

AAT

Foundation Certificate in
Accounting

Bookkeeping Transactions

Integrated Workbook



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CONTENTS

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

INTEGRATED WORKBOOK ICONS



Definition



Exam Technique Point



Key Point



Illustration

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Chapter 1

Business Documents



Outcome

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

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

and answer questions relating to these areas.

Resources

This topic is covered on MyKaplan

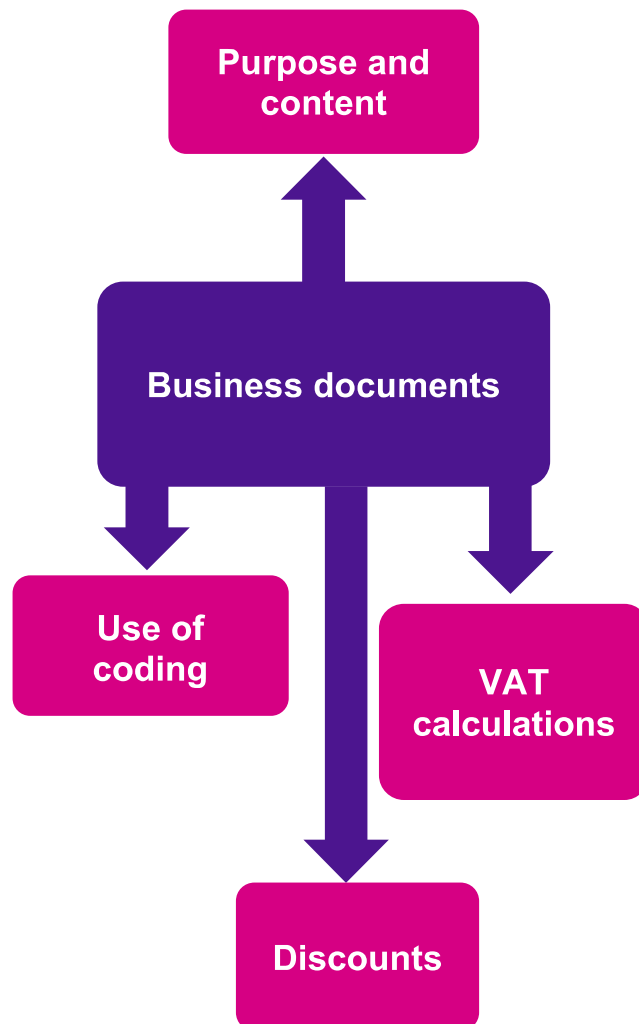
Unit: Business documents



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



Overview



1 Business transactions

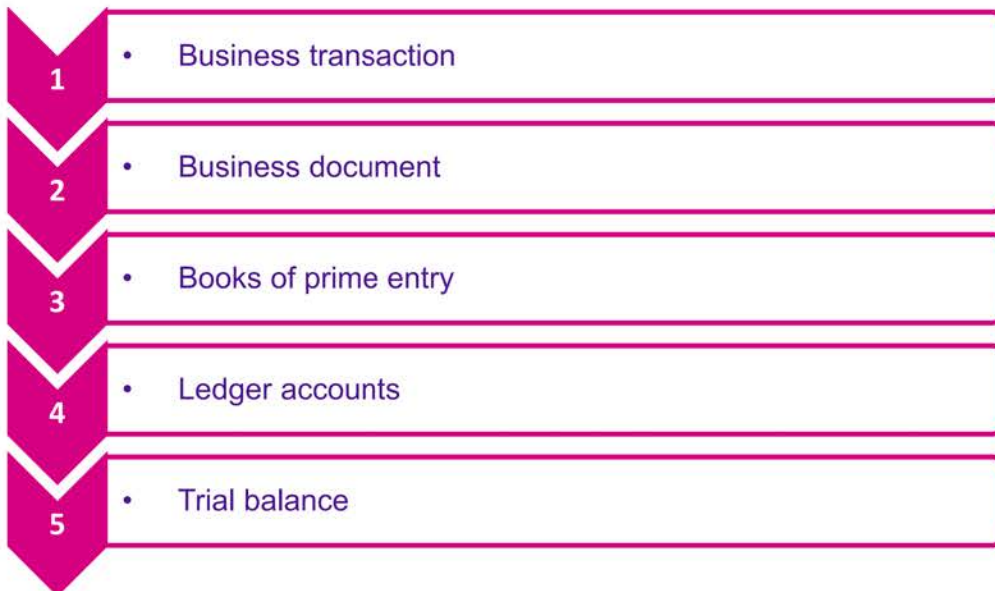
The purpose of accounting is to record and classify business transactions.

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

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

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

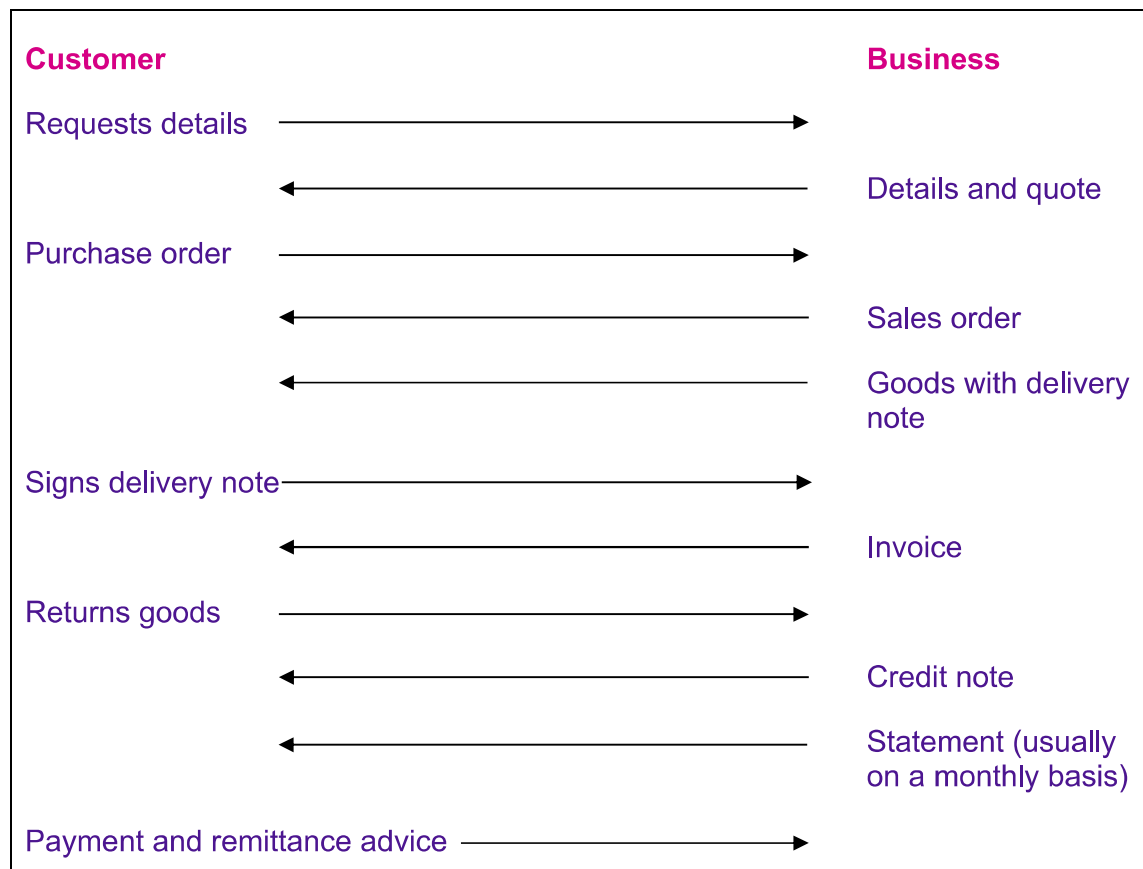
Overview of the accounting system



2

Business documents for a credit transaction

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





Quote

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

A typical price quotation is shown below:



Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

QUOTATION

TO: Belle's Wedding Planners

Date: 14 March 2012

11 Mountjoy Street

London W12 6RS

Thank you for your telephone enquiry of 10 March. We are pleased to quote the following price:

Five tiers chocolate wedding cake (Code C351) £60.00 per tier, excluding VAT.

Date required: 25th March 2012.

A Baker

Sales Manager

Bookkeeping Transactions

Details to include on the quotation:

Notes



4 Purchase order

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



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


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

Details to include on the purchase order:

Notes



Bookkeeping Transactions

PURCHASE ORDER				
<div style="display: flex; justify-content: space-between;"><div style="width: 60%;">Belle's Wedding Planners 11 Mountjoy Street LONDON W12 6RS Tel: 0208 741 2962 Fax: 0208 741 2963 Date: 17 March 2012 Purchase order no: P01562</div><div style="width: 35%; text-align: right;"></div></div> <div style="display: flex; justify-content: space-between; margin-top: 20px;"><div style="width: 45%; border: 1px solid black; padding: 10px;"><p>To: Little Miss Muffin Cake Shop 1 Baker Street London WC1 8QT</p></div><div style="width: 45%; border: 1px solid black; padding: 10px;"><p>Delivery address (if different from above) Four Hills Hotel Park Lane London W1 1UY</p></div></div>				
<i>Product</i>	<i>Ref</i>	<i>Quantity</i>	<i>Price per unit (excl. VAT)</i> £	<i>Total (excl. VAT)</i> £
Chocolate Wedding Cake	C351	5 Tiers	60	300
<div>Signed: J Belle</div> <div>Purchasing Manager</div>				

5 Sales order

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



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

A sales order will confirm

Notes





Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

SALES ORDER

To:

Belle's Wedding Planners

11 Mountjoy Street

London W12 6RS

Delivery:

Four Hills Hotel

Park Lane

London

W1 1UY

Delivery date:

25 March 2012

Date: 18 March 2012

Sales order number: 41161

We confirm the following order to be delivered as above.

Please note our credit terms are strictly 30 days net.

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

Authorised: A Baker

Date: 18 March 2012

Notes



6

Delivery note

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



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

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

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

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

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

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

Notes





Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

DN 00673

DELIVERY NOTE

To:

Belle's Wedding Planners
11 Mountjoy Street
London W12 6RS

Delivery:

Four Hills Hotel
Park Lane
London W1 1UY

Delivery date:

25 March 2012

Date: 25 March 2012

Sales order number: 41161

We confirm the following order to be delivered as above.

<i>Product</i>	<i>Code</i>	<i>Quantity</i>
Chocolate Wedding Cake	C351	5 Tiers

Received in good condition: J Belle

Notes





Invoice (including a review of VAT)



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

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



Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

Invoice no: 005673

Tax point: 25 March 2012

VAT reg no: 618 2201 63

Delivery note: DN00673

Account no: BEL65

INVOICE

To:

Belle's Wedding Planners

11 Mountjoy Street

London W12 6RS

Delivery:

Four Hills Hotel

Park Lane

London W1 1UY

Delivery date:

25 March 2012

Date: 25 March 2012

Sales order number: 41161

Product	Code	Quantity	Price per unit	Total
			£	£
Chocolate Wedding Cake	C351	5	60	300.00
			VAT	60.00
			Total	360.00

Bookkeeping Transactions

Details to include on the invoice

VAT



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

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

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

Cost structure:

Net	100%
VAT	20%
Gross	120%

How to manipulate VAT

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

VAT from Net

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

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

Workings:

VAT from Gross

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

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

Workings:



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

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

Receiving an invoice

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

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

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

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

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

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

Account code – the purchase ledger code for this payable.

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

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

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

Notes





Credit note



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

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



Little Miss Muffin Cake Shop

1 Baker Street

London

WC1 8QT

Tel: 020 7890 1234 – Fax: 020 7890 1235

Credit note no: CN 02542

Tax point: 30 March 2012

VAT reg no: 618 2201 63

Invoice no: 005673

Account no: BEL65

CREDIT NOTE

Credit to:

Belle's Wedding Planners

11 Mountjoy Street

London W12 6RS

Date: 30 March 2012

<i>Description</i>	<i>Code</i>	<i>Quantity</i>	<i>VAT rate %</i>	<i>Unit price £</i>	<i>Amount exclusive of VAT £</i>
Chocolate Wedding Cake	C351	1 tier	20	60.00	60.00
VAT					60.00
Total amount of credit					12.00
Reason: One tier of unsatisfactory quality.					72.00



Discounts

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



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

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

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

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

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

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

Notes





Coding



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

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

Advantages of having a coding system include:



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

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

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

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



Example 1

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

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

The following invoice was received from a supplier.

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

What codes would be used to code this invoice?

Supplier account code:

General ledger code:



Example 2

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

Customer	Code
JBR Limited	JBR001
Just Signs	JUS002
People Prints	PEO003

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

Hart Landscapes

Princess Peas

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

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

Summary

Business documents

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

Types of business documents

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

Coding

- Coding systems ensure accuracy of recording and filing business documents