,349
Bal c/d	1,094	9,870 × 20/120	1,645
		12,600 × 20/120	2,100
	<u>10,194</u>		<u>10,194</u>
		Bal b/d	1,094

Answers to multiple-choice questions

1 B

Sales tax			
Purchases	2,400	Sales	4,000
(20% × 12,000)		24,000 × 20/120	
Expenses	160		
(20% × 800)			
Bal c/d	1,440		
	<u>4,000</u>		<u>4,000</u>
		Bal b/d	1,440

2 B

3 D

Sales tax			
Purchases	3,600	Sales	4,700
(20% × 18,000)		28,200 × 20/120	
Bal c/d	1,100		
	<u>4,700</u>		<u>4,700</u>
		Bal b/d	1,100

4 D

	Assets	Cash (1,000 + 1,200)	2,200
		Inventory	400
			2,600
	Liabilities	Payables (800 × 1.2)	960
		Sales tax (200 – 160)	40
			(1,000)
			1,600
	Capital	Capital	1,000
		Profit (1,000 – 400)	600
			1,600
			1,600

SESSION 5

Solution to Example 1

Sales	Receivables
Receivables	Sales
162	162

Solution to Example 2

Receivables – Kim				Discounts allowed			
Sales	2,000	Bank	1,960	Receivables	40	P&L	40
		Discount allowed	40				
2,000		2,000		40		40	
2,000		2,000		40		40	

Solution to Example 3

Payables – Dave				Discounts received			
Bank	950	Purchases	1,000	P&L	50	Payables	50
Discount received	50						
1,000		1,000		50		50	
1,000		1,000		50		50	

Solution to Example 4

Purchases (20 × \$5)	100.00
Trade discount (100 × 10%)	(10.00)
	<hr/>
	90.00
Cash discount (90 × 2%)	(1.80)
	<hr/>
	88.20
	<hr/>

Answers to multiple-choice questions

- 1 **C**
- 2 **B** ($\$2,000 \times 0.8 = \$1,600 + 20\% = \$1,920$)
- 3 **A**

Bank			
Bal b/d	2,500		
Credit customer (0.95×200)	190	Credit supplier	720
	<hr/>	Bal c/d	1,970
	2,690		<hr/>
	<hr/>		2,690
	1,970		<hr/>

Payment to credit supplier:

	\$1,000
Trade discount 20%	(\$200)
	<hr/>
	\$800
Cash discount 10%	(\$80)
	<hr/>
	\$720
	<hr/>

- 4 **C**

Sales	\$73,716
Sales returns	(\$5,863)
	<hr/>
Net sales	\$67,853
	<hr/>

5 A

Opening inventory	\$7,500
Purchases	\$58,000
Carriage inwards	\$3,000
Purchase returns	(\$2,500)
Closing inventory	(\$6,000)
	<hr/>
Cost of sales	\$60,000
	<hr/>

6 B**7 B****SESSION 6****Solution to Example 1****Sales day book (SDB)**

	\$
Mr X	100
Mr Y	150
Mr Z	200
	<hr/>
	450
	<hr/>

Double entry system

Mr X			
SDB	100	Bal c/d	100
	<hr/>		<hr/>
	100		100
	<hr/>		<hr/>
Bal b/d	100		

Mr Y			
SDB	150	Bal c/d	150
	<hr/>		<hr/>
	150		150
	<hr/>		<hr/>
Bal b/d	150		

Mr Z			
SDB	200	Bal c/d	200
	——		——
	200		200
	——		——
Bal b/d			

Sales			
Bal c/d	450	SDB	450
	——		——
	450		450
	——		——
		Bal b/d	450

Solution to Example 2

Double entry system

Receivables ledger control				Sales			
SDB	450	Bal c/d	450	Bal c/d	450	SDB	450
	——		——		——		——
	450		450		450		450
	——		——		——		——
Bal b/d	450					Bal b/d	450

Receivables ledger (memorandum)

Mr X			
SDB	100	Bal c/d	100
	——		——
	100		100
	——		——
Bal b/d	100		

Mr Y

SDB	150	Bal c/d	150
	_____		_____
	150		150
	_____		_____
Bal b/d	150		

Mr Z

SDB	200	Bal c/d	200
	_____		_____
	200		200
	_____		_____
Bal b/d			

Solution to Example 3

Receivables ledger – Bob

Bal b/d	75	Contra	75
	_____		_____
	75		75
	_____		_____

Payables ledger – Bob

Contra	75	Bal b/d	100
	_____		_____
Bal c/d	25		
	_____		_____
	100		100
	_____		_____
		Bal b/d	25

Solution to Example 4

Receivables ledger (receivables) control account

2006	\$	2006	\$
1 Nov Balance b/d	54,000	1 Nov Balance b/d	1,000
Credit sales	251,000	Sales returns	11,000
Bank (dishonoured cheques)	500	Bank/Cash	242,000
Bank (refunds)	500	Cash discounts allowed	3,000
Interest charged	1,400	Bad debts	1,000
		Payables control (contra)	800
30 Nov Balance c/d	2,000	30 Nov Balance c/d	50,600
	_____		_____
	309,400		309,400
	_____		_____
1 Dec Balance b/d (derived)	50,600	1 Dec Balance b/d	2,000

Payables ledger (payables) control account

2006	\$	2006	\$
1 Nov Balance b/d	200	1 Nov Balance b/d	43,000
Purchase returns	3,000	Credit purchases	77,000
Cash/Bank	74,000		
Cash discount received	2,000		
Receivables control (contra)	800		
30 Nov Balance c/d	40,200	30 Nov Balance c/d	200
	<hr/>		<hr/>
	120,200		120,200
	<hr/>		<hr/>
1 Dec Balance b/d	200	1 Dec Balance b/d (derived)	40,200

Solution to Example 5

Zig and Zag

Receivables ledger control account

Bal b/d	19,744	Returns inwards	4,556
Sales	199,662	Bank	185,960
		Discounts allowed	5,830
		Contras	1,036
		Bal c/d	22,024
	<hr/>		<hr/>
	219,406		219,406
	<hr/>		<hr/>
Bal b/d	22,024		

Total of balances per receivables ledger = \$22,024

Payables ledger control account

Returns outwards	2,648	Bal b/d	11,874
Bank	146,100	Purchases	154,562
Cash	78		
Discount received	2,134		
Contras	1,036		
Bal c/d	14,440		
	<hr/>		<hr/>
	166,436		166,436
	<hr/>		<hr/>
		Bal b/d	14,440

Total of balances per payables ledger = \$14,530

Dustin should investigate his payables ledger and payables ledger control account.

Answers to multiple-choice questions

- 1 D
 2 B
 3 C
 4 B
 5 A

Receivables			
Bal b/d	22,000	Bank	115,000
Sales	120,000	Discounts allowed	1,000
Dishonoured cheque	9,000	Contra	5,000
		Bal c/d	30,000
	151,000		151,000
Bal b/d	30,000		

SESSION 7**Solution to Example 1**

- (a) The control account (SLCA) is affected.
 The list of balances is correct.
- (b) Both the control account and list of balances are affected.
- (c) Only the list of balances is affected.

Solution to Example 2

Receivables ledger control account			
Bal b/d	15,000	Sales returns	100
		Overcast SDB	500
		Contra	200
		Bal c/d	14,200
	15,000		15,000
Bal b/d	14,200		

	\$
Total of list of balances per receivables ledger	13,000
Debit balances omitted	1,600
Credit balances omitted	(900)
Debit balances listed as credit balances	500
	14,200

Solution to Example 3

Payables ledger control account

<table style="width: 100%; border-collapse: collapse;"> <tr> <td>Returns (2)</td> <td style="text-align: right;">90</td> </tr> <tr> <td>Overcast day book (3)</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Contra omitted (6)</td> <td style="text-align: right;">120</td> </tr> <tr> <td>Revised bal c/d</td> <td style="text-align: right;">12,704</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">13,014</td> </tr> </table>	Returns (2)	90	Overcast day book (3)	100	Contra omitted (6)	120	Revised bal c/d	12,704		13,014	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Bal b/d</td> <td style="text-align: right;">13,014</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;"> </td> </tr> <tr> <td>Revised bal b/d</td> <td style="text-align: right;">12,704</td> </tr> </table>	Bal b/d	13,014			Revised bal b/d	12,704
Returns (2)	90																
Overcast day book (3)	100																
Contra omitted (6)	120																
Revised bal c/d	12,704																
	13,014																
Bal b/d	13,014																
Revised bal b/d	12,704																

Total of balances per payables ledger	\$12,320
(1) Debit balance listed as credit balance	
(2 × \$40)	(\$80)
(4) Omitted balances – credit	\$480
(4) Omitted balances – debit	(\$24)
(5) Misposting of cash purchase payment	8
	\$12,704
Revised total per payables ledger	\$12,704

Answers to multiple-choice questions

1 **A**

$$\$8,500 - (\$400 \times 2) = \$7,700$$

2 **C**

Receivables ledger control account

<table style="width: 100%; border-collapse: collapse;"> <tr> <td>Bal b/d</td> <td style="text-align: right;">32,750</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">125,000</td> </tr> <tr> <td>Refunds</td> <td style="text-align: right;">1,300</td> </tr> <tr> <td>Bal c/d</td> <td style="text-align: right;">2,000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">161,050</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">36,725</td> </tr> </table>	Bal b/d	32,750	Sales	125,000	Refunds	1,300	Bal c/d	2,000		161,050		36,725	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Bal b/d</td> <td style="text-align: right;">1,275</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">122,500</td> </tr> <tr> <td>Discounts allowed</td> <td style="text-align: right;">550</td> </tr> <tr> <td>Bal c/d</td> <td style="text-align: right;">36,725</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">161,050</td> </tr> <tr> <td>Bal b/d</td> <td style="text-align: right;">2,000</td> </tr> </table>	Bal b/d	1,275	Bank	122,500	Discounts allowed	550	Bal c/d	36,725		161,050	Bal b/d	2,000
Bal b/d	32,750																								
Sales	125,000																								
Refunds	1,300																								
Bal c/d	2,000																								
	161,050																								
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Bal b/d	1,275																								
Bank	122,500																								
Discounts allowed	550																								
Bal c/d	36,725																								
	161,050																								
Bal b/d	2,000																								

3 **B**

4 **A**

Solution to Example 4

(a) Bank reconciliation statement as at 1 December

Balance per bank statement	\$17,478
Less: Outstanding cheques (426 + 737)	(\$1,163)
Add: Outstanding lodgements	176
	<hr/>
Balance per cash book	\$16,491
	<hr/>

		Bank		
Bal b/d	19,973	Deposit difference		
		(529 – 528)	1	
Error – cheque 783 (221 – 212)	9	Bank charges		47
		Rates – s/order		137
		Revised bal c/d		19,797
	<hr/>			<hr/>
	19,982			19,982
	<hr/>			<hr/>
Revised bal b/d	19,797			

(c) Bank reconciliation statement as at 31 December

Balance per bank statement	\$19,738
Less: Outstanding cheques (97 + 260)	(\$357)
Add: Outstanding lodgements (Fred)	\$119
Bank error (Cheque 310923)	\$297
	<hr/>
Balance per cash book	\$19,797

(d) Why do we prepare a monthly bank reconciliation?

- 1 To check the accuracy and validity of both the cash book and bank account and explain any differences.
- 2 For internal control purposes and to prevent fraud.

(e) Aspects of the reconciliation which should be investigated?

- 1 Cheque no. 310923 for \$297 appears to be a bank error as this cheque is out of sequence compared to our cheque numbers. I would contact the bank and ask them to explain the situation.
- 2 The overstated lodgement and cheque payment per the cash book for \$1 and \$9 could be confirmed.

Note: In an exam situation, we normally assume that the bank statement is correct and hence the overstatements have been adjusted in the cash book.

Answers to multiple-choice questions**1 D**

Bank – cash book			
		Bal b/d (i)	5,670
		Bank charges (ii)	250
Bal c/d	5,920		
	5,920		5,920
		Bal b/d	5,920
	\$		
Balance per bank statement (β)	(6,100)		
Error (iii)	(40)		
Less: Outstanding cheques (iv)	(325)		
Add: Outstanding lodgements(v)	545		
	(5,920)		
Balance per cash book	(5,920)		

2 C

Balance per bank statement (β)	(\$2,360) o/d
Less: Outstanding cheques	(\$1,420)
Balance per cash book (3,600 + 180)	(\$3,780) o/d

3 B

Bank – cash book			
		Bal b/d	485
Sales	1,450	Payables (0.95 × 1800)	1,710
Receivables	2,400	Dishonoured cheques	250
		Bal c/d	1,405
	3,850		3,850
Bal b/d	1,405		

4 D

Bank – cash book			
		Bal b/d	5,675
Standing order	125	Dishonoured cheque (\$450 × 2)	900
Bal c/d	6,450		6,575
	6,575		6,575
		Bal b/d	6,450

SESSION 9

Solution to Example 1

Wages and salaries control account

	\$		\$
Bank – net wages/salaries	4,698	Gross pay	6,172
Bank – tax authority (488 + 1,029 + 445)	1,962	Employer’s state benefit	488
	_____		_____
	6,660		6,660
	_____		_____

Wages and salaries expense account

	\$		\$
Gross wages and salaries	6,172		
Employer’s state benefit	488		

Tax authority account

	\$
Income tax and state benefit	1,962

Bank account

	\$
Net wages and salaries	4,698

Solution to Example 2

Wages and salaries control account

	\$		\$
Bank	569.38	Wages and salaries expense:	
Tax authority (122.69 + 72.18 + 80.53)	275.40	Gross pay	801.25
Pension payable (37.00 + 30.00)	67.00	Employer’s state benefit	80.53
	_____	Employer’s pension contribution	30.00
	911.78		_____
	_____		911.78

Wages and salaries expense account

	\$	\$
Wages and salaries control account:		
Gross wages and salaries	801.25	
Employer's state benefit	80.53	
Employer's pension contributions	30.00	

Tax authority account

	\$
Wages and salaries control account:	
Income tax and state benefit	275.40

Pension payable account

	\$
Wages and salaries control account:	
Pension contributions	67.00

Bank account

	\$
Wages and salaries control account:	
Net wages and salaries	569.38

Answers to multiple-choice questions

- 1 **D** \$2,000 + \$100 bonus less \$350 income tax less \$180 contributions.
- 2 **C** $(35 \times \$5) + (8 \times \$5 \times 1.5) = \$235$.
- 3 **A** Like all other payments they are made from either cash or bank accounts ultimately.

SESSION 10

Solution to Example 1

	Dr	Cr
	\$	\$
Motor van – cost	10,000	
Purchases		10,000

Being the correction of the incorrect recording of motor van acquisition.

Solution to Example 2

A cash sale of \$100 was not recorded.

	Dr	Cr
	\$	\$
Cash	100	
Sales		100

Being the correction of error of omission.

Solution to Example 3

Expenditure of \$360 on rates has been posted to the rent account in error.

	Dr	Cr
	\$	\$
Rates	360	
Rent		360

Being the correction of error of commission.

Solution to Example 4

The cost of a new car of \$3,400 has been debited to motor expenses.

	Dr	Cr
	\$	\$
Motor vehicles – cost	3,400	
Motor expenses		3,400

Being the correction of error of principle.

Solution to Example 5

The balance on the sales account is overstated by \$200 due to a casting error.

A rent bill of \$1,200 has been debited to the rent account as \$1,400.

	Dr	Cr
	\$	\$
Sales	200	
Rent		200

Being the correction of compensating errors.

Solution to Example 6

A cash sale of \$76 has been recorded as \$67.

	Dr	Cr
	\$	\$
Cash	9	
Sales		9

Being the correction of error of original entry.

Solution to Example 7

A cash sale of \$200 has been debited to sales and credited to bank.

	Dr	Cr
	\$	\$
Cash	400	
Sales		400

Being correction of error of reversal.

Solution to Example 8

Suspense a/c			
Difference per TB	300	Rent	700
Sales	400		
	—		—
	700		700
	—		—

Sales				Rent			
P&L	61,200	Bal b/d	60,800	Bal b/d	7,700	P&L	8,400
		Suspense	400	Suspense	700		
	<u>61,200</u>		<u>61,200</u>		<u>8,400</u>		<u>8,400</u>

	Dr	Cr
(1) Suspense	400	
Sales		400

Being the correction of casting error in sales a/c

	Dr	Cr
(2) Rent	700	
Suspense		700

Being the correction of rent payment

Answers to multiple-choice questions

- 1 D
- 2 A

Suspense			
Bal b/d (β)	210	Gas (420–240)	180
Interest receivable	70	Discounts (50 × 2)	100
	<u>280</u>		<u>280</u>

- 3 B

Draft profit for the period	\$12,355
Six months rent $6/12 \times 800$	(\$400)
Closing Inventory adjustment (1,000–800)	(\$200)
	<u>\$11,755</u>

- 4 C
- 5 D