# ADVANCED BOOKKEEPING

# STUDY TEXT

**Qualifications and Credit Framework**

**AQ2016**

This Study Text supports 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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# CONTENTS



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# INTRODUCTION

## HOW TO USE THESE MATERIALS

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chance of success in your AAT assessments.

They contain a number of features to help you in the study process.

The sections on the Unit Guide, the Assessment and Study Skills should be read before you commence your studies.

They are designed to familiarise you with the nature and content of the assessment and to give you tips on how best to approach your studies.

## STUDY TEXT

This study text has been specially prepared for the revised AAT qualification introduced in September 2016.

It is written in a practical and interactive style:

- key terms and concepts are clearly defined
- all topics are illustrated with practical examples with clearly worked solutions based on sample tasks provided by the AAT in the new examining style
- frequent activities throughout the chapters ensure that what you have learnt is regularly reinforced
- ‘pitfalls’ and ‘examination tips’ help you avoid commonly made mistakes and help you focus on what is required to perform well in your examination
- ‘Test your understanding’ activities are included within each chapter to apply your learning and develop your understanding.

## ICONS

The chapters include the following icons throughout.

They are designed to assist you in your studies by identifying key definitions and the points at which you can test yourself on the knowledge gained.

### Definition

These sections explain important areas of Knowledge which must be understood and reproduced in an assessment.

### Example

The illustrative examples can be used to help develop an understanding of topics before attempting the activity exercises.

### Test your understanding

These are exercises which give the opportunity to assess your understanding of all the assessment areas.

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.

## Progression

There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

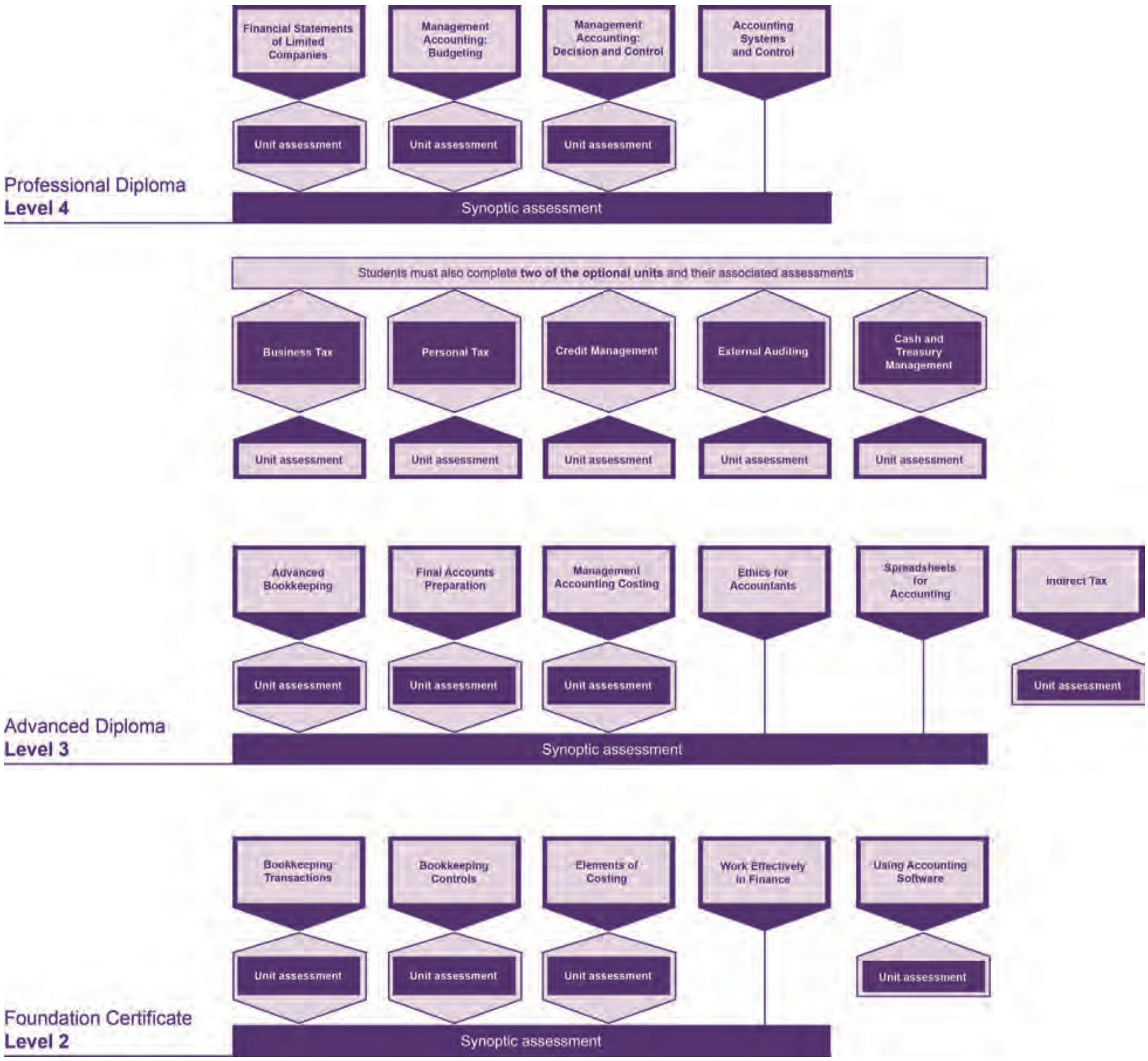
A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another.

We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.


Financial Statements of Limited Companies
Management Accounting: Budgeting
Management Accounting: Decision and Control
Accounting Systems and Control
Unit assessment
Unit assessment
Unit assessment
Professional Diploma
Level 4
Synoptic assessment
Students must also complete two of the optional units and their associated assessments
Business Tax
Personal Tax
Credit Management
External Auditing
Cash and Treasury Management
Unit assessment
Unit assessment
Unit assessment
Unit assessment
Unit assessment
Advanced Bookkeeping
Final Accounts Preparation
Management Accounting Costing
Ethics for Accountants
Spreadsheets for Accounting
Indirect Tax
Unit assessment
Unit assessment
Unit assessment
Unit assessment
Advanced Diploma
Level 3
Synoptic assessment
Bookkeeping Transactions
Bookkeeping Controls
Elements of Costing
Work Effectively in Finance
Using Accounting Software
Unit assessment
Unit assessment
Unit assessment
Unit assessment
Foundation Certificate
Level 2
Synoptic assessment

# UNIT GUIDE

## Introduction

This unit is the first of two Advanced level financial accounting units. It develops Foundation level skills, incorporating Advanced Bookkeeping and managing records for non-current assets, in preparation for producing final accounts for unincorporated organisations.

The purpose of this unit is to build on skills and knowledge learned in the Foundation level accounting units and to develop bookkeeping skills, taken to an initial trial balance. This is valuable progress for the student, both in terms of moving towards preparing final accounts and also in terms of offering employers more technical skills at this stage. The bookkeeping skills that students have acquired at an earlier stage will be reinforced and developed in this unit. While the daybooks and some of the ledger accounts may be familiar, the accruals basis of accounting is introduced to underpin many of the adjustments that are commonly found in the workplace, including accruals, prepayments, accounting for irrecoverable and doubtful debts and the period end valuation of inventory. This takes the student to the position of being able to draw up a trial balance using adjusted figures, and to extend it to identify the profit or loss for the period.

Students will study non-current asset accounting in some depth, including the accurate recording and control of the valuable resource of non-current assets which is vital to all organisations. On completion of this unit, students will understand and know how to use the non-current assets register as an important and independent record of the details of each individual non-current asset. The student will know how to use the various ledger accounts required to record the acquisition and disposal of non-current assets, how to calculate the gain or loss on disposal, and how to choose and apply depreciation methods and rates.

Students are expected to know and explain why they follow certain procedures, rather than just knowing that they have to be followed. While recognising that computerised accounts packages and spreadsheets will normally be used in the workplace, this unit helps the student understand the background processes. On completion of this unit, students will also begin to understand how ethical principles apply in the context of their work in this area. This enables the student to be a more independent member of a team and to work intelligently in their role, requiring increasingly less supervision as their knowledge grows and starting to supervise more junior members of the team.

Advanced Bookkeeping is a mandatory unit in this qualification. It follows on from the Foundation level units, Bookkeeping Transactions and Bookkeeping Controls. It is closely linked with the Advanced level unit, Final Accounts Preparation, which is recommended to be delivered after this unit. It also incorporates appropriate parts of Ethics for Accountants. Skills and knowledge from this unit are essential for the Professional level unit, Financial Statements of Limited Companies.

## Learning outcomes

On completion of this unit the learner will be able to:

- Apply the principles of advanced double-entry bookkeeping.
- Implement procedures for the acquisition and disposal of non-current assets.
- Prepare and record depreciation calculations.
- Record period end adjustments.
- Produce and extend the trial balance.

## Scope of content

To perform this unit effectively you will need to know and understand the following:

| | | Chapter |
|---|---|---|
| **1** | **Apply the principles of advanced double-entry bookkeeping** | |
| **1.1** | **Demonstrate the accounting equation** | 1 |

Students need to know:

- the importance of the accounting equation for keeping accounting records
- the effect of accounting transactions on elements of the accounting equation.

| | | Chapter |
|---|---|---|
| **5.3** | **Complete the extended trial balance**<br>Student need to be able to:<br>• extend figures in the ledger balances and adjustments columns correctly into the statement of profit or loss and statement of financial position columns<br>• make the extended columns balance<br>• correctly label the balancing figure line as profit or loss. | 6, 14 |

## Delivering this unit

| **Unit name** | **Content links** | **Suggested order of delivery** |
|---|---|---|
| Final Accounts Preparation | Advanced Bookkeeping gives students underlying knowledge that may support their study of Final Accounts Preparation. | It is recommended that Advanced Bookkeeping is delivered before Final Accounts Preparation. |
| Ethics for Accountants | Advanced Bookkeeping touches on ethical matters in the context of bookkeeping. | Not applicable for this unit. |
| Indirect Tax | Advanced Bookkeeping requires knowledge of how VAT is treated. | Early delivery of Indirect Tax may enhance understanding of the VAT elements of the Bookkeeping units. |

# THE ASSESSMENT

## Test specification for this unit assessment

| Assessment type | Marking type | Duration of exam |
|---|---|---|
| Computer based unit assessment | Computer marked | 2 hours |

The assessment for this unit consists of 5 compulsory, independent, tasks.

The competency level for AAT assessment is 70%.

| 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% |

# UNIT LINK TO SYNOPTIC ASSESSMENT

AAT AQ16 introduced a Synoptic Assessment, which students must complete if they are to achieve the appropriate qualification upon completion of a qualification. In the case of the Advanced Diploma in Accounting, students must pass all of the mandatory assessments and the Synoptic Assessment to achieve the qualification.

As a Synoptic Assessment is attempted following completion of individual units, it draws upon knowledge and understanding from those units. It may be appropriate for students to retain their study materials for individual units until they have successfully completed the Synoptic Assessment for that qualification.

With specific reference to this unit, the following learning objectives are also relevant to the Advanced Diploma in Accounting Synoptic Assessment.

LO1 Apply the principles of advanced double-entry bookkeeping.

LO2 Implement procedures for the acquisition and disposal of non-current assets.

LO3 Prepare and record depreciation calculations.

LO4 Record period end adjustments.

LO5 Produce and extend the trial balance.

# STUDY SKILLS

## Preparing to study

**Devise a study plan**

Determine which times of the week you will study.

Split these times into sessions of at least one hour for study of new material. Any shorter periods could be used for revision or practice.

Put the times you plan to study onto a study plan for the weeks from now until the assessment and set yourself targets for each period of study – in your sessions make sure you cover the whole course, activities and the associated Test your understanding activities.

If you are studying more than one unit at a time, try to vary your subjects as this can help to keep you interested and see subjects as part of wider knowledge.

When working through your course, compare your progress with your plan and, if necessary, re-plan your work (perhaps including extra sessions) or, if you are ahead, do some extra revision/practice questions.

## Effective studying

**Active reading**

You are not expected to learn the text by rote, rather, you must understand what you are reading and be able to use it to pass the assessment and develop good practice.

A good technique is to use SQ3Rs – Survey, Question, Read, Recall, Review:

1 **Survey the chapter**

Look at the headings and read the introduction, knowledge, skills and content, so as to get an overview of what the chapter deals with.

2 **Question**

Whilst undertaking the survey ask yourself the questions you hope the chapter will answer for you.

# Double entry bookkeeping

1

## Introduction

A sound knowledge of double entry underpins many of the learning outcomes and skills required for Advanced Bookkeeping. It is essential knowledge in order to pass this unit and candidates will be assessed on double entry bookkeeping in the examination and so this must be very familiar ground. Although much of the content of this chapter should be familiar, it is essential that it is covered in order to build upon this basic knowledge in later chapters and for the Final Accounts Preparation unit.

### ASSESSMENT CRITERIA

Demonstrate the accounting equation (1.1)

Classify assets, liabilities and equity in an accounting context (1.2)

Demonstrate the purpose and use of books of prime entry and ledger accounting (1.3)

Carry out financial period end routines (1.5)

Prepare a trial balance (5.1)

### CONTENTS

# 1 Principles behind double entry bookkeeping

## 1.1 Introduction

Double entry bookkeeping is based upon three basic principles:

- the dual effect principle
- the separate entity principle
- the accounting equation.

## 1.2 The dual effect

### Definition – The dual effect principle

The principle of the dual effect is that each and **every** transaction that a business makes has **two** effects.

For example if a business buys goods for cash then the two effects are that cash has decreased and that the business now has some purchases. The principle of double entry bookkeeping is that each of these effects must be shown in the ledger accounts by a **debit entry** in one account and an equal **credit entry** in another account.

Each and every transaction that a business undertakes has **two equal and opposite effects.**

## 1.3 The separate entity concept

### Definition – The separate entity concept

The separate entity concept is that the business is a completely separate accounting entity from the owner.

Therefore if the owner pays his personal money into a business bank account this becomes the capital of the business which is owed back to the owner. Similarly if the owner takes money out of the business in the form of drawings then the amount of capital owed to the owner is reduced.

The business itself is a completely separate entity in accounting terms from the owner of the business.

## 1.4 The accounting equation

At its simplest, the accounting equation simply says that:

Assets = Liabilities

If we treat the owner's capital as a special form of liability then the accounting equation is:

Assets = Liabilities + Capital

Or, rearranging:

Assets – Liabilities = Capital

Profit will increase the proprietor's capital and drawings will reduce it, so that we can write the equation as:

**Assets – Liabilities = Capital + Profit – Drawings**

## 1.5 Definitions

**Definition – Asset**

An asset is an item of value controlled by a business. Assets may be tangible physical items or intangible items with no physical form, that add value to the business. For example, a building that is owned and controlled by a business and that is being used as part of the business activities would be classed as an asset.

**Definition – Liability**

A liability is an obligation to something of value (such as an asset) as a result of past transactions or events. For example, owing a balance to a credit supplier is a liability.

**Definition – Equity**

This is the 'residual interest' in a business and represents what is left when the business is wound up, all the assets sold and all the outstanding liabilities paid. It is effectively what is paid back to the owners when the business ceases to trade.

## Definition – Income

This is the recognition of the inflow of economic benefit to the entity in the reporting period. This can be achieved, for example, by earning sales revenue.

## Definition – Expense

This is the recognition of the outflow of economic benefit from an entity in the reporting period. This can be achieved, for example, by purchasing goods or services.

## Test your understanding 1

Heather Simpson notices an amount of £36,000 on the trial balance of her business in an account called 'Capital'. She does not understand what this account represents.

Briefly explain what a capital account represents.

## Test your understanding 2

Musgrave starts in business with capital of £20,000, in the form of cash £15,000 and non-current assets of £5,000.

In the first three days of trading he has the following transactions:

- Purchases inventory £4,000 on credit terms, supplier allows one month's credit.
- Sells some inventory costing £1,500 for £2,000 and allows the customer a fortnight's credit.
- Purchases a motor vehicle for £6,000 and pays by cheque.

The accounting equation at the start would be:

| | | |
|---|---|---|
| Assets less liabilities | = | Ownership interest |
| £20,000 – £0 | = | £20,000 |

**Required:**

Re-state in values the accounting equation after all the transactions had taken place.

# 2 Overview of the accounting system

## 2.1 Overview of the accounting system

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

1 • Business transaction

2 • Business document

3 • Books of prime entry

4 • Ledger accounts

5 • Trial balance

(1) Initially a **business transaction** will take place; a credit sale, a credit purchase, a cash sale, a cash purchase, another expense either paid from the bank or by cash, cash paid into the bank, withdrawal of cash from the bank and owner's drawings.

(2) A **business document** will be produced e.g. an invoice.

(3) The transaction and details from the business document will be entered into the **books of prime entry**. A book of prime entry is where a transaction is first recorded. There are several books of prime entry which may also be referred to as 'day books'.

(4) The transactions that have been recorded in the books of prime entry are transferred into **ledger accounts** as part of the **general ledger** on a regular basis. Ledger accounts are used as part of the double entry accounting system.

(5) A **trial balance** is a list of all of the ledger accounts in the accounting system and is used as a control to check that transactions have been recorded correctly in the double entry system prior to the preparation of the financial statements.

## 2.2 Books of prime entry

A book of prime entry is the place where the transaction (which is detailed on a business document) is first recorded in the books of the business. Books of prime entry may also be referred to as day books. There are several day books which will be briefly reviewed in this chapter:

| | | |
|---|---|---|
| Sales day book | Purchases day book | Sales returns day book |
| Purchases returns day book | Cash book | Petty cash book |
| Discounts allowed day book | Discounts received day book | |

### Definition – Sales day book

The sales day book is simply a list of the sales invoices that are to be processed for a given period (e.g. a week).

### Definition – Sales returns day book

The sales returns day book is simply a list of the credit notes that are to be processed for a given period (e.g. a week).

### Definition – Purchases day book

The purchases day book is simply a list of the purchases invoices that are to be processed for a given period (e.g. a week).

### Definition – Purchases returns day book

The purchases returns day book is simply a list of the credit notes that have been received from suppliers for a given period (e.g. a week).

### Definition – Cash book

A cash book is a record of cash receipts and payments that can form part of the double entry bookkeeping system as well as being a book of prime entry.

### Definition – Discounts allowed day book

The discounts allowed day book is used to record the discounts that have not been deducted at the point of the invoice being recorded within the sales day book but instead were offered on a conditional basis i.e. prompt payment discounts.

### Definition – Discounts received day book

The discounts received day book is used to record the discounts that have not been deducted at the point of the invoice being recorded in the purchases day book but instead were offered on a conditional basis i.e. prompt payment discounts.

### Definition – Petty cash book

A petty cash book is one in which all petty or small payments made through the petty cash fund are recorded systematically.

## 2.3 The general ledger

### Definition – General ledger

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

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

## 2.4 The subsidiary ledger

### Definition – Subsidiary ledger

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

### Definition – Subsidiary sales ledger

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

### Definition – Subsidiary purchases ledger

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

# 3 Rules of double entry bookkeeping

## 3.1 Double entry bookkeeping rules

There are a number of rules that can help to determine which two accounts are to be debited and credited for a transaction:

- When money is paid out by a business this is a credit entry in the cash or bank account.
- When money is received by a business this is a debit entry in the cash or bank account.
- An asset or an increase in an asset is always recorded on the debit side of its account.
- A liability or an increase in a liability is always recorded on the credit side of its account.
- An expense is recorded as a debit entry in the expense account.
- Income is recorded as a credit entry in the income account.

## 3.2 The golden rule

Every debit has an equal and opposite credit.

| **Ledger account** | |
|---|---|
| **A debit entry represents** | **A credit entry represents** |
| An increase to an asset | An increase to a liability |
| A decrease to a liability | A decrease to an asset |
| An item of expense | An item of income |

**For increases we can remember this as DEAD CLIC**

| **Ledger account** | |
|---|---|
| Debits increase: | Credits increase: |
| Expenses | Liabilities |
| Assets | Income |
| Drawings | Capital |

# 4 Double entry – cash transactions

## 4.1 Introduction

For this revision of double entry bookkeeping we will start with accounting for cash transactions – remember that money paid out is a credit entry in the cash account and money received is a debit entry in the cash account.

| Cash/Bank account | |
|---|---|
| **DEBIT** | **CREDIT** |
| Money in | Money out |

### Example 1

Dan Baker decides to set up in business as a sole trader by paying £20,000 into a business bank account. The following transactions are then entered into:

(i) purchase of a van for deliveries by writing a cheque for £5,500

(ii) purchase of goods for resale by a cheque for £2,000

(iii) payment of shop rental in cash, £500

(iv) sale of goods for cash of £2,500

(v) Dan took £200 of cash for his own personal expenses.

Note that cash received or paid is normally deemed to pass through the bank account.

State the two effects of each of these transactions and record them in the relevant ledger accounts.

**Solution**

Money paid into the business bank account by Dan:

- increase in cash
- capital now owed back to Dan.

**Double entry:**

- a debit to the bank account as money is coming in
- a credit to the capital account.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | | |

**Capital account**

| | £ | | £ |
|---|---|---|---|
| | | Bank | 20,000 |

(i) Purchase of a van for deliveries by writing a cheque for £5,500

- cash decreases
- the business has a non-current asset, the van.

**Double entry:**

- a credit to the bank account as cash is being paid out
- a debit to an asset account, the van account.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |

**Van account**

| | £ | | £ |
|---|---|---|---|
| Bank | 5,500 | | |

(ii) Purchase of goods for resale by a cheque for £2,000

- decrease in cash
- increase in purchases.

**Double entry:**

- a credit to the bank account as money is paid out
- a debit to the purchases account, an expense account.

Purchases of inventory are always recorded in a purchases account and never in an inventory account. The inventory account is only dealt with at the end of each accounting period and this will be dealt with in a later chapter.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| | | Purchases | 2,000 |

**Purchases account**

| | £ | | £ |
|---|---|---|---|
| Bank | 2,000 | | |

(iii) Payment of shop rental in cash, £500

- decrease in cash
- expense incurred.

**Double entry:**

- a credit to the bank account as money is paid out
- a debit to the rent account, an expense.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| | | Purchases | 2,000 |
| | | Rent | 500 |

**Rent account**

| | £ | | £ |
|---|---|---|---|
| Bank | 500 | | |

(iv) Sale of goods for cash of £2,500

- cash increases
- sales increase.

**Double entry:**

- a debit to the bank account as money is coming in
- a credit to the sales account, income.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| | | Rent | 500 |

**Sales account**

| | £ | | £ |
|---|---|---|---|
| | | Bank | 2,500 |

(v) Dan took £200 of cash for his own personal expenses

- cash decreases
- drawings increase (money taken out of the business by the owner).

**Double entry:**

- a credit to the bank account as money is paid out
- a debit to the drawings account.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| | | Rent | 500 |
| | | Drawings | 200 |

**Drawings account**

| | £ | | £ |
|---|---|---|---|
| Bank | 200 | | |

# 5 Double entry – credit transactions

## 5.1 Introduction

We will now introduce sales on credit and purchases on credit and the receipt of money from receivables and payment of money to payables. For the sales and purchases on credit there is no cash increase or decrease therefore the cash account rule cannot be used. Remember though that increase in income is always a credit entry and an increase in an expense is a debit entry.

## Example 2

Dan now makes some further transactions:

(i) purchases are made on credit for £3,000

(ii) sales are made on credit for £4,000

(iii) Dan pays £2,000 to the credit suppliers

(iv) £2,500 is received from the credit customers

(v) Dan returned goods costing £150 to a supplier

(vi) goods were returned by a customer which had cost £200.

State the two effects of each of these transactions and write them up in the appropriate ledger accounts.

**Solution**

(i) Purchases are made on credit for £3,000

- increase in purchases
- increase in payables (PLCA).

**Double entry**:

- a debit entry to the purchases account, an expense
- a credit to the payables account, a liability.

**Purchases account**

| | £ | | £ |
|---|---|---|---|
| Bank | 2,000 | | |
| Payables | 3,000 | | |

**Payables account (PLCA)**

| | £ | | £ |
|---|---|---|---|
| | | Purchases | 3,000 |

(ii) Sales are made on credit for £4,000

- increase in sales
- increase in receivables.

**Double entry:**

- a credit entry to the sales account, income
- a debit entry to the receivables account, an asset.

**Sales account**

| | £ | | £ |
|---|---|---|---|
| | | Bank | 2,500 |
| | | Receivables | 4,000 |

**Receivables account (SLCA)**

| | £ | | £ |
|---|---|---|---|
| Sales | 4,000 | | |

(iii) Dan pays £2,000 to the suppliers

- decrease in cash
- decrease in payables.

**Double entry:**

- a credit entry to the bank account as money is paid out
- a debit entry to payables as the liability is reduced.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| | | Rent | 500 |
| | | Drawings | 200 |
| | | Payables | 2,000 |

**Payables account (PLCA)**

| | £ | | £ |
|---|---|---|---|
| Bank | 2,000 | Purchases | 3,000 |

(iv) £2,500 is received from the credit customers

- increase in cash
- decrease in receivables.

**Double entry:**

- a debit entry in the bank account as money is received
- a credit entry to receivables as they are reduced.

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| Receivables | 2,500 | Rent | 500 |
| | | Drawings | 200 |
| | | Payables | 2,000 |

**Receivables account (SLCA)**

| | £ | | £ |
|---|---|---|---|
| Sales | 4,000 | Bank | 2,500 |

(v) Dan returned goods costing £150 to a supplier

- purchases returns increase
- payables decrease.

**Double entry:**

- a debit entry to the payables account as payables are now decreasing
- a credit entry to the purchases returns account (the easiest way to remember this entry is that it is the opposite of purchases which are a debit entry).

**Payables account (PLCA)**

| | £ | | £ |
|---|---|---|---|
| Bank | 2,000 | Purchases | 3,000 |
| Purchases returns | 150 | | |

**Purchases returns account**

| | £ | | £ |
|---|---|---|---|
| | | Payables | 150 |

(vi) Goods were returned by a customer which had cost £200

- sales returns increase
- receivables decrease.

**Double entry:**

- a credit entry to the receivables account as receivables are now decreasing
- a debit entry to sales returns (the opposite to sales which is a credit entry).

**Receivables account (SLCA)**

| | £ | | £ |
|---|---|---|---|
| Sales | 4,000 | Bank | 2,500 |
| | | Sales returns | 200 |

**Sales returns account**

| | £ | | £ |
|---|---|---|---|
| Receivables | 200 | | |

# 6 Balancing a ledger account

## 6.1 Introduction

Once the transactions for a period have been recorded in the ledger accounts it is likely that the owner will want to know certain matters, such as how much cash there is in the bank account, or how much has been spent on purchases? This can be found by balancing the ledger accounts.

## 6.2 Procedure for balancing a ledger account

The following steps should be followed when balancing a ledger account:

**Step 1**

Total both the debit and credit columns to find the higher total – enter this figure as the total for both the debit and credit columns.

**Step 2**

For the side that does not add up to this total put in the figure that makes it add up and call it the balance carried down, or 'bal c/d.'

**Step 3**

Enter the balance brought ('bal b/d') down on the opposite side below the totals.

## Example 3

We will now balance Dan's bank account

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| Receivables | 2,500 | Rent | 500 |
| | | Drawings | 200 |
| | | Payables | 2,000 |

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Capital | 20,000 | Van | 5,500 |
| Sales | 2,500 | Purchases | 2,000 |
| Receivables | 2,500 | Rent | 500 |
| | | Drawings | 200 |
| | | Payables | 2,000 |
| | | Balance c/d **Step 2** | **14,800** |
| **Step 1** | **25,000** | **Step 1** | **25,000** |
| Balance b/d **Step 3** | **14,800** | | |

## Test your understanding 3

(a) Show by means of ledger accounts how the following transactions would be recorded in the books of Bertie Dooks, a seller of second-hand books:

(i) paid in cash £5,000 as capital

(ii) took the lease of a stall and paid six months' rent – the yearly rental was £300

(iii) spent £140 cash on the purchase of books from W Smith

(iv) purchased on credit from J Fox books at a cost of £275

(v) paid an odd-job man £25 to paint the exterior of the stall and repair a broken lock

(vi) put an advertisement in the local paper at a cost of £2

(vii) sold three volumes containing The Complete Works of William Shakespeare to an American for £35 cash

(viii) sold a similar set on credit to a local schoolmaster for £3

(ix) paid J Fox £175 on account for the amount due to him

(x) received £1 from the schoolmaster

(xi) purchased cleaning materials at a cost of £2 and paid £3 to a cleaner

(xii) took £5 from the business to pay for his own groceries.

(b) Balance off the ledgers, clearly showing balance carried down (c/d) and balance brought down (b/d).

# 7 Ledger accounting and the trial balance

## 7.1 Introduction

### Definition – Trial balance

A trial balance is the list of the balances on all of the ledger accounts in an organisation's general (main, nominal) ledger.

## 7.2 Trial balance

The trial balance will appear as a list of debit balances and credit balances depending upon the type of account. If the double entry has been correctly carried out then the debit balance total should be equal to the credit balance total (this will be dealt with in more detail in a later chapter).

A trial balance lists all of the ledger account balances in the general ledger.

### 7.3 Preparing the trial balance

When all of the entries have been made in the ledger accounts for a period, the trial balance will then be prepared.

**Step 1**

Balance off each ledger account and bring down the closing balance.

**Step 2**

List each balance brought down as either a debit balance or a credit balance.

**Step 3**

Total the debit balances and the credit balances to see if they are equal.

#### Example 4

Given below are the initial transactions for Mr Smith, a sole trader. Enter the transactions in the ledger accounts using a separate account for each receivable and payable. Produce the trial balance for this sole trader at the end of 12 January 20X1.

| | |
|---|---|
| On 1 Jan 20X1 | Mr Smith put £12,500 into the business bank account. |
| On 2 Jan 20X1 | He bought goods for resale costing £750 on credit from J Oliver. He also bought on the same basis £1,000 worth from K Hardy. |
| On 3 Jan 20X1 | Sold goods for £800 to E Morecombe on credit. |
| On 5 Jan 20X1 | Mr Smith returned £250 worth of goods bought from J Oliver, being substandard goods. |
| On 6 Jan 20X1 | Sold goods on credit to A Wise for £1,000. |
| On 7 Jan 20X1 | Mr Smith withdrew £100 from the bank for his personal use. |
| On 8 Jan 20X1 | Bought a further £1,500 worth of goods from K Hardy, again on credit. |
| On 9 Jan 20X1 | A Wise returned £200 worth of goods sold to him on the 6th. |
| On 10 Jan 20X1 | The business paid J Oliver £500 by cheque, and K Hardy £1,000 also by cheque. |
| On 12 Jan 20X1 | Mr Smith banked a cheque for £800 received from E Morecombe. |

**Solution**

**Step 1**

Enter the transactions into the ledger accounts and then balance off each ledger account. Use a separate ledger account for each receivable and payable. (Note that in most examinations you will be required to complete the double entry for receivables and payables in the receivables and payables ledger control accounts, but for practice we are using the separate accounts.)

**Step 2**

Balance off each of the ledger accounts.

**Capital account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| | | | 1 Jan | Bank | 12,500 |

**Sales account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| | | | 3 Jan | E Morecombe | 800 |
| | Balance c/d | 1,800 | 6 Jan | A Wise | 1,000 |
| | | 1,800 | | | 1,800 |
| | | | | Balance b/d | 1,800 |

**Purchases account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 2 Jan | J Oliver | 750 | | | |
| 2 Jan | K Hardy | 1,000 | | | |
| 8 Jan | K Hardy | 1,500 | | Balance c/d | 3,250 |
| | | 3,250 | | | 3,250 |
| | Balance b/d | 3,250 | | | |

**Purchases returns account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| | | | 5 Jan | J Oliver | 250 |

**Sales returns account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 9 Jan | A Wise | 200 | | | |

**Drawings account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 7 Jan | Bank | 100 | | | |

**Bank account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 1 Jan | Capital | 12,500 | 7 Jan | Drawings | 100 |
| 12 Jan | E Morecombe | 800 | 10 Jan | J Oliver | 500 |
| | | | | K Hardy | 1,000 |
| | | | | Balance c/d | 11,700 |
| | | 13,300 | | | 13,300 |
| | Balance b/d | 11,700 | | | |

**E Morecombe account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 3 Jan | Sales | 800 | 12 Jan | Bank | 800 |

**A Wise account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 6 Jan | Sales | 1,000 | 9 Jan | Sales returns | 200 |
| | | | | Balance c/d | 800 |
| | | 1,000 | | | 1,000 |
| | Balance b/d | 800 | | | |

**J Oliver account**

| | | | | | |
|---|---|---|---|---|---|
| | | £ | | | £ |
| 5 Jan | Purchases returns | 250 | 2 Jan | Purchases | 750 |
| 10 Jan | Bank | 500 | | | |
| | | 750 | | | 750 |

**K Hardy account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 10 Jan | Bank | 1,000 | 2 Jan | Purchases | 1,000 |
| | Balance c/d | 1,500 | 8 Jan | Purchases | 1,500 |
| | | 2,500 | | | 2,500 |
| | | | | Balance b/d | 1,500 |

Note that accounts with only one entry do not need to be balanced as this entry is the final balance on the account.

**Step 3**

Produce the trial balance by listing each balance brought down as either a debit balance or a credit balance.

Make sure that you use the balance brought down below the total line as the balance to list in the trial balance.

**Step 4**

Total the debit and credit columns to check that they are equal.

**Trial balance as at 12 January 20X1**

| | *Debits* £ | *Credits* £ |
|---|---|---|
| Capital | | 12,500 |
| Sales | | 1,800 |
| Purchases | 3,250 | |
| Purchases returns | | 250 |
| Sales returns | 200 | |
| Drawings | 100 | |
| Bank | 11,700 | |
| A Wise | 800 | |
| K Hardy | | 1,500 |
| | 16,050 | 16,050 |

NB: E Morecombe and J Oliver have a nil balance so have not appeared in the trial balance.

## 7.4 Purpose of the trial balance

One of the main purposes of a trial balance is to serve as a check on the double entry. If the trial balance does not balance, i.e. the debit and credit totals are not equal then some errors have been made in the double entry (this will be covered in more detail in a later chapter).

The trial balance can also serve as the basis for preparing an extended trial balance (see later in this text) and finally the financial statements of the organisation.

### Test your understanding 4

Enter the following details of transactions for the month of May 20X6 into the appropriate books of account. You should also extract a trial balance as at 1 June 20X6. Open a separate ledger account for each receivable and payable, and also keep separate 'cash' and 'bank' ledger accounts. Balance off each account and prepare a trial balance.

20X6

| | |
|---|---|
| 1 May | Started in business by paying £6,800 into the bank. |
| 3 May | Bought goods on credit from the following: J Johnson £400; D Nixon £300 and J Agnew £250. |
| 5 May | Cash sales £300. |
| 6 May | Paid rates by cheque £100. |
| 8 May | Paid wages £50 in cash. |
| 9 May | Sold goods on credit: K Homes £300; J Homes £300; B Hood £100. |
| 10 May | Bought goods on credit: J Johnson £800; D Nixon £700. |
| 11 May | Returned goods to J Johnson £150. |
| 15 May | Bought office fixtures £600 by cheque. |
| 18 May | Bought a motor vehicle £3,500 by cheque. |
| 22 May | Goods returned by J Homes £100. |
| 25 May | Paid J Johnson £1,000; D Nixon £500, both by cheque. |
| 26 May | Paid wages £150 by cheque. |

## 7.5 Debit or credit balance?

When you are balancing a ledger account it is easy to see which side, debit or credit, the balance brought down is on. However if you were given a list of balances rather than the account itself then it is sometimes difficult to decide which side the balance should be shown in the trial balance, the debit or the credit?

There are some rules to help here:

- assets are debit balances
- expenses are debit balances
- liabilities are credit balances
- income is a credit balance.

This can be remembered using the 'DEAD CLIC' mnemonic.

## Test your understanding 5

The following balances have been extracted from the books of Fitzroy at 31 December 20X2:

**Prepare a trial balance at 31 December 20X2.**

| | £ | *Debit* | *Credit* |
|---|---|---|---|
| Capital on 1 January 20X2 | 106,149 | | |
| Freehold factory at cost | 360,000 | | |
| Motor vehicles at cost | 126,000 | | |
| Inventories at 1 January 20X2 | 37,500 | | |
| Receivables | 15,600 | | |
| Cash in hand | 225 | | |
| Bank overdraft | 82,386 | | |
| Payables | 78,900 | | |
| Sales | 318,000 | | |
| Purchases | 165,000 | | |
| Rent and rates | 35,400 | | |
| Discounts allowed | 6,600 | | |
| Insurance | 2,850 | | |
| Sales returns | 10,500 | | |
| Purchase returns | 6,300 | | |
| Loan from bank | 240,000 | | |
| Sundry expenses | 45,960 | | |
| Drawings | 26,100 | | |
| **TOTALS** | | | |

## Test your understanding 6

(1) The bank account for January is as follows:

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Balance b/d | 1,900 | Payables | 7,000 |
| Receivables | 2,500 | | |
| Cash sales | 500 | | |
| | ______ | | ______ |
| | ______ | | ______ |

At the end of the month there is a **debit/credit** balance of **£7,000/4,900/2,100.**

**Circle the correct answer**

(2) True or false, to increase a liability a debit entry is made.

True

False

**Tick the correct answer for task 2**

**Circle the correct answer for task 3, 4, 5, 6 and 7**

(3) When a sole trader uses goods for resale for his own personal use the drawings account is **Debited / Credited** and the purchases account is **Debited / Credited**.

(4) When a supplier is paid the bank account is **Debited / Credited** and the supplier account is **Debited / Credited**.

(5) When goods are sold to a receivable, the sales account is **Debited / Credited** and the receivable account is **Debited / Credited**.

(6) A bank overdraft is a **Debit / Credit** account in the trial balance.

(7) Discounts received are a **Debit / Credit** balance in the trial balance.

## Test your understanding 7

**Tony**

Tony started a business selling tapes and CDs. In the first year of trading he entered into the following transactions:

(a) Paid £20,000 into a business bank account.

(b) Made purchases from Debbs for £1,000 cash.

(c) Purchased goods costing £3,000 from Gary for cash.

(d) Paid £200 for insurance.

(e) Bought storage units for £700 cash from Debbs.

(f) Paid £150 cash for advertising.

(g) Sold goods to Dorothy for £1,500 cash.

(h) Paid the telephone bill of £120 in cash.

(i) Sold further goods to Dorothy for £4,000 cash.

(j) Bought stationery for £80 cash.

(k) Withdrew £500 cash for himself.

**Required:**

Show how these transactions would be written up in Tony's ledger accounts and balance off the accounts. Note you should enter bank and cash transactions into one ledger account.

## Test your understanding 8

**Dave**

Dave had the following transactions during January 20X3:

1 Introduced £500 cash as capital.

2 Purchased goods on credit from A Ltd worth £200.

3 Paid rent for one month, £20.

4 Paid electricity for one month, £50.

5 Purchased a car for cash, £100.

6 Sold half of the goods on credit to X Ltd for £175.

7 Drew £30 for his own expenses.

8 Sold the remainder of the goods for cash, £210.

**Required:**

Write up the relevant ledger accounts necessary to record the above transactions and balance off the accounts.

## Test your understanding 9

**Audrey Line**

Audrey Line started in business on 1 March, opening a toy shop and paying £6,000 into a business bank account. She made the following transactions during her first six months of trading:

| | £ |
|---|---|
| Payment of six months' rent | 500 |
| Purchase of shop fittings | 600 |
| Purchase of toys on credit | 2,000 |
| Payments to toy supplier | 1,200 |
| Wages of shop assistant | 600 |
| Electricity | 250 |
| Telephone | 110 |
| Cash sales | 3,700 |
| Drawings | 1,600 |

All payments were made by cheque and all inventories had been sold by the end of August.

**Required:**

Record these transactions in the relevant accounts.

## 8 Summary

In this opening chapter the basic principles of double entry bookkeeping have been revised from your basic accounting studies.

The basic principles of double entry are of great importance for this unit and in particular all students should be able to determine whether a particular balance on an account is a debit or a credit balance in the trial balance.

# Test your understanding answers

## Test your understanding 1

The balance on the capital account represents the investment made in the business by the owner. It is a special liability of the business, showing the amount payable to the owner at the statement of financial position date.

## Test your understanding 2

| | | |
|---|---|---|
| Assets | Non-current assets (5,000 + 6,000) | 11,000 |
| | Cash (15,000 – 6,000) | 9,000 |
| | Inventory (4,000 – 1,500) | 2,500 |
| | Receivables | 2,000 |
| | | 24,500 |

Assets – Liabilities = Ownership interest

£24,500 – £4,000 = £20,500

Ownership interest has increased by the profit made on the sale of inventory.

## Test your understanding 3

**Ledger accounts**

**Cash account**

| | £ | | £ |
|---|---|---|---|
| Capital account (i) | 5,000 | Rent (six months) (ii) | 150 |
| Sales (vii) | 35 | Purchases (iii) | 140 |
| Receivables (x) | 1 | Repairs (v) | 25 |
| | | Advertising (vi) | 2 |
| | | Payables (ix) | 175 |
| | | Cleaning (xi) | 5 |
| | | Drawings (xii) | 5 |
| | | Balance c/d | 4,534 |
| | 5,036 | | 5,036 |
| Balance b/d | 4,534 | | |

**Payable account (J Fox)**

| | £ | | £ |
|---|---|---|---|
| Cash (ix) | 175 | Purchases (iv) | 275 |
| Balance c/d | 100 | | |
| | 275 | | 275 |
| | | Balance b/d | 100 |

**Receivable account (School master)**

| | £ | | £ |
|---|---|---|---|
| Sales (viii) | 3 | Cash (x) | 1 |
| | | Balance c/d | 2 |
| | 3 | | 3 |
| Balance b/d | 2 | | |

**Capital account**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 5,000 | Cash (i) | 5,000 |
| | 5,000 | | 5,000 |
| | | Balance b/d | 5,000 |

**Sales account**

| | £ | | £ |
|---|---|---|---|
| | | Cash (vii) | 35 |
| Balance c/d | 38 | Receivables (Schoolmaster) (viii) | 3 |
| | 38 | | 38 |
| | | Balance b/d | 38 |

**Purchases account**

| | £ | | £ |
|---|---|---|---|
| Cash (iii) | 140 | Balance c/d | 415 |
| Payable (J Fox) (iv) | 275 | | |
| | 415 | | 415 |
| Balance b/d | 415 | | |

**Rent account**

| | £ | | £ |
|---|---|---|---|
| Cash (ii) | 150 | Balance c/d | 150 |
| | 150 | | 150 |
| Balance b/d | 150 | | |

**Repairs account**

| | £ | | £ |
|---|---|---|---|
| Cash (v) | 25 | Balance c/d | 25 |
| | 25 | | 25 |
| Balance b/d | 25 | | |

**Advertising account**

| | £ | | £ |
|---|---|---|---|
| Cash (vi) | 2 | Balance c/d | 2 |
| | 2 | | 2 |
| Balance b/d | 2 | | |

**Cleaning account**

| | £ | | £ |
|---|---|---|---|
| Cash (xi) | 5 | Balance c/d | 5 |
| | 5 | | 5 |
| Balance b/d | 5 | | |

**Drawings account**

| | £ | | £ |
|---|---|---|---|
| Cash (xii) | 5 | Balance c/d | 5 |
| | 5 | | 5 |
| Balance b/d | 5 | | |

## Test your understanding 4

**Cash account**

| | £ | | £ |
|---|---|---|---|
| 5 May Sales | 300 | 8 May Wages | 50 |
| | | 31 May Balance c/d | 250 |
| | 300 | | 300 |
| 1 June Balance b/d | 250 | | |

**Bank account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 1 May | Capital | 6,800 | 6 May | Rates | 100 |
| | | | 15 May | Office fixtures | 600 |
| | | | 18 May | Motor vehicle | 3,500 |
| | | | 25 May | J Johnson | 1,000 |
| | | | | D Nixon | 500 |
| | | | 26 May | Wages | 150 |
| | | | 31 May | Balance c/d | 950 |
| | | 6,800 | | | 6,800 |
| 1 June | Balance b/d | 950 | | | |

**J Johnson account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 11 May | Purchase returns | 150 | 3 May | Purchases | 400 |
| 25 May | Bank | 1,000 | 10 May | Purchases | 800 |
| 31 May | Balance c/d | 50 | | | |
| | | 1,200 | | | 1,200 |
| | | | 1 June | Balance b/d | 50 |

**D Nixon account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 25 May | Bank | 500 | 3 May | Purchases | 300 |
| 31 May | Balance c/d | 500 | 10 May | Purchases | 700 |
| | | 1,000 | | | 1,000 |
| | | | 1 June | Balance b/d | 500 |

**J Agnew account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 31 May | Balance c/d | 250 | 3 May | Purchases | 250 |
| | | | 1 June | Balance b/d | 250 |

**K Homes account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 9 May | Sales | 300 | 31 May | Balance c/d | 300 |
| | | 300 | | | 300 |
| 1 June | Balance b/d | 300 | | | |

**J Homes account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 9 May | Sales | 300 | 22 May | Sales returns | 100 |
| | | | 31 May | Balance c/d | 200 |
| | | 300 | | | 300 |
| 1 June | Balance b/d | 200 | | | |

**B Hood account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 9 May | Sales | 100 | 31 May | Balance c/d | 100 |
| 1 June | Balance b/d | 100 | | | |

**Capital account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 31 May | Balance c/d | 6,800 | 1 May | Bank | 6,800 |
| | | | 1 June | Balance b/d | 6,800 |

**Purchases account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 3 May | J Johnson | 400 | | | |
| | D Nixon | 300 | | | |
| | J Agnew | 250 | | | |
| 10 May | J Johnson | 800 | | | |
| | D Nixon | 700 | 31 May | Balance c/d | 2,450 |
| | | 2,450 | | | 2,450 |
| 1 June | Balance b/d | 2,450 | | | |

**Sales account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| | | | 5 May | Cash | 300 |
| | | | 9 May | K Homes | 300 |
| | | | | J Homes | 300 |
| 31 May | Balance c/d | 1,000 | | B Hood | 100 |
| | | 1,000 | | | 1,000 |
| | | | 1 June | Balance b/d | 1,000 |

**Rates account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 6 May | Bank | 100 | 31 May | Balance c/d | 100 |
| 1 June | Balance b/d | 100 | | | |

**Wages account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 8 May | Cash | 50 | | | |
| 26 May | Bank | 150 | 31 May | Balance c/d | 200 |
| | | 200 | | | 200 |
| 1 June | Balance b/d | 200 | | | |

**Purchase returns account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 31 May | Balance c/d | 150 | 11 May | J Johnson | 150 |
| | | | 1 June | Balance b/d | 150 |

**Office fixtures account**

| | | £ | | | £ |
|---|---|---|---|---|---|
| 15 May | Bank | 600 | 31 May | Balance c/d | 600 |
| 1 June | Balance b/d | 600 | | | |

**Motor vehicle account**

| | £ | | £ |
|---|---|---|---|
| 18 May Bank | 3,500 | 31 May Balance c/d | 3,500 |
| 1 June Balance b/d | 3,500 | | |

**Sales returns account**

| | £ | | £ |
|---|---|---|---|
| 22 May J Homes | 100 | 31 May Balance c/d | 100 |
| 1 June Balance b/d | 100 | | |

**Trial balance as at 30 May 20X6**

| | *Dr* £ | *Cr* £ |
|---|---|---|
| Cash | 250 | |
| Bank | 950 | |
| J Johnson | | 50 |
| D Nixon | | 500 |
| J Agnew | | 250 |
| K Homes | 300 | |
| J Homes | 200 | |
| B Hood | 100 | |
| Capital | | 6,800 |
| Purchases | 2,450 | |
| Sales | | 1,000 |
| Rates | 100 | |
| Wages | 200 | |
| Purchase returns | | 150 |
| Office fixtures | 600 | |
| Motor vehicles | 3,500 | |
| Sales returns | 100 | |
| | 8,750 | 8,750 |

## Test your understanding 5

**Trial balance at 31 December 20X2**

| | *Dr* | *Cr* |
|---|---|---|
| | £ | £ |
| Capital on 1 January 20X2 | | 106,149 |
| Freehold factory at cost | 360,000 | |
| Motor vehicles at cost | 126,000 | |
| Inventories at 1 January 20X2 | 37,500 | |
| Receivables | 15,600 | |
| Cash in hand | 225 | |
| Bank overdraft | | 82,386 |
| Payables | | 78,900 |
| Sales | | 318,000 |
| Purchases | 165,000 | |
| Rent and rates | 35,400 | |
| Discounts allowed | 6,600 | |
| Insurance | 2,850 | |
| Sales returns | 10,500 | |
| Purchase returns | | 6,300 |
| Loan from bank | | 240,000 |
| Sundry expenses | 45,960 | |
| Drawings | 26,100 | |
| | 831,735 | 831,735 |

## Test your understanding 6

(1) The bank account for January is as follows:

**Bank account**

| | £ | | £ |
|---|---|---|---|
| Balance b/d | 1,900 | Payables | 7,000 |
| Receivables | 2,500 | | |
| Cash sales | 500 | | |
| **Balance c/d** | **2,100** | | |
| | 7,000 | | 7,000 |
| | | **Balance b/d** | **2,100** |

The correct answer is **CREDIT** of **£2,100**.

(2) False.

(3) When a sole trader uses goods for resale for his own personal use the drawings account is **Debited** and the purchases account is **Credited**.

(4) When a supplier is paid the bank account is **Credited** and the supplier account is **Debited**.

(5) When goods are sold to a receivable, the sales account is **Credited** and the receivable account is **Debited**.

(6) A bank overdraft is a **Credit** balance in the trial balance.

(7) Discounts received are a **Credit** balance in the trial balance.

## Test your understanding 7

**Tony**

**Cash**

| | £ | | £ |
|---|---|---|---|
| Capital (a) | 20,000 | Purchases (b) | 1,000 |
| Revenue (g) | 1,500 | Purchases (c) | 3,000 |
| Revenue (i) | 4,000 | Insurance (d) | 200 |
| | | Storage units (e) | 700 |
| | | Advertising (f) | 150 |
| | | Telephone (h) | 120 |
| | | Stationery (j) | 80 |
| | | Drawings (k) | 500 |
| | | Balance c/d | 19,750 |
| | 25,500 | | 25,500 |
| Balance b/d | 19,750 | | |

**Capital**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 20,000 | Cash (a) | 20,000 |
| | 20,000 | | 20,000 |
| | | Balance b/d | 20,000 |

**Purchases**

| | £ | | £ |
|---|---|---|---|
| Cash (b) | 1,000 | Balance c/d | 4,000 |
| Cash (c) | 3,000 | | |
| | 4,000 | | 4,000 |
| Balance b/d | 4,000 | | |

**Insurance**

| | £ | | £ |
|---|---|---|---|
| Cash (d) | 200 | Balance c/d | 200 |
| | 200 | | 200 |
| Balance b/d | 200 | | |

**Storage units – cost**

| | £ | | £ |
|---|---|---|---|
| Cash (e) | 700 | Balance c/d | 700 |
| | 700 | | 700 |
| Balance b/d | 700 | | |

**Advertising**

| | £ | | £ |
|---|---|---|---|
| Cash (f) | 150 | Balance c/d | 150 |
| | 150 | | 150 |
| Balance b/d | 150 | | |

**Telephone**

| | £ | | £ |
|---|---|---|---|
| Cash (h) | 120 | Balance c/d | 120 |
| | 120 | | 120 |
| Balance b/d | 120 | | |

**Revenue**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 5,500 | Cash (g) | 1,500 |
| | | Cash (i) | 4,000 |
| | 5,500 | | 5,500 |
| | | Balance b/d | 5,500 |

**Stationery**

| | £ | | £ |
|---|---|---|---|
| Cash (j) | 80 | Balance c/d | 80 |
| | 80 | | 80 |
| Balance b/d | 80 | | |

**Drawings**

| | £ | | £ |
|---|---|---|---|
| Cash (k) | 500 | Balance c/d | 500 |
| | 500 | | 500 |
| Balance b/d | 500 | | |

## Test your understanding 8

**Dave**

**Cash**

| | £ | | £ |
|---|---|---|---|
| Capital | 500 | Rent | 20 |
| Revenue | 210 | Electricity | 50 |
| | | Drawings | 30 |
| | | Car | 100 |
| | | Balance c/d | 510 |
| | 710 | | 710 |
| Balance b/d | 510 | | |

**Capital**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 500 | Cash | 500 |
| | 500 | | 500 |
| | | Balance b/d | 500 |

**Purchases**

| | £ | | £ |
|---|---|---|---|
| Payables (A Ltd) | 200 | Balance c/d | 200 |
| | 200 | | 200 |
| Balance b/d | 200 | | |

**Payables**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 200 | Purchases | 200 |
| | 200 | | 200 |
| | | Balance b/d | 200 |

**Revenue**

| | £ | | £ |
|---|---|---|---|
| Balance c/d | 385 | Receivables (X Ltd) | 175 |
| | | Cash | 210 |
| | 385 | | 385 |
| | | Balance b/d | 385 |

**Receivables**

| | £ | | £ |
|---|---|---|---|
| Revenue | 175 | Balance c/d | 175 |
| | 175 | | 175 |
| Balance b/d | 175 | | |

**Electricity**

| | £ | | £ |
|---|---|---|---|
| Cash | 50 | Balance c/d | 50 |
| | 50 | | 50 |
| Balance b/d | 50 | | |

**Rent**

| | £ | | £ |
|---|---|---|---|
| Cash | 20 | Balance c/d | 20 |
| | 20 | | 20 |
| Balance b/d | 20 | | |

**Motor car**

| | £ | | £ |
|---|---|---|---|
| Cash | 100 | Balance c/d | 100 |
| | 100 | | 100 |
| Balance b/d | 100 | | |

**Drawings**

| | £ | | £ |
|---|---|---|---|
| Cash | 30 | Balance c/d | 30 |
| | 30 | | 30 |
| Balance b/d | 30 | | |

## Test your understanding 9

**Audrey Line**

**Cash**

| | £ | | £ |
|---|---|---|---|
| Capital | 6,000 | Rent | 500 |
| Revenue | 3,700 | Shop fittings | 600 |
| | | Payables | 1,200 |
| | | Wages | 600 |
| | | Electricity | 250 |
| | | Telephone | 110 |
| | | Drawings | 1,600 |
| | | Balance c/d | 4,840 |
| | 9,700 | | 9,700 |
| Balance b/d | 4,840 | | |

**Capital**

| | £ | | £ |
|---|---|---|---|
| | | Cash | 6,000 |

**Revenue**

| | £ | | £ |
|---|---|---|---|
| | | Cash | 3,700 |

**Shop fittings**

| | £ | | £ |
|---|---|---|---|
| Cash | 600 | | |

**Rent**

| | £ | | £ |
|---|---|---|---|
| Cash | 500 | | |

**Telephone**

| | £ | | £ |
|---|---|---|---|
| Cash | 110 | | |

**Drawings**

| | £ | | £ |
|---|---|---|---|
| Cash | 1,600 | | |

**Purchases**

| | £ | | £ |
|---|---|---|---|
| Payables | 2,000 | | |

**Payables**

| | £ | | £ |
|---|---|---|---|
| Cash | 1,200 | Purchases | 2,000 |
| Balance c/d | 800 | | |
| | 2,000 | | 2,000 |
| | | Balance b/d | 800 |

**Wages**

| | £ | | £ |
|---|---|---|---|
| Cash | 600 | | |

**Electricity**

| | £ | | £ |
|---|---|---|---|
| Cash | 250 | | |