

# BOOKKEEPING CONTROLS

## STUDY TEXT

### Qualifications and Credit Framework

**AQ2016**

This Study Text supports study for the following AAT qualifications:

AAT Foundation Certificate in Accounting – Level 2

AAT Foundation Diploma in Accounting and Business – Level 2

AAT Foundation Certificate in Bookkeeping – Level 2

AAT Foundation Award in Accounting Software – Level 2

AAT Level 2 Award in Accounting Skills to Run Your Business

AAT Foundation Certificate in Accounting at SCQF Level 5

## **British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library.

Published by  
Kaplan Publishing UK  
Unit 2, The Business Centre  
Molly Millars Lane  
Wokingham  
Berkshire  
RG41 2QZ

ISBN: 978-1-78740-507-3

The text in this material and any others made available by any Kaplan Group company does not amount to advice on a particular matter and should not be taken as such. No reliance should be placed on the content as the basis for any investment or other decision or in connection with any advice given to third parties. Please consult your appropriate professional adviser as necessary. Kaplan Publishing Limited and all other Kaplan group companies expressly disclaim all liability to any person in respect of any losses or other claims, whether direct, indirect, incidental, consequential or otherwise arising in relation to the use of such materials.

© Kaplan Financial Limited, 2019

Printed and bound in Great Britain.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of Kaplan Publishing.

# CONTENTS

	<i>Page number</i>
Introduction	P.5
Unit guide	P.9
The assessment	P.16
Unit link to the synoptic assessment	P.17
Study skills	P.18
<b>STUDY TEXT</b>	
<i>Chapter</i>	
1 Re-cap: Accounting for sales	1
2 Re-cap: Accounting for purchases	29
3 Re-cap: Ledger accounts and the trial balance	55
4 Errors and suspense accounts	75
5 Control accounts and reconciliations	103
6 Payroll procedures	133
7 Bank reconciliations	153
8 The banking system	175
Mock Assessment Questions	197
Mock Assessment Answers	215
Index	1.1

# 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](mailto:mykaplanreporting@kaplan.com) with full details, or follow the link to the feedback form in MyKaplan.

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'.

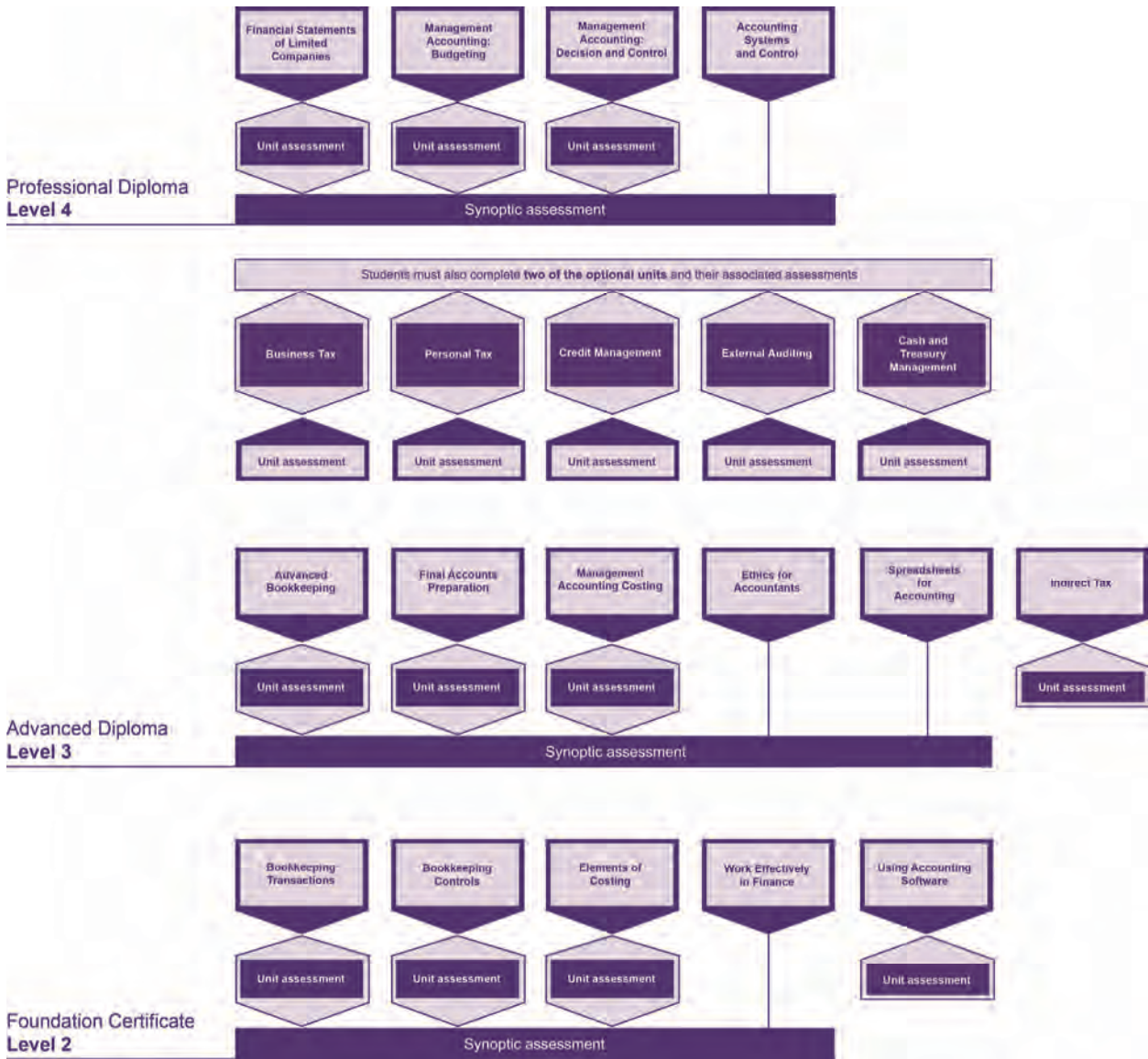
Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another.

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.

# BOOKKEEPING CONTROLS



# UNIT GUIDE

## Introduction

This unit is about control accounts, journals and methods of payment. It takes students through reconciliation processes and the use of the journal to the stage of re-drafting the trial balance, following initial adjustments.

This unit covers more complex Foundation Level bookkeeping procedures, which will enable students to develop their understanding of the relationship between the various accounting records and consolidate their knowledge of double-entry bookkeeping. Students will gain the confidence they need to perform well in the workplace and the unit will prepare them for greater responsibility.

Students will develop the ability to prepare the value added tax (VAT) control account as well as the sales and purchases ledger control accounts, including reconciliation with the sales and purchases ledgers. They will use the journal to record a variety of transactions, including the correction of errors. Students will be able to redraft the initial trial balance, following adjustments, and be able to identify different methods of payment and their use. They will learn to update the cash book following receipt of a bank statement, and also how to prepare a bank reconciliation statement.

This unit builds on the knowledge and skills acquired from studying Bookkeeping Transactions. Studying Bookkeeping Controls and consolidating the double-entry bookkeeping skills gained in Bookkeeping Transactions will also provide an important foundation for the financial accounting units at Advanced Level – Advanced Bookkeeping and Final Accounts Preparation.

This unit refers to value added tax or VAT. This is an indirect tax operating in the UK but this type of tax may also operate and be known by another name in other countries.

Bookkeeping Controls is a **mandatory** unit in this qualification.



## Learning outcomes

- 1 Understand payment methods
- 2 Understand controls in a bookkeeping system
- 3 Use control accounts
- 4 Use the journal
- 5 Reconcile a bank statement with the cash book

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. 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.

The specific items contained within each learning outcome and where to find them in this study text are detailed below.

	<b>Chapter</b>
<b>1 Understand payment methods</b>	
<b>1.1 Identify the appropriate use of different payment methods</b>	<b>8</b>
Students need to know:	
<ul style="list-style-type: none"><li>• different payment methods: cash, cheque, debit card, credit card, bank draft, standing order, direct debit, BACS (Bankers' Automated Clearing Services) direct credit, CHAPS (Clearing House Automated Payment System), Faster Payments.</li></ul>	

## BOOKKEEPING CONTROLS

### Delivering this unit

Unit name	Content links	Suggested order of delivery
Bookkeeping Transactions	This unit builds on the knowledge and skills acquired from studying Bookkeeping Transactions, in particular double-entry bookkeeping techniques and reconciliation processes.	It is recommended that Bookkeeping Controls is delivered either after, or at the same time as Bookkeeping Transactions.
Using Accounting Software	Prior completion of both Foundation Level manual bookkeeping units will benefit students studying Using Accounting Software. The skills and knowledge gained will enable students to understand the business environment and facilitate their comprehension of a computerised accounting system.	It is recommended that Bookkeeping Controls is delivered either before, or at the same time as Using Accounting Software.

### Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance.

- FA-3 Account for income and expenditure

# THE ASSESSMENT

## Test specification for this unit assessment

Assessment type	Marking type	Duration of exam
Computer based assessment	Computer marked	1½ hours

The assessment for this unit consists of 10 compulsory, independent, tasks.

The competency level for AAT assessment is 70%.

Learning outcomes		Weighting
1	Understand payment methods	5%
2	Understand controls in a bookkeeping system	5%
3	Use control accounts	20%
4	Use the journal	50%
5	Reconcile bank statement with the cash book	20%
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 Foundation Level 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 Foundation Diploma Synoptic Assessment

LO3 Use control accounts

LO4 Use the journal

LO5 Reconcile a bank statement with the cash book

## Terminology

Students should be familiar with IFRS terminology. Other terms are used in this document to match titles provided by the QCF.

Also note, under payroll the terms 'PAYE' and 'National Insurance Contributions (NIC)' may also be known as 'Income Tax' and 'Social Security' respectively.

# 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 questions in the study text at the back of the manual.

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-think 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. 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

While surveying the chapter ask yourself the questions you hope the chapter will answer for you.

## Re-cap: Accounting for sales

### Introduction

You previously studied the double entry bookkeeping for sales and receipts in detail within Bookkeeping Transactions. It is essential that you have completed your Bookkeeping Transactions studies prior to commencing your studies for Bookkeeping Controls.

When studying Bookkeeping Transactions you concentrated on the basic accounting entries so that the double entry would be clear. It is now time to build on these basic entries and study these transactions again using more realistic material.

#### ASSESSMENT CRITERIA

- N/A – Underpinning knowledge from Bookkeeping Transactions

#### CONTENTS

- 1 The sales day book
- 2 The analysed sales day book
- 3 The sales returns day book
- 4 Posting to the sales ledger
- 5 The analysed cash book
- 6 The two column cash book
- 7 Discounts

# 1 The sales day book

## 1.1 Introduction

The sales day book (SDB) is a book of prime entry where credit sales are recorded. Rather than produce a double entry every time a sale is made, these are instead recorded into a sales day book.

From invoices, items will be split into the gross, net and VAT amounts. This is because the three items are treated differently.

- The full total of the invoice is taken to the 'Total' column.
- The Value Added Tax (VAT) amount is taken to the 'VAT' column (Remember that VAT is calculated net of all discounts).
- The net amount is taken to the 'Net' column.

The total at the end of the period is then posted into the accounts as follows:

Dr	Sales ledger control account (SLCA)	X	
	Cr	Sales revenue	X
	Cr	VAT	X

The full (gross) amount is taken to the SLCA, as the customer owes the full amount. The net amount (the amount before VAT is added) is taken to sales revenue, as this is the amount the company can keep. The VAT amount is held as a liability, as this amount is due to be paid over to HM Revenue and Customs (HMRC).

While Bookkeeping Controls does not require the posting of individual sales or purchase invoices into day books, the knowledge of the double entry is key. The assessment will assume this knowledge, and it will become very important in later chapters when errors and journals are considered.

The following example provides us with a recap of the material from our Bookkeeping Transactions studies.



**Example 1**

Given below are three invoices that have been sent out by your organisation today. You are required to record them in the sales day book

Code	Description	Quantity	VAT rate	Unit price	Amount ex-VAT
			%	£	£
874 KL7	Brown Brick Roof Tiles	40	20	41.75	1,670.00
					1,670.00
VAT					334.00
Total amount payable					2,004.00



<b>INVOICE</b>					
<p><b>Invoice to:</b> McCarthy &amp; Sons Shepherds Moat Manchester M6 9LF</p> <p><b>Deliver to:</b> As above</p>		<p><b>A.J. Broom &amp; Company Limited</b> 59 Parkway Manchester M2 6EG Tel: 0161 560 3392 Fax: 0161 560 5322</p> <p>Invoice no: 69490 Tax point: 28 August 20X3 VAT reg no: 625 9911 58 Delivery note no: 68610 Account no: SL08</p>			
Code	Description	Quantity	VAT rate	Unit price	Amount ex-VAT
			%	£	£
617 BB8	Red Wall Bricks	400	20	2.00	800.00
294 KT6	Insulation Brick	3	20	146.04	438.12
					1,238.12
VAT					247.62
Total amount payable					1,485.74

	<b>INVOICE</b>					
<p><b>Invoice to:</b> Trevor Partner Anderson House Bank Street Manchester M1 9FP</p> <p><b>Deliver to:</b> As above</p>	<p align="center"><b>A.J. Broom &amp; Company Limited</b> 59 Parkway Manchester M2 6EG Tel: 0161 560 3392 Fax: 0161 560 5322</p> <p>Invoice no: 69491 Tax point: 28 August 20X3 VAT reg no: 625 9911 58 Delivery note no: 68613 Account no: SL10</p>					
<b>Code</b>	<b>Description</b>	<b>Quantity</b>	<b>VAT rate</b>	<b>Unit price</b>	<b>Amount ex-VAT</b>	
			%	£	£	
611 TB4	Bathroom Tiles	160	20	5.54	886.40	
					886.40	
VAT					177.28	
Total amount payable					1063.68	
<b>Solution</b>						
<b>SALES DAY BOOK</b>						
<b>Date</b>	<b>Invoice No</b>	<b>Customer name</b>	<b>Code</b>	<b>Total £</b>	<b>VAT £</b>	<b>Net £</b>
28/08/X3	69489	T J Builder	SL21	2,004.00	334.00	1,670.00
28/08/X3	69490	McCarthy & Sons	SL08	1,485.74	247.62	1,238.12
28/08/X3	69491	Trevor Partner	SL10	1,063.68	177.28	886.40

## 2 The analysed sales day book

### 2.1 Introduction

Many organisations analyse their sales into different groups. This may be analysis by different products or by the geographical area in which the sale is made. If the sales are eventually to be analysed in this manner in the accounting records then they must be analysed in the original book of prime entry, the sales day book.

Again, in Bookkeeping Controls you will not be required to produce an analysed day book. However, it is possible that you will be given an analysed day book as part of the information for you to use, so it is important that you are familiar with how it looks.



#### Example 2

You work for an organisation that makes sales to five different geographical regions. You are in charge of writing up the sales day book and you have listed out the details of the invoices sent out yesterday, 15 August 20X1. They are given below and must be entered into the sales day book and the totals of each column calculated. The VAT rate in use is 20%.

The invoice details are as follows:

	£
Invoice number 167 – Scotland Worldwide News – (Code W5)	
Net total	2,500.00
VAT	500.00
	-----
Gross	3,000.00
	-----
Invoice number 168 – North Local News – (Code L1)	
Net total	200.00
VAT	40.00
	-----
Gross	240.00
	-----

## BOOKKEEPING CONTROLS

Invoice number 169 – South	
The Press Today – (Code P2)	
Net total	300.00
VAT	60.00
	<hr/>
Gross	360.00
	<hr/>
Invoice number 170 – North	
Home Call – (Code H1)	
Net total	200.00
VAT	40.00
	<hr/>
Gross	240.00
	<hr/>
Invoice number 171 – Scotland	
Tomorrow – (Code T1)	
Net total	100.00
VAT	20.00
	<hr/>
Gross	120.00
	<hr/>
Invoice number 172 – East	
Worldwide News – (Code W5)	
Net total	3,000.00
VAT	600.00
	<hr/>
Gross	3,600.00
	<hr/>

**Solution**

SALES DAY BOOK										
Date	Invoice no	Customer name	Code	Total	VAT	East	West	North	South	Scotland
				£	£	£	£	£	£	£
15/08/X1	167	Worldwide	W5	3,000.00	500.00					2,500.00
	168	Local News	L1	240.00	40.00			200.00		
	169	The Press Today	P2	360.00	60.00				300.00	
	170	Home Call	H1	240.00	40.00			200.00		
	171	Tomorrow	T1	120.00	20.00					100.00
	172	Worldwide News	W5	3,600.00	600.00	3,000.00				
				7,560.00	1,260.00	3,000.00	-	400.00	300.00	2,600.00

When you have totalled the columns you can check your additions by 'cross-casting'. If you add together the totals of all of the analysis columns and the VAT column, they should total the figure in the 'Total' column.



**Test your understanding 1**

Sweepings Ltd is a wall covering manufacturer. It produces four qualities of wallpaper:

- 01 – Anaglypta
- 02 – Supaglypta
- 03 – Lincrusta
- 04 – Blown Vinyl

Francis is a sales ledger clerk and he is required to write up the sales day book each week from the batch of sales invoices he receives from the sales department.





### Test your understanding 2

Given below are the totals from the analysed sales day book for an organisation for a week.

Sales day book				
	Gross	VAT	Sales – Type 1	Sales – Type 2
	£	£	£	£
Totals	8,652.00	1,442.00	4,320.00	2,890.00

You are required to post these totals to the general ledger accounts given below:

#### SLCA account

£

£

#### Sales – Type 1 account

£

£

#### Sales – Type 2 account

£

£

#### VAT account

£

£

## 3 The sales returns day book

### 3.1 Introduction

When goods are returned by customers and credit notes sent out then these credit notes are also recorded in their own book of prime entry, the sales returns day book (SRDB).

### 3.2 Sales returns day book

The sales returns day book is effectively the reverse of the sales day book but will have the same entries, the total of the credit note including VAT, the VAT element and the net amount, excluding the VAT.



#### Example 3

Given below are the totals from three credit notes that your organisation has sent out this week, the week ending 21 January 20X4. They are to be recorded in the sales returns day book.

Credit note no:	03556	To: J Slater & Co	Code: SL67
		£	
Goods total		126.45	
VAT		25.29	
Credit note total		<u>151.74</u>	
Credit note no:	03557	To: Paulsons	Code: SL14
		£	
Goods total		58.40	
VAT		11.68	
Credit note total		<u>70.08</u>	



Credit note no:	03558	To: Hudson & Co	Code: SL27
		£	
Goods total		104.57	
VAT		20.91	
		<hr/>	
Credit note total		125.48	
		<hr/>	

**Solution**

Sales returns day book						
Date	Credit note no	Customer name	Code	Total	VAT	Net
				£	£	£
21/01/X4	03556	J Slater & Co	SL67	151.74	25.29	126.45
21/01/X4	03557	Paulsons	SL14	70.08	11.68	58.40
21/01/X4	03558	Hudson & Co	SL27	125.48	20.91	104.57

**3.3 Analysed sales returns day book**

If the business keeps an analysed sales day book then it will also analyse its sales returns day book in exactly the same manner.



**Example 4**

In an earlier example we considered the sales day book for an organisation that makes sales to five different geographical regions. The sales returns day book would also be analysed into these geographical regions. The details of two credit notes issued this week are given and are to be written up in the sales returns day book. Today's date is 21 October 20X6.

Credit note no: 0246 – West	To: Russell & Sons	Code: R03
	£	
Goods total	85.60	
VAT	17.12	
	<hr/>	
	102.72	
	<hr/>	

## BOOKKEEPING CONTROLS

Credit note no: 0247 – South                      To: Cleansafe                      Code: C07

	£
Goods total	126.35
VAT	25.27
	151.62
	151.62

### Solution

#### Sales returns day book

Date	Credit	Customer	Code	Total	VAT	East	West	North	South	Scotland
21/10/X6	0246	Russell & Sons	R03	102.72	17.12		85.60			
21/10/X6	0247	Cleansafe	C07	151.62	25.27				126.35	



### Test your understanding 3

A business analyses its sales into Product 1 sales and Product 2 sales. During the week ending 14 March 20X4 the following credit notes were sent out to customers.

- CN3066    £120.00 plus VAT – Product 2, Customer K Lilt, Code L04
- CN3067    £16.00 plus VAT – Product 1, Customer J Davis, Code D07
- CN3068    £38.00 plus VAT – Product 1, Customer I Oliver, Code O11
- CN3069    £80.00 plus VAT – Product 2, Customer D Sharp, Code S02

Enter the credit notes in the analysed sales returns day book given below and total the day book for the week.

#### Sales returns day book

Date	Credit note no	Customer name	Code	Total	VAT	Product 1	Product 2
				£	£	£	£



### Test your understanding 4

Given below are the totals from the analysed sales returns day book for an organisation for a week:

Date	Customer name	Credit note no	Code	Total	VAT	Sales Type 1	Sales Type 2
				£	£	£	£
25/09/X2				601.80	100.30	327.00	174.50

Post these totals to the general ledger accounts.

#### Sales ledger control account

£

£

#### Sales returns – Type 1

£

£

#### Sales returns – Type 2

£

£

#### VAT account

£

£

## 4 Posting to the sales ledger

As well as posting the totals from the books of prime entry to the general ledger accounts each individual invoice and credit note must also be posted to the individual customer's account in the sales ledger. You must remember that the sales ledger is sometimes referred to as the subsidiary sales ledger.

Remember that the subsidiary ledgers are **NOT** part of the double entry system. They merely split up the balance in the SLCA between individual customers so that companies can keep track of the amounts owed to them by specific customers.

As well as having the subsidiary ledgers, it is important for the business to maintain an aged receivables listing. This will ensure that the business is able to see which customers are not paying on time, and enable the business to contact the customer and request payment to prevent this becoming an irrecoverable debt, which is discussed further in chapter 4.



### Example 5

Here is an account from the sales ledger of Frosty Limited, a glass manufacturer which specialises in glassware for the catering trade.

Account name:	Account code:
£	£

You have taken over writing up the sales ledger because the ledger clerk has been ill for several months.

You have a new customer whose name is Arthur Pickering. The account code will be SP05 and you are required to post the information below into the sales ledger.

#### Sales invoices

Date	<i>Invoice/ credit number</i>	Gross £	VAT £	Net £
02/05/X1	325	598.06	99.67	498.39
03/06/X1	468	243.98	40.66	203.32
15/06/X1	503	115.84	19.30	96.54
16/06/X1	510	49.74	8.29	41.45
24/06/X1	CN048	28.32	4.72	23.60
17/07/X1	604	450.51	75.08	375.43

#### Solution

Account name: Arthur Pickering			Account code: SP05		
		£			£
02/05/X1	Inv 325	598.06	25/06/X1	CN048	28.32
03/06/X1	Inv 468	243.98			
15/06/X1	Inv 503	115.84			
16/06/X1	Inv 510	49.74			
17/07/X1	Inv 604	450.51			

Remember that sales invoices are always entered on the debit side of the customer's account and credit notes on the credit side.

## 5 The analysed cash book

### 5.1 Introduction

In order to revise the layout of the cash receipts book consider the following example.

#### Cash receipts book for the week commencing 15 September 20X4

<i>Date</i>	<i>Narrative</i>	<i>Total</i>	<i>VAT</i>	<i>SLCA</i>	<i>Cash/ cheque sales</i>
		£	£	£	£
15 Sept	Paying-in slip 584	653.90		653.90	
16 Sept	Paying-in slip 585	864.60		864.60	
17 Sept	Paying-in slip 586	954.98	11.24	887.54	56.20
18 Sept	Paying-in slip 587	559.57		559.57	
19 Sept	Paying-in slip 588	238.18	31.69	48.00	158.49
		3,271.23	42.93	3,013.61	214.69

The banking's are a mixture of cash sales and cheques from receivables. The VAT is just the VAT on the cash/cheque sales.

Check that the three analysis column totals add back to the total column total.



### Example 6

Returning to the cash receipts book, post the totals to the general ledger accounts.

#### Cash receipts book

<i>Date</i>	<i>Narrative</i>	<i>Total</i>	<i>VAT</i>	<i>SLCA</i>	<i>Cash/ cheque sales</i>
		£	£	£	£
15 Sept	Paying-in slip 584	653.90		653.90	
16 Sept	Paying-in slip 585	864.60		864.60	
17 Sept	Paying-in slip 586	954.98	11.24	887.54	56.20
18 Sept	Paying-in slip 587	559.57		559.57	
19 Sept	Paying-in slip 588	238.18	31.69	48.00	158.49
		<u>3,271.23</u>	<u>42.93</u>	<u>3,013.61</u>	<u>214.69</u>

#### Solution

The double entry for posting the cash receipts book totals is:

Dr	Bank account	£	3,271.23	£
Cr	VAT account			42.93
	Sales ledger control account			3,013.61
	Sales account			214.69

#### Bank account

	£	£
Cash receipts book (CRB)	3,271.23	

#### VAT account

	£	£
CRB		42.93

#### Sales ledger control account

	£	£
CRB		3,013.61

#### Sales

	£	£
CRB		214.69

# 6 The two column cash book

## 6.1 Introduction

Within Bookkeeping Transactions, the analysed cash receipts book and cash payments book were looked at separately.

A 'two column' cash book is the terminology used when the cash book details cash and bank transactions.

The cash book can be used as part of the double-entry system. In this case the only entries to be made in the general ledger are for the other side of the entry. If the cash relates to the SLCA the entry to the subsidiary sales ledger must also be posted.



### Test your understanding 5

#### Cash book – Debit side

Date	Details	Bank £
30 Nov	Balance b/d	10,472
30 Nov	SMK Ltd	12,000

(a) What will be the ONE entry in the sales ledger?

#### Sales ledger

Account name	Amount £	Debit/Credit

(b) What will be the ONE entry in the general ledger?

#### General ledger

Account name	Amount £	Debit/Credit



# 7 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 offered for different reasons.



## Definition – Trade discount

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.



## Definition – Bulk discount

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.



## Definition – Prompt payment discount

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

A trade discount or a bulk discount is a definite reduction in price from the list price whereas a prompt payment discount is only a reduction in price if the customer decides to take advantage of it by making early payment.

## VAT calculations and discounts

VAT is calculated after trade and bulk discounts have been deducted from the original list price, because the value of these discounts is known at the point of sale.

Prompt payment discounts are only available if the customer pays early, so they do not impact the VAT calculation at the point of the invoice preparation.

If the customer goes on to take advantage of a prompt payment discount offered, the VAT amount is adjusted.



**Example 7**

L sells £1,000 of goods net of VAT (at 20%) to M on credit. There is an agreed 10% trade discount with M. Enter these transactions in the accounts.

**Solution**

**Step 1** Calculate VAT on the sale.

	£
Original list price of goods	1,000.00
Less: 10% trade discount	(100.00)
	_____
Net invoice value	900.00
VAT (20% × £900)	180.00
	_____
Total (gross) invoice value	1,080.00

**Step 2** Enter the invoice in the accounts.

**Sales Ledger Control Account**

	£		£
Sales and VAT	1,080.00		
	£	<b>Sales</b>	£
		SLCA	900.00
	£	<b>VAT</b>	£
		SLCA	180.00

**Prompt payment discounts**

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

If the customer takes advantage of the prompt payment discount the VAT would be adjusted to reflect the discount taken. This adjustment could be by way of a credit note - the chosen method for the Bookkeeping Controls assessment criteria. The credit note to reflect this prompt payment discount is entered into the discounts allowed day book (DADB).

**Example 8**

Leo, a trader, sells goods for £500 (exclusive of VAT). He offers a 10% discount if payment is made within 7 days.

The amounts shown as due on the invoice will be:

Sales price	£500
VAT	£100
Amount due	£600

The invoice will state that a prompt payment discount of £60 ( $£600 \times 10\%$ ) can be deducted from the amount due if payment is made within 7 days. If the customer takes the discount the supplier must then issue a credit note for £60 i.e. £50 + VAT of £10. This credit note will be recorded in the discounts allowed day book.

To summarise, the accounting entries for a prompt payment discount are:

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

The gross amount is credited to the receivables account (SLCA). This is recognising the reduction to the receivable as a result of the discount and associated VAT charge.

The net amount is debited to the discounts allowed account. This is recognising an expense of allowing a discount. Note that this is for the VAT exclusive amount.

The VAT amount based on the discount allowed is debited to the VAT account in recognition that this amount is no longer owed to HMRC as there has been a reduction to the original price due to the customer taking advantage of a prompt payment discount.



**Test your understanding 6**

Given below are the details of paying-in slip 609 from Passiflora Products Ltd. You are required to enter the details in the sales ledger accounts given.

**Paying-in slip 609**

	<b>Amount received</b>	<b>Discount allowed</b>
	£	£
Natural Beauty	11,797.05	176.95
Grapeseed	417.30	6.26
New Age Remedies	6,379.65	95.69
The Aromatherapy Shop	9,130.65	136.96

**Natural Beauty**

	£		£
Opening balance	17,335.24		

**The Aromatherapy Shop**

	£		£
Opening balance	12,663.42		

**New Age Remedies**

	£		£
Opening balance	6,475.34		

**Grapeseed**

	£		£
Opening balance	423.56		

## **8** Summary

In this chapter we have pulled together into one place all the main documents and double entry for the sales cycle. If you have had any trouble with any of these points, you should refer again to the relevant chapters of the textbook for Bookkeeping Transactions where the double entry is explained. Bookkeeping Controls builds on your knowledge from Bookkeeping Transactions so it is important that you have a clear understanding.

Test your understanding answers



Test your understanding 1

SALES DAY BOOK

Date	Invoice	Customer	Code	Total	VAT	Group 01	Group 02	Group 03	Group 04
				£	£	£	£	£	£
06/09/X1	1700	Gates Stores		480.00	80.00	400.00			
06/09/X1	1701	Texas		1,800.00	300.00				1,500.00
07/09/X1	1702	Dickens		1,440.00	240.00				1,200.00
07/09/X1	1703	Hintons DIY		1,920.00	320.00		1,600.00		
08/09/X1	1704	Co-op Stores		240.00	40.00	200.00			
08/09/X1	1705	B & Q Stores		1,200.00	200.00			1,000.00	
09/09/X1	1706	Ferris Decor		960.00	160.00		800.00		
09/09/X1	1707	Ferris Decor		720.00	120.00				600.00
10/09/X1	1708	Homestyle		240.00	40.00			200.00	
10/09/X1	1709	Quick Style		120.00	20.00	100.00			
				9,120.00	1,520.00	700.00	2,400.00	1,200.00	3,300.00



Test your understanding 2

SLCA

	£	£
SDB	8,652.00	

Sales – Type 1 account

	£	£
SDB		4,320.00

Sales – Type 2 account

	£	£
SDB		2,890.00

VAT account

	£	£
SDB		1,442.00



### Test your understanding 3

#### SALES RETURNS DAY BOOK

<i>Date</i>	<i>Credit note</i>	<i>Customer name</i>	<i>Code</i>	<i>Total</i> £	<i>VAT</i> £	<i>Product 1</i> £	<i>Product 2</i> £
14/3/X4	3066	K Lilt	L04	144.00	24.00		120.00
14/3/X4	3067	J Davis	D07	19.20	3.20	16.00	
14/3/X4	3068	I Oliver	O11	45.60	7.60	38.00	
14/3/X4	3069	D Sharp	S02	96.00	16.00		80.00
				304.80	50.80	54.00	200.00



### Test your understanding 4

#### Sales ledger control account

£	£
SRDB	601.80

#### Sales returns – Type 1

£	£
SRDB	327.00

#### Sales returns – Type 2

£	£
SRDB	174.50

#### VAT account

£	£
SRDB	100.30



**Test your understanding 5**

**Sales ledger**

Account name	Amount £	Debit/Credit
SMK Ltd	12,000	Credit

**General ledger**

Account name	Amount £	Debit/Credit
SLCA	12,000	Credit



**Test your understanding 6**

**Natural Beauty**

	£		£
Opening balance	17,335.24	CRB	11,797.05
		DADB – discount	176.95

**The Aromatherapy Shop**

	£		£
Opening balance	12,663.42	CRB	9,130.65
		DADB – discount	136.96

**New Age Remedies**

	£		£
Opening balance	6,475.34	CRB	6,379.65
		DADB – discount	95.69

**Grapeseed**

	£		£
Opening balance	423.56	CRB	417.30
		DADB – discount	6.26