



AAT

Advanced Bookkeeping

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Advanced Diploma in Accounting – Level 3

AAT Advanced Certificate in Bookkeeping – Level 3

AAT Advanced Diploma in Accounting at SCQF Level 6

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Preface

These Pocket Notes contain the key points you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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The background features several overlapping, curved, light pink lines that sweep from the bottom left towards the top right, creating a sense of movement and depth.

A guide to the assessment

The assessment

Advanced Bookkeeping (AVBK) is one of two financial accounting units studied on the Advanced Diploma in Accounting qualification.

Examination

AVBK is assessed by means of a computer based assessment. The CBA will last for 2 hours and consists of 5 tasks.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

Learning outcomes & weighting

1. Apply the principles of advanced double-entry bookkeeping	24%
2. Implement procedures for the acquisition and disposal of non-current assets	20%
3. Prepare and record depreciation calculations	13%
4. Record period end adjustments	20%
5. Produce and extend the trial balance	23%
Total	100%

Pass mark

To pass a unit assessment, students need to achieve a mark of 70% or more.

This unit contributes 20% of the total amount required for the Advanced Diploma in Accounting qualification.

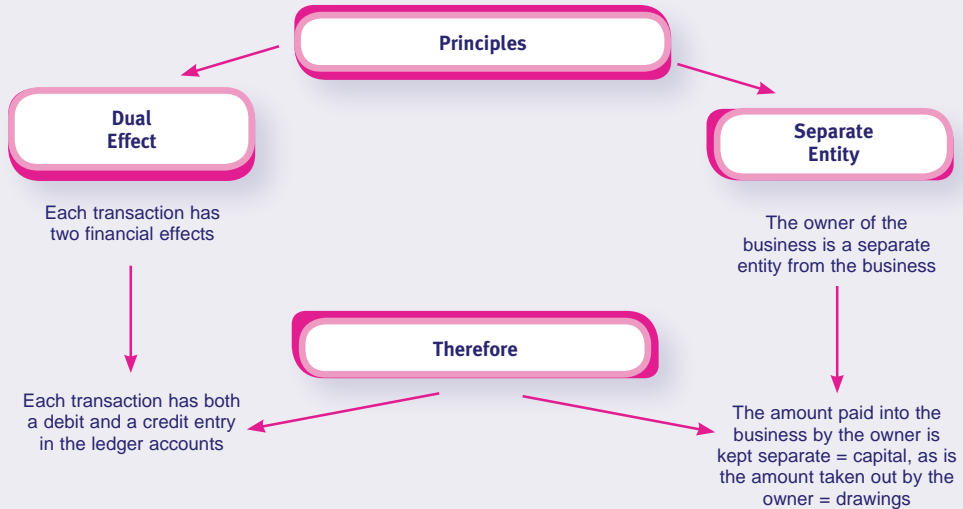
chapter

1

Double entry bookkeeping

- Principles of double entry bookkeeping.
- Accounting equation.
- Ledger accounts.
- General rules of double entry bookkeeping.
- Accounting for cash transactions.
- Accounting for credit transactions.
- Balancing ledger accounts.
- Preparing a trial balance.

Principles of double entry bookkeeping



Accounting equation

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

Terminology

Asset

Something owned
by the business

Liability

Something owed
by the business

Capital

Amount the owner
has invested in the
business

Receivable

Someone who
owes the business
money

Payable

Someone the
business owes
money to

Ledger accounts

Typical ledger account:

Title of account					
Date	Narrative	£	Date	Narrative	£
	Debit side	x		Credit side	x

The dual effect means that every transaction is recorded as a debit in one account and a credit in another account.

Key question – which account is the debit entry to and which account is the credit entry to?

General rules of double entry bookkeeping

Ledger account	
Debit	Credit
Money in	Money out
Increase in asset	Increase in liability
Decrease in liability	Decrease in asset
Increase in expense	Increase in income

Accounting for cash transactions

Examples of ledger accounting:

- (i) Payment of £10,000 into business bank account by owner:

Debit Cash (money in)

Credit Capital (increase in liability – amount owed to owner)

Cash account

		£	£
Capital	10,000		

Capital account

		£	£
	Cash		10,000

- (ii) Purchase of goods for cash of £3,000:

Debit Purchases (expense)

Credit Cash (money out)

Purchases account

		£	£
Cash	3,000		

Cash account

		£	£
	Purchases		3,000

Accounting for credit transactions

(i) Purchases goods for £6,000 on credit

Debit Purchases (expense)

Credit Trade Payables (liability)

Purchase account

	£		£
Trade payables	6,000		

Trade payables account

	£		£
		Purchases	6,000

(ii) Sale of goods on credit for £8,000

Debit Trade Receivables (asset)

Credit Sales Revenue (income)

Trade receivables account

	£		£
Sales	8,000		

Sales account

	£		£
		Receivables	8,000

(iii) Payment of part of money owed to credit supplier of £1,500

Debit Trade payables (reduction in liability)

Credit Cash (money out)

Trade payables account

		£	£
Cash	1,500		

Cash account

£			£
	Trade payables	1,500	

(iv) Receipt of part of money owed by credit customer of £5,000

Debit Cash (money in)

Credit Trade receivables (reduction in asset)

Cash account

		£	£
Trade receivables	5,000		

Trade receivables account

£			£
	Cash	5,000	

Balancing ledger accounts

At various points in time the owner/owners of a business will need information about the total transactions in the period. Eg, total sales, amount of payables outstanding, amount of cash remaining. This can be found by balancing the ledger accounts.

Here is a typical cash (or bank) account:

Cash account			
	£		£
Capital	10,000	Purchases	3,000
Sales	4,000	Rent	500
Receivables	5,000	Payables	1,500

Step 1 Total both debit and credit side and make a note of the totals.

Step 2 Insert higher of totals as total for both sides (leaving a line before inserting totals).

Cash account

	£		£
Capital	10,000	Purchases	3,000
Sales	4,000	Rent	500
Receivables	5,000	Payables	1,500
	<u>19,000</u>		<u>19,000</u>

Step 3 On side with smaller total insert figure which makes it add up to total and call this the balance carried down (balance c/d).

Cash account			
	£		£
Capital	10,000	Purchases	3,000
Sales	4,000	Rent	500
Receivables	5,000	Payables	1,500
		Balance c/d	14,000
	<u>19,000</u>		<u>19,000</u>

Step 4 On the opposite side of the account enter this same figure below the total line and call it the balance brought down (balance b/d).

Cash account

	£		£
Capital	10,000	Purchases	3,000
Sales	4,000	Rent	500
Receivables	5,000	Payables	1,500
		Balance c/d	14,000
	<u>19,000</u>		<u>19,000</u>
Balance b/d	14,000		

This shows that after all of these transactions there is £14,000 of cash left as an asset in the business (a debit balance = an asset).



CBA focus

In the assessment you will be required to balance a number of ledger accounts.

Preparing a trial balance

What is a trial balance?

- list of all of the ledger balances in the general ledger
- debit balances and credit balances are listed separately
- debit balance total should equal credit balance total.

e.g

Example

Simple trial balance

	Debit £	Credit £
Sales		5,000
Wages	100	
Purchases	3,000	
Rent	200	
Vehicle	3,000	
Receivables	100	
Payables		1,400
	<u>6,400</u>	<u>6,400</u>

Debit or credit balance?

If you are just given a list of balances you must know whether they are debit or credit balances.

Remember the rules!

Debit Balances

Credit Balances

Assets

Liabilities

Expenses

Income

Sales and purchases returns

Sales returns = debit balance
(opposite to sales)

Purchases returns = credit balance (opposite
to purchases)

Discounts allowed and discounts received

Discounts allowed = debit balance (expense)

Discounts received = credit balance (opposite
of an expense)

**CBA focus**

Returns and discounts are not as obvious as other accounts as to whether they are debit or credit balances so make sure that you understand the logic behind these balances.