

BOOKKEEPING TRANSACTIONS

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

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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'.

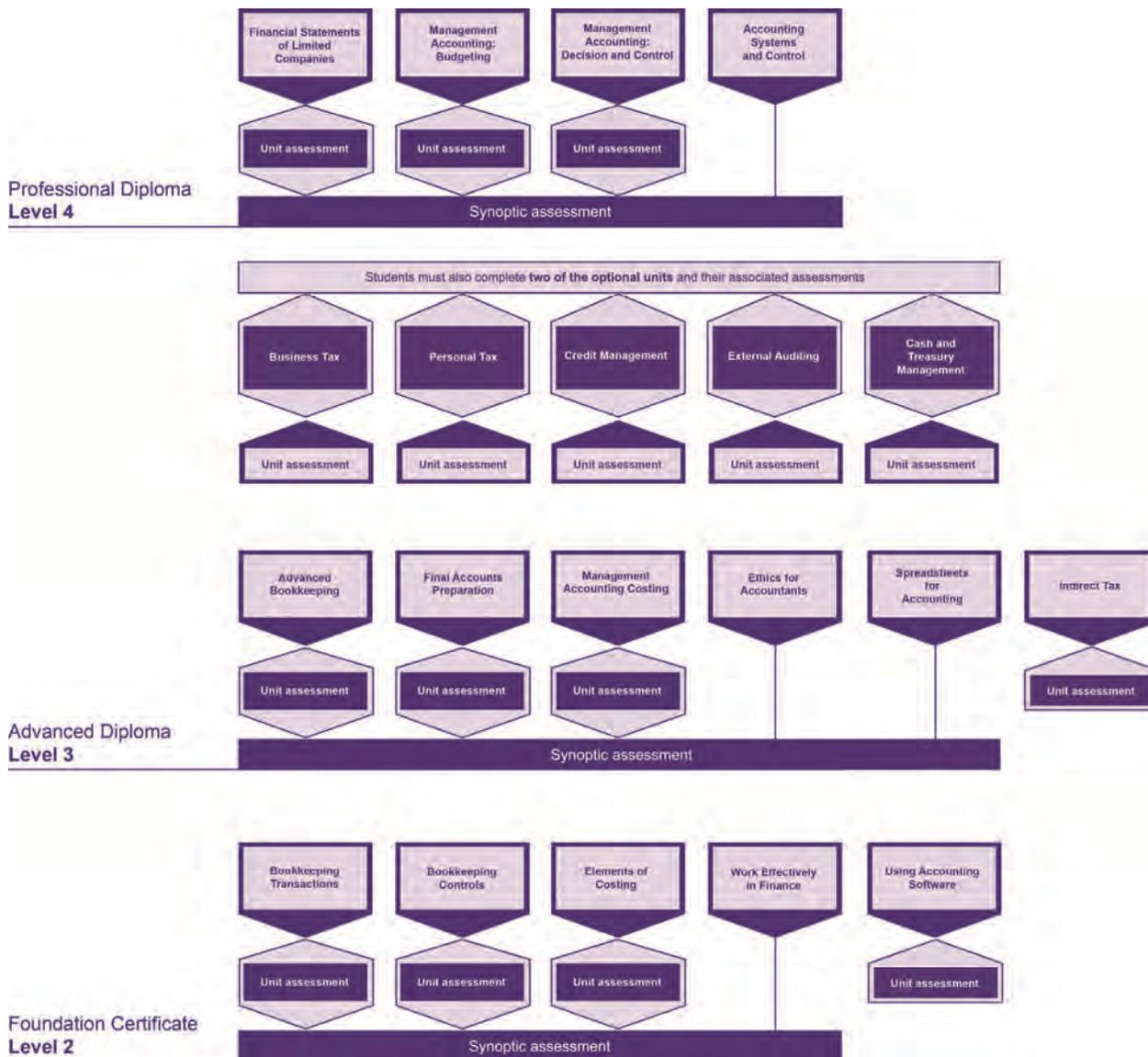
Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another.

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.

BOOKKEEPING TRANSACTIONS



UNIT GUIDE

Introduction

Bookkeeping Transactions introduces students to the double-entry bookkeeping system and the associated documents and processes. Students will reach the stage of extracting an initial trial balance, before any adjustments are made. This unit provides students with the skills necessary to operate a manual double-entry bookkeeping system and provides a strong foundation for progression to more advanced manual and computerised activities.

On completion of this unit, students will be able to check the accuracy of invoices, credit notes, remittance advices, statements of account and petty cash vouchers. They will know how to use these documents to make entries in sales and purchases daybooks, sales and purchases returns daybooks, and discounts allowed and received daybooks using account codes, as well as how to transfer those totals to the sales, purchases and general ledgers.

The UK government department responsible for collecting taxes (HMRC) offers more than one method of accounting treatment when prompt payment discount (PPD) is allowed and received. However, students at Foundation level are only required to use credit notes to adjust for PPD. Using this approach, credit notes are recorded in separate daybooks, a discounts allowed daybook and/or a discounts received daybook, removing the need for discount columns in the cash book. There is no requirement at this level for learners to understand how to account for PPD by any other method.

The cash book and petty cash book are also covered in this unit, including making entries into both and transferring totals to the ledgers. Students will make appropriate checks on the accuracy of supplier invoices and credit notes, reconcile supplier statements with the purchases ledger account and calculate payments due to suppliers. They will also calculate sales invoice and credit note amounts and check receipts from customers.

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 Transactions is a mandatory unit in this qualification.

Learning outcomes

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

- understand financial transactions within a bookkeeping system
- process customer transactions
- process supplier transactions
- process receipts and payments
- process transactions through the ledgers to the trial balance

Scope of content

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

	Chapter
1 Understand financial transactions within a bookkeeping system	
1.1 Indicate the purpose of business documents	1,8
Students need to know:	
<ul style="list-style-type: none">• the purpose of business documents: petty cash voucher, invoice, credit note (including for PPD), remittance advice, statement of account.	
1.2 Distinguish between prompt payment, trade and bulk discounts	1, 5, 6, 8
Students need to know:	
<ul style="list-style-type: none">• the difference between discounts offered: prompt payment, trade and bulk• how discounts are shown on invoices: prompt payment, trade and bulk• how to use credit notes to adjust for PPD and how PPD is recorded once taken: discounts allowed or discounts received daybook, sales or purchases ledger account, general ledger discounts allowed or received account as income or expenditure, sales or purchases ledger control account, value added tax (VAT) account.	

BOOKKEEPING TRANSACTIONS

Delivering this unit

Unit name	Content links	Suggested order of delivery
Bookkeeping Controls	Bookkeeping Transactions is the first of two bookkeeping units at Foundation level. With Bookkeeping Controls, it is the foundation for financial accounting at Advanced level.	It is recommended that Bookkeeping Transactions is delivered either before or at the same time as Bookkeeping Controls.
Elements of Costing	The use of codes in this unit links with Elements of Costing.	Elements of Costing might be delivered before, at the same time as or after Bookkeeping Controls.
Using Accounting Software	Bookkeeping Transactions gives students underlying knowledge that may support their study of Using Accounting Software.	It is recommended that Bookkeeping Transactions is delivered either before or at the same time as Using Accounting Software.

THE ASSESSMENT

Test specification for this unit assessment

Assessment type	Marking type	Duration of exam
Computer based assessment	Computer marked	1 hour and 30 minutes

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

The competency level for AAT assessment is 70%.

Learning outcomes	Weighting
1 Understand financial transactions within a bookkeeping system	10%
2 Process customer transactions	10%
3 Process supplier transactions	15%
4 Process receipts and payments	25%
5 Process transactions through the ledgers to the trial balance	40%
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 Certificate 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 Certificate in Accounting Synoptic Assessment

LO1 Understand financial transactions within a bookkeeping system

LO2 Process customer transactions

LO3 Process supplier transactions

LO4 Process receipts and payments

LO5 Process transactions through the ledgers to 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.

3 Read

Read through the chapter thoroughly working through the activities and, at the end, making sure that you can meet the learning objectives highlighted on the first page.

4 Recall

At the end of each section and at the end of the chapter, try to recall the main ideas of the section/chapter without referring to the text. This is best done after short break of a couple of minutes after the reading stage.

5 Review

Check that your recall notes are correct.

You may also find it helpful to re-read the chapter to try and see the topic(s) it deals with as a whole.

Note taking

Taking notes is a useful way of learning, but do not simply copy out the text.

The notes must:

- be in your own words
- be concise
- cover the key points
- be well organised
- be modified as you study further chapters in this text or in related ones.

Trying to summarise a chapter without referring to the text can be a useful way of determining which areas you know and which you don't.

Three ways of taking notes:**1 Summarise the key points of a chapter****2 Make linear notes**

A list of headings, subdivided with sub-headings, listing the key points.

If you use linear notes, you can use different colours to highlight key points and keep topic areas together.

Use plenty of space to make your notes easy to use.

3 Try a diagrammatic form

The most common of which is a mind map.

To make a mind map, put the main heading in the centre of the paper and put a circle around it.

Draw lines radiating from this to the main sub-headings which again have circles around them.

Continue the process from the sub-headings to sub-sub-headings.

Annotating the text

You may find it useful to underline or highlight key points in your study text – but do be selective.

You may also wish to make notes in the margins.

Revision phase

Kaplan has produced material specifically designed for your final examination preparation for this unit.

These include pocket revision notes and an exam kit that includes a bank of revision questions specifically in the style of the new syllabus.

Further guidance on how to approach the final stage of your studies is given in these materials.

Further reading

In addition to this text, you should also read the 'Accounting Technician' magazine every month to keep abreast of any guidance from the examiners.

Business documents

Introduction

The purpose of accounting is to record and classify business transactions. There are many transactions that a business may undertake; credit sales, credit purchases, cash sales, cash purchases, other expenses either paid from the bank or by cash, paying cash into the bank, withdrawing cash from the bank and owner's drawings.

Various documents may be used when dealing with business transactions. This chapter reviews the flow of a transaction through the accounting system paying particular attention to the business documents involved.

The name of a transaction or document will depend on whether we are looking at it from the point of view of the seller or the purchaser. Thus an invoice may be called a 'sales invoice' for the seller but a 'purchase invoice' for the purchaser, it is the same invoice. Similarly, the seller makes a 'sale' and the purchaser makes a 'purchase', it is the same transaction.

ASSESSMENT CRITERIA

- Indicate the purpose of business documents (1.1)
- Distinguish between prompt payment, trade and bulk discounts (1.2)
- Demonstrate an understanding of a coding system (1.3)
- Calculate invoice and credit note amounts (2.1)
- Check the accuracy of receipts from customers (2.3)
- Check the accuracy of supplier invoices and credit notes (3.1)

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- 1 Business transactions
- 2 The accounting system
- 3 Business documents for a credit transaction
- 4 Quotation
- 5 Purchase order
- 6 Sales order
- 7 Delivery note and goods received note
- 8 Invoice
- 9 Operation of VAT
- 10 Discounts
- 11 Preparing an invoice
- 12 Credit note
- 13 Coding

1 Business transactions

1.1 Introduction

Businesses may undertake many different financial transactions every day; credit sales, credit purchases, cash sales, cash purchases, other expenses either paid from the bank or by cash, paying cash into the bank, withdrawing cash from the bank and owner's drawings. These transactions are recorded on different business documents and are entered into an accounting system.

The Bookkeeping Transactions unit introduces the double-entry bookkeeping system and associated documents and processes.

1.2 Sales, purchases and expenses

Sales of goods or services and payment for purchases and expenses can be made on a cash or credit basis. Cash sales and purchases are relatively straightforward but credit sales and purchases require more accounting knowledge. Dependent upon whether we are the seller or the buyer dictates whether we view the transaction as a sale or purchase. The details of all aspects covered here will be dealt with in greater depth in later chapters.

1.3 Cash sales and purchases

A cash sale or purchase will normally be made in a retail environment. A customer will enter the shop, choose the goods they wish to buy then pay for them at the till or counter. The seller will tell the customer the price of the goods and the customer then offers payment for them, in the form of notes and coins. Alternatively, the customer may offer to pay for the goods by debit or credit card.

Finally, when the customer has paid for the goods, a receipt of some sort will be given to the customer. This may be printed automatically by the till or may be a handwritten receipt. The transaction is now complete.

1.4 Credit sales and purchases

The procedure for a sale or purchase on credit can be a bit more involved. The sale or purchase process will normally be initiated by a seller receiving an order from a customer. The purchase order from the customer may be in writing, over the telephone, by email, by fax or via a website. When your business receives the order, the first decision to be made is whether or not to allow the customer credit for this sale i.e. the period of time they can take before paying the invoice.

1.5 Offering credit

Selling goods on credit always involves an element of risk. The goods are taken away or delivered to the customer now with the promise of payment in the future. Therefore your business must be confident that the payment will be received. The decision process as to whether or not to make the sale on credit will be different depending upon whether this is a sale to an existing credit customer or a new customer.

1.6 Existing customers

If an existing credit customer wishes to make a further purchase on credit, it would be normal practice to carry out some basic checks. When the customer was originally accepted as a credit customer, a credit limit will have been set which should not be exceeded. Checks should be made to ensure that the new sale, when added to the amount currently owing, does not take the customer over their credit limit.

It would also be sensible to check that there have been no problems recently with receiving payment from this customer. If the checks are satisfactory then the credit sale can go ahead.

1.7 New customer

If a new customer asks for credit from your business then it would be normal practice to ask the customer to supply some trade references – names of other businesses that they trade with on credit that can vouch for their creditworthiness. Your business may also wish to check the customer's creditworthiness through an agency, or by asking for references from the customer's bank.

If the references and checks are satisfactory then a credit limit will be set for this customer and the sale can go ahead.

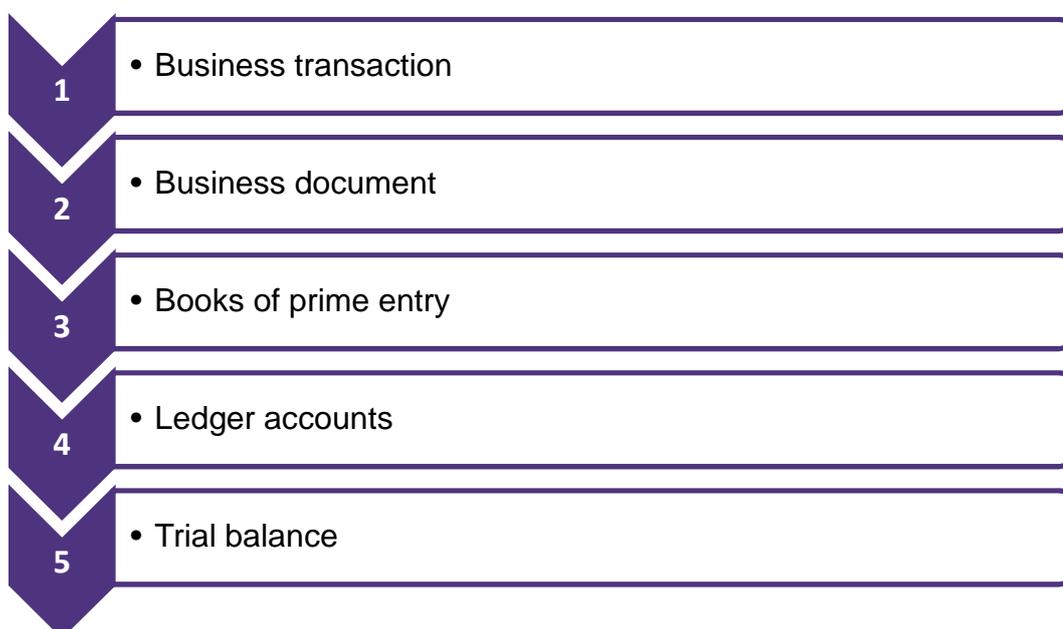
2 The accounting system

2.1 Introduction

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

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

2.2 Overview of the accounting system

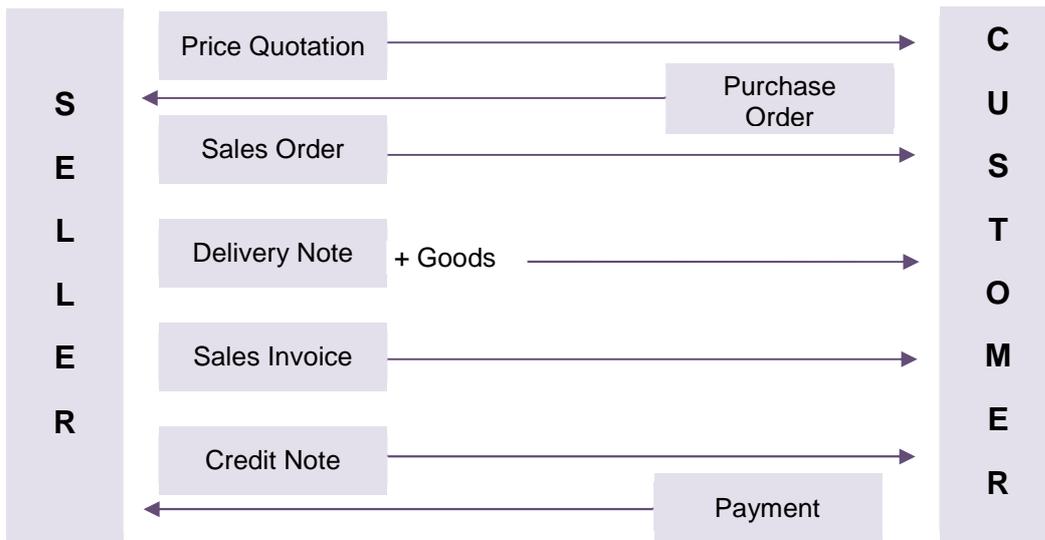


- (1) Initially a **business transaction** will take place; a credit sale, a credit purchase, a cash sale, a cash purchase, another expense either paid from the bank or by cash, cash paid into the bank, withdrawal of cash from the bank and owner's drawings.
- (2) A **business document** will be produced 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'. These are reviewed in chapter 2 of this text.
- (4) The transactions that have been recorded in the books of prime entry are transferred into **ledger accounts** on a regular basis. Ledger accounts are used as part of the double entry accounting system. Double entry bookkeeping is introduced in chapter 3.
- (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. The trial balance is studied as part of ledger accounting in chapter 4.

3 Business documents for a credit transaction

3.1 Overview

The main document flows for a credit transaction are illustrated below. The various documents are described in the sections that follow.



4 Quotation

4.1 Price enquiry

The first stage of the process for a credit sale may be the receipt of a price enquiry from a customer.

The price enquiry may be a formal written document, an email enquiry or a telephone call. When responding to a price enquiry it is important that you make sure that the price you quote is the correct one as if it is incorrect you may find that you are contracted to sell the goods at that price under contract law.

4.2 Price quotation

It is common practice to quote prices on a website if there is a standard price list from which there are no variations. However, some businesses will be prepared to offer certain customers goods at different prices or offer a discount. Therefore it is often the case that a price quotation is sent out to a customer showing the price at which the goods that they want can be bought.

Different types of discounts given or offered to customers will be considered in section 10 of this chapter.

A typical price quotation is shown:

City Woods Suppliers



192 Old Kent Road
London
SE1 8QT

*Name, address and contact details
of business quoting price*

Tel: 020 7248 7009 – Email: sales@citywoodssuppliers.co.uk

QUOTATION

TO: Alpha Limited
Mountjoy Street
London W12 6RS

*Name and address of
customer*

Date: 14 Sept 20X3

Today's date

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

Chipboard sheeting 6' x 4' Code CB0351 £23.00 per unit, excluding VAT

*Details of
goods*

J Kramer

Sales Manager

*Authorisation
signature*

*Price being
quoted*

The price quotation is an important document as this is the price that your organisation is now contracted to sell the goods at. Therefore it is important that it is authorised by an appropriate person in the organisation.

5 Purchase order

5.1 The purchase order



Definition – Purchase order

A buyer generated document that authorises a purchase transaction.

BOOKKEEPING TRANSACTIONS

If the customer is happy with the price quotation that they have received from a business then they will place a firm order with the business. The order may be by telephone, email, fax or it may be in writing. Whichever method is used for the purchase order, it is important to check all of the details carefully.

- Does the price agree to what was quoted to the customer?
- Are the delivery terms acceptable?
- Are any discounts applicable?

A typical purchase order follows. Note that the purchase order has been authorised by an appropriate person in the customer's organisation.

PURCHASE ORDER						
<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>ALPHA LTD</p> <p>Mountjoy Street Shepherd's Bush LONDON W12 6RS</p> <p>Tel: 0208 741 2962 Email: enquiries@alpha.co.uk Date: 17 September 20X3 Purchase order no: P01562 VAT Reg no: 413 2790 04</p> </div> <div style="width: 65%; font-size: small; color: purple;"> <p><i>Name and address of business placing the order</i></p> <p><i>Order date</i></p> <p><i>Sequential order number</i></p> <p><i>VAT registration number of business placing the order</i></p> <p><i>Name and address of business the order is being placed with</i></p> </div> </div>						
<table style="width: 100%; border: none;"> <tr> <td style="border: 1px solid black; padding: 5px; width: 45%;"> <p>To: City Woods Suppliers 192 Old Kent Road London SE1 8QT</p> </td> <td style="border: 1px solid black; padding: 5px; width: 55%;"> <p>Delivery address (if different from above) 26 New Road Milton Keynes MK25 2BA</p> </td> </tr> </table>					<p>To: City Woods Suppliers 192 Old Kent Road London SE1 8QT</p>	<p>Delivery address (if different from above) 26 New Road Milton Keynes MK25 2BA</p>
<p>To: City Woods Suppliers 192 Old Kent Road London SE1 8QT</p>	<p>Delivery address (if different from above) 26 New Road Milton Keynes MK25 2BA</p>					
<i>Product</i>	<i>Ref</i>	<i>Quantity</i>	<i>Price per unit (ex VAT) £</i>	<i>Total (ex VAT) £</i>		
Chipboard sheeting 6' x 4'	CB0351	10	23.00	230		
<p>Signed: <u>J Rowlands</u> <i>Authorisation signature</i></p> <p style="text-align: center;">Purchasing Manager</p>						

6 Sales order

6.1 Confirming sales orders



Definition – Sales order

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

To avoid misunderstandings, a supplier will normally confirm a customer's order by completing a **sales order**, even if the customer has already sent a written purchase order.

A **sales order** confirms the terms on which goods will be sold including:

- quantity/type of goods or service
- date of supply
- delivery address
- price and payment terms including any discounts given or offered.

City Woods Suppliers



192 Old Kent Road
London
SE1 8QT

*Name and address
of business making
the sale*

Tel: 020 7248 7009 – Email: sales@citywoodssuppliers.co.uk

SALES ORDER

To:

Alpha Limited
Mountjoy St
London W12 6RS

*Name and
address of
customer*

Delivery:

26 New Road
Milton Keynes
MK25 2BA

Delivery date:

25 September 20X3

*Sales order
number*

Date: 20 September 20X3

Sales order number: 41161

We confirm the following order to be delivered as above.
Please note our credit terms are strictly 30 days net.

Code	Quantity	Description	Unit price (excl VAT)	Discount
CB0351	10	Chipboard sheeting 6' x 4'	£23.00	NIL

Details of goods

Price of goods

Authorised: P. Anders

*Authorisation
signature*

Date: 20 September 20X3

7

Delivery note and goods received note

7.1 Introduction

When negotiations over the price and terms of the credit sale have been completed, then the goods will be delivered.

7.2 Delivery notes



Definition – Delivery note

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

Delivery notes should have **sequential numbers** that are either pre-printed for a manual system or computer generated in a computer system, and should be used in order. Spoiled or scrapped delivery notes should be cancelled and retained.

There will normally be three parts to a delivery note:

- Part one – This is kept by the **customer** in order to compare to the purchase order and then to the sales invoice.
- Part two – This is signed and returned to the **supplier** of the goods as evidence that the goods have been received by the customer in good condition.
- Part three – This is signed and kept by the **delivery organisation** such as a courier, as evidence that they have delivered the goods and that the customer has received them.

City Woods Suppliers 192 Old Kent Road London SE1 8QT		
Tel: 020 7248 7009 – Email: sales@citywoodssuppliers.co.uk DN 005673		
DELIVERY NOTE		
To: Alpha Limited Mountjoy St London W12 6RS	Delivery: 26 New Road Milton Keynes MK25 2BA	Delivery date: 25 September 20X3
Date: 25 September 20X3		Sales order number: 41161
We confirm the following order to be delivered as above.		
<i>Product</i>	<i>Code</i>	<i>Quantity</i>
Chipboard 6' x 4'	CB0351	10
Received in good condition: <i>A Patel</i>		

7.3 Goods received notes



Definition – Goods received note

A goods received note is an internal document completed by the purchaser that records the details of goods received and contains similar information to a delivery note.

BOOKKEEPING TRANSACTIONS

The goods received note is often compared to the purchase order as part of a payment authorisation process. The information that a goods received note contains includes:

- supplier name
- quantity/type of goods or service
- the associated purchase order reference and delivery note number
- the name and reference of the carrier for delivery (if different from the supplier).

GOODS RECEIVED NOTE			
<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>ALPHA LTD</p> <p>Date: 25 September 20X3</p> <p>GRN no: 1972</p> </div> <div style="width: 65%; font-style: italic; color: purple;"> <p>An internal document produced by the customer</p> <p>Date of receipt of goods</p> <p>Sequential GRN number</p> </div> </div>			
From: City Woods Suppliers 192 Old Kent Road London SE1 8QT	Carrier: City Woods Supplier		
Supplier	Details of delivery provider		
<i>Product</i>	<i>Quantity</i>	<i>Purchase order number:</i>	<i>Delivery note number:</i>
Chipboard sheeting 6' x 4'	10	P01562	DN 005673
Received by: A Patel Checked by: C Chambers			
Authorisation signatures			
Comments: <i>Satisfactory condition - no issues.</i>			
Confirmation of satisfactory receipt of goods or of issues with the condition of goods or quantity received.			

8

Invoice

8.1 The sales invoice



Definition – Sales invoice

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

When the goods have been delivered the seller must prepare and send out the sales invoice.

In a manual system, sales invoices must be prepared from the details shown on delivery notes. Delivery notes do not normally show details of prices, discounts or VAT. (This is because the purchaser might mistake the delivery note for a sales invoice.) Price, discounts and VAT are shown on the sales invoice.

Sales invoices should have pre-printed sequential numbers and should be used in order. Spoiled or scrapped sales invoices should be cancelled and retained.

In a computerised system, the sales invoice will normally be produced at the same time as the delivery note and will be identical except that the delivery note may not have details of price, etc, and they are usually a different colour to distinguish them easily.

If the business is VAT registered (the operation of VAT is reviewed in section 9) the VAT registration number must be detailed on the sales invoice.

9 Operation of VAT

9.1 Introduction



Definition – VAT (sales tax)

VAT (sales tax) is a consumption tax added to a product's selling price. It represents a tax on the 'value added' to the product at each stage of a production or supply process.



Definitions – Output and input tax

VAT is charged on the **taxable supply of goods and services** in the United Kingdom by a **taxable person** in the course of a business carried on by him.

Output tax is the tax charged on the sale of goods and services

Input tax is the tax paid on the purchase of goods and services

Sales tax (VAT) is a tax levied on **consumer** expenditure. However the procedure is that it is collected at each stage in the production and distribution chain. Most businesses (being **taxable persons** as defined later) avoid having to treat VAT as an expense as they may deduct the VAT they have paid on their purchases (**input tax**) from the VAT they charge to customers on their sales (**output tax**) and pay only the net output tax to the tax authorities (HM Revenue and Customs).

9.2 How VAT works

Let us examine a simple illustration. We will assume a standard rate of 20%, and follow one article, a wooden table, through the production and distribution chain.

- A private individual cuts down a tree and sells it to a timber mill for £10. **Tax effect** – none. The individual is not a 'taxable person' in this case.
- The timber mill saws the log into planks and sells the timber to a furniture manufacturer for £100 + VAT.

Tax effect – Being a taxable person, the mill is obliged to charge its customers VAT at 20% on the selling price (output tax). There is no VAT paid on the purchase cost (input tax) available for offset.

Cash effect – The mill collected £120 from the customer (or has a receivable for this sum). Of this, £20 will be paid to HMRC and therefore only £100 would be recognised as sales.

- The manufacturer makes a table from the wood, and sells this to a retailer for £400 + VAT.

Tax effect – The manufacturer is obliged to charge VAT at 20% on the selling price (i.e. £80), but in this instance would be allowed to reduce this amount by setting off the input tax of £20 charged on the purchase of wood from the mill.

Cash effect – Tax of £60 is paid to the tax authorities (HM Revenue and Customs) (output less input tax = £80 - £20). £400 is recognised as sales and £100 as purchases in the accounts of the manufacturer.

- The retailer sells the table to a private customer for £1,000 plus VAT of £200. **Tax effect** – The retailer charges £200 of VAT to the customer but against this output tax may be set off the input tax of £80 charged on the purchase from the manufacturer.

Cash effect – £120 (£200 – £80) is paid to HMRC. Purchases would be shown in the books at £400 and sales at £1,000.

- **The private customer** – VAT is a tax levied on consumer expenditure and the chain ends here. The customer is not a taxable person, and cannot recover the tax paid.

You will note that everybody else has passed the sales tax on and, though the customer has paid his £200 to the retailer, HMRC has received its tax by contributions from each link in the chain, as shown below:

	£
Timber mill	20.00
Manufacturer	60.00
Retailer	120.00
	200.00

9.3 Taxable supply of goods and services

Taxable supply is the supply of all items except those which are **exempt**. Examples of exempt items are as follows:

- certain land and buildings, where sold, leased or hired
- insurance
- Post Office postal services
- Admission charges to museums, art galleries etc.
- betting, gaming and lotteries.

Input tax cannot be reclaimed where the trader's supplies are all exempt.

9.4 Rates of VAT

In the UK, there are three rates of VAT on taxable supplies. Some items are 'zero-rated' (similar to exempt except that input tax can be reclaimed), there is a special rate of 5% for domestic fuel and power, and all other items are rated at the standard rate of 20%. Examples of 'zero-rated' supplies include:

- water and most types of food stuffs (i.e. not hot food and not eating in as service is also provided which is taxable)
- books and newspapers
- drugs and medicines
- children's clothing and footwear.

9.5 Non-deductible VAT

VAT on some items is non-deductible. This means that VAT on any purchases of these items can never be deducted from the amount of tax payable to HMRC. The business has to bear the VAT as an expense.

Non-deductible items include:

- motor cars
- business entertaining.

For our purposes you will normally be dealing with taxable supplies at the standard rate of 20%.

9.6 Taxable person

A taxable person is any individual, partnership, company, etc who intends to make taxable supplies and is liable to register.

A person is liable to register if the value of his taxable supplies exceeds a specified amount in a 12-month period. Most companies and partnerships and many sole traders are liable to register.

9.7 VAT exclusive amounts



Definition – Net of VAT

A net amount excludes VAT.

If you are given the net price of goods, the price excluding VAT, then the amount of VAT is 20/100 of this price.

Note: VAT is always rounded down to the nearest penny.



Example 1

A sale is made for £360.48 plus VAT. What is the amount of VAT to be charged on this sale?

Solution

$$\text{VAT} = £360.48 \times 20/100 = £72.09$$

Remember to round down to the nearest penny.

An alternative way of calculating this would be to multiply the net amount of £360.48 by 20%:

$$\text{VAT} = £360.48 \times 20\% = £72.09$$

9.8 VAT inclusive amounts



Definition – Gross of VAT

A gross amount includes VAT.

If a price is given that already includes the VAT then calculating the VAT requires an understanding of the price structure:

	%
Selling price incl. VAT (gross)	120
VAT	20
	<hr/>
Selling price excl. VAT (net)	100
	<hr/>



Example 2

Goods have a selling price of £3,000 inclusive of VAT. What is the VAT on the goods and the net price of these goods?

Solution

	£
Net price ($£3,000 \times 100/120$)	2,500
VAT ($£3,000 \times 20/120$)	500
	<hr/>
Gross price (selling price)	3,000
	<hr/>



Test your understanding 1

What is the amount of VAT on each of the following transactions?

- (i) £100 net of VAT
- (ii) £250 net of VAT
- (iii) £480 including VAT (gross)
- (iv) £600 including VAT (gross)



Test your understanding 2

Dora Ltd ordered some goods from Swipey Ltd, the purchase order and the sales invoice are provided below. You should review these documents and identify any discrepancies.

PURCHASE ORDER				
<p><i>Dora Ltd</i> Leek Lane Northwich Cheshire CW7 5HU Tel: 01565 734 879 Email: enquiries@doraltd.co.uk</p> <p>Date: 15 April 20X5 Purchase order no: P0987 VAT Reg no: 414 7985 05</p>				
To: Swipey Ltd, Keats Lane, Knutsford, Cheshire, WA16 7HT			Delivery address As above	
<i>Product</i>	<i>Code</i>	<i>Quantity</i>	<i>Price per unit (ex VAT) £</i>	<i>Total (ex VAT) £</i>
Cream leather chairs	CL101	20	98.00	1,960.00
Signed: <i>Lee-Anne Rogers</i> Purchasing Manager				

Swipecy Ltd

Keats Lane
Knutsford
Cheshire
WA16 7HT



Tel: 01565 879 852
Email: swipecy@swipecyltd.co.uk

Invoice number: 15963
Invoice date: 20 April 20X5
VAT reg no: 687 2241 87
Delivery note: DN00154
Account no: DORA1

SALES INVOICE

To:	Delivery:	Delivery date:
Dora Ltd	Leek Lane	20 April 20X5
Leek Lane	Northwich	
Northwich	Cheshire	
Cheshire	CW7 5HU	
CW7 5HU		

Date: 20 April 20X5 **Sales order number:** 1569

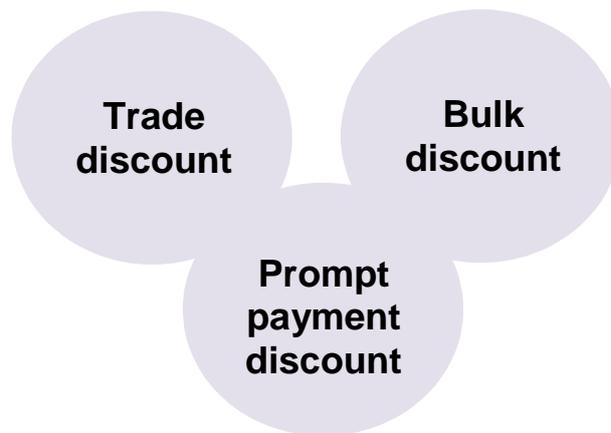
We confirm the following order to be delivered as above.

<i>Product</i>	<i>Code</i>	<i>Quantity</i>	<i>Price per unit</i> £	<i>Total</i> £
Cream leather chairs	CL100	20	100.00	2,000.00
			VAT	400.00
			Total	2,400.00

10 Discounts

10.1 Introduction

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



10.2 Trade discounts



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.

A trade discount will appear on the invoice. It will be deducted from the list price of the goods before VAT is calculated.

The calculation of the trade discount on the face of the invoice should be checked and it should be agreed that the correct percentage of trade discount has been deducted.

10.3 Bulk discounts



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.

A bulk discount must be checked to the agreement between customer and supplier, to ensure that the correct discount has been deducted. The deduction of a bulk discount will appear on the invoice, deducted from the list price before VAT is calculated.

10.4 Prompt payment discount



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.

The details of the prompt payment discount will normally be shown at the bottom of the sales invoice and it is up to the customer to decide whether to pay the invoice early enough to benefit from the prompt payment discount or whether to delay payment and ignore the prompt payment discount. No deduction will occur for a prompt payment discount on the invoice, it will just be offered to the customer.

The agreement between the customer and supplier should be checked to confirm that the correct percentage of prompt payment discount according to the terms has been offered.

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 organisation decides to take advantage of it by making early payment.

10.5 VAT calculations and discounts

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

Prompt payment discounts are only offered on an invoice so it does not 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 – this is looked at in more detail in chapter 5 of this text.

11 Preparing an invoice

11.1 Preparing a sales invoice

In order to prepare the sales invoice the customer master file must be found. This will show the details of any discounts given or offered to this customer.



Example 3

Preparing a sales invoice

Thelma Goody is the sales invoicing clerk for a VAT registered clothing wholesaler. Thelma prepares the sales invoices to be sent to the customer from the price list and a copy of the delivery note sent up to her by the sales department.

Today she has received the following delivery note from the sales department.

Delivery note: 2685

To: K Clothing Ltd
9 Port Street
MANCHESTER
M1 5EX

A B Fashions Ltd

3 Park Road
Parkway
Bristol
BR6 6SJ



Tel: 01272 695221

Fax: 01272 695222

Delivery date: 20 August 20X6

Quantity	Code	DESCRIPTION	Colour
90	SSB 330	Shawls (babies)	Assorted
30	CJA 991	Cashmere jumpers (adult)	Cream
30	GGC 442	Gloves (children)	Assorted

Received by:

Signature: Date:

Code	Description	Colour	Unit price	VAT rate
			£	
SSG 001	Skirt (girls)	Black	13.50	Zero
SSW 002	Skirt (women)	Navy	15.90	Standard
TTW 037	Trousers (women)	Black	21.00	Standard
TTW 038	Trousers (women)	Navy	15.60	Standard
TTW 039	Trousers (women)	Red	15.60	Standard
SSB 330	Shawl (babies)	Assorted	11.50	Zero
SSB 331	Shawl (babies)	White	11.50	Zero
CJA 991	Cashmere jumper (adult)	Cream	65.00	Standard
CJA 992	Cashmere jumper (adult)	Pink	65.00	Standard
CJA 993	Cashmere jumper (adult)	Blue	65.00	Standard
CJA 994	Cashmere jumper (adult)	Camel	65.00	Standard
HHB 665	Hat (babies)	White	3.50	Zero
HHB 666	Hat (babies)	Blue	3.50	Zero
GGC 442	Gloves (children)	Assorted	6.20	Zero
GGC 443	Gloves (children)	White	6.50	Zero
GGC 444	Gloves (children)	Black	6.50	Zero

The customer master file identifies that K Clothing Ltd's account number is KC 0055 and that a trade discount of 10% is given to this customer.

Thelma must now prepare the sales invoice. Today's date is 22 August 20X6. The last invoice number used was 95123.

Solution

SALES INVOICE

Invoice to:

K Clothing Ltd
9 Port Street
MANCHESTER
M1 5EX

A B Fashions Ltd

3 Park Road
Parkway
Bristol
BR6 6SJ
Tel: 01272 695221
Fax: 01272 695222

Deliver to:

As above

Invoice no: 95124
Invoice date: 22 August 20X6
VAT reg no: 488 7922 26
Delivery note no: 2685
Account no: KC 0055

<i>Code</i>	<i>Description</i>	<i>Quantity</i>	<i>VAT rate</i>	<i>Unit price</i>	<i>Amount excl of VAT</i>
			%	£	£
SSB 330	Shawls (babies) assorted	90	0	11.50	1,035.00
CJA 991	Cashmere jumper (adult) cream	30	20	65.00	1,950.00
GGC 442	Gloves (children) assorted	30	0	6.20	186.00
					3,171.00
Trade discount 10%					(317.10)
					2,853.90
VAT					351.00
Total amount payable					3,204.90

Step 1 Enter today's date on the invoice and the invoice number which should be the next number after the last sales invoice number used.

Step 2 Enter the customer details – name, address and account number.

- Step 3** Refer now to the delivery note copy and enter the delivery note number and the quantities, codes and descriptions of the goods.
- Step 4** Refer to the price list and enter the unit prices of the goods and the rate of VAT (note that the VAT rate for children's clothes is zero).
- Step 5** Now for the calculations – firstly multiply the number of each item by the unit price to find the VAT exclusive price – then total these total prices – finally calculate the trade discount as 10% of this total, $£3,171 \times 10\% = £317.10$ and deduct it.
- Step 6** Calculate the VAT – in this case there is only standard rate VAT on the cashmere jumpers but you must remember to deduct the trade discount ($£1,950 - £195$) before calculating the VAT amount $£1,755 \times 20\% = £351$ – add the VAT to the invoice total after deducting the trade discount.



Test your understanding 3

You are an accounts assistant for Smith Fashions. You are required to prepare a sales invoice to be sent to a customer, Bella Boutique. You have been provided with the delivery note and an extract of Smith Fashions' price list.

Delivery note: 165

To: Bella Boutique
10 Main Street
Prestwick
South Ayrshire
KA9 4BB

Smith Fashions

4 Booth Road
Newton Mearns
G2 1PW

Tel: 0141 333 989

Email: admin@smithfashions.co.uk

Delivery date: 20 September 20X6

Quantity	Code	DESCRIPTION	Colour
20	SAZT01	Aztec embellished mini skirt	Assorted
20	TLIV02	Live, Laugh, Love slogan top	Grey
20	TMES03	Mesh stripe top	Black

Received by:

Signature: Date:

BOOKKEEPING TRANSACTIONS

Extract of price list:

Code	Description	Colour	Unit price £	VAT rate
SAZT01	Aztec embellished mini skirt	Assorted	25.00	Standard
TLIV02	Live, Laugh, Love slogan top	Grey	12.50	Standard
TMES03	Mesh stripe top	Black	20.00	Standard

The customer file shows that Bella Boutique's account number is BB01 and that a trade discount of 10% is offered to this customer.

You must now prepare the sales invoice. Today's date is 22 September 20X6. The last invoice number was 1586.

SALES INVOICE

Invoice to:

Bella Boutique
10 Main Street
Prestwick
South Ayrshire
KA9 4BB

Smith Fashions

4 Booth Road
Newton Mearns
G2 1PW
Tel: 0141 333 989
Email: admin@smithfashions.co.uk

Deliver to:

As above

Invoice no:
Tax point: 22 September 20X6
VAT reg no: 488 7922 26
Delivery note no:
Account no:

Code	Description	Quantity	VAT rate	Unit price	Total
			%	£	£
Net amount of goods					
Trade discount @ 10%					
Net amount of goods after discount					
VAT					
Total amount payable					

11.2 The purchase invoice



Definition – Purchase invoice

An invoice is a document that itemises a transaction between a buyer and a seller. We now consider the situation from the customer perspective, what we previously regarded as a sales invoice, to the customer it is a purchase invoice.

When the customer receives their purchase invoice from the seller, a number of checks need to be made before it can be passed for payment.

11.3 Order and receipt of goods

The purchase invoice received must be agreed to the purchase order, the delivery note and goods received note. This is to ensure that not only is this an invoice for goods that were ordered but also for goods that were received. In particular check the description and the quantity of the goods per the invoice against the purchase order and delivery note.

For example, suppose that the purchase order for goods shows that 100 packs were ordered and the delivery note shows that 100 packs were received. If when the invoice arrives it is for 120 packs then the supplier should be politely informed of the error and a credit note requested to rectify the discrepancy.

11.4 Calculations

All of the calculations on the invoice should also be checked to ensure that they are correct. This will include the following:

- all pricing calculations
- any trade discount or bulk discount calculations
- the VAT calculations
- the total addition of the invoice.

11.5 Other terms found on invoices

You may also find other terms and conditions shown on invoices or other documents. Here are some of the more common:

E & OE – Errors and omissions excepted. The seller is claiming the right to correct any genuine errors on the invoice (e.g. prices) at a later date.

Carriage paid – The invoice value includes delivery of the goods to the customer's premises.

Ex works – Prices quoted do not include delivery to the customer's premises. The customer must organise and pay for the delivery of the goods.

Cash on delivery – The customer is expected to pay for the goods when they are delivered.

12 Credit note

12.1 Introduction



Definition – Credit note

Document issued by a supplier to a customer cancelling part or all of a sales invoice.

Businesses normally issue credit notes for any of the following reasons:

- when a customer has returned faulty or damaged goods
- when a customer has returned undamaged goods by agreement with the supplier for a refund
- to make a refund for short deliveries
- to settle a dispute with a customer
- to adjust an account after taking advantage of a prompt payment discount.

A credit note is the reversal of all or part of the earlier invoice value.

Credit notes are issued as documentary evidence that goods have been returned and that all or part of a previous sales invoice is cancelled. Therefore a business must keep strict control over the credit notes it raises and issues.

12.2 Return of goods

When a customer returns goods for any of the reasons mentioned previously, the return of goods will often be accompanied by a goods returned note.



Definition – Goods returned note

Document sent to the supplier by the customer detailing the goods returned and reason(s) for the return being made.

The contents of a goods returned note are similar to a goods received note but with the added detail of why a return is being made.

When a supplier receives returned goods they must be inspected, counted and recorded on receipt. They would normally be recorded on a returns inwards note.

From the perspective of a customer who is returning goods and consequently receives a credit note exactly the same checks should be made on credit notes as on invoices. The reason for the credit note and the amount that has been credited should be checked, along with all of the calculations and the VAT.

12.3 Authorising credit notes

All credit notes must be authorised by a supervisor prior to being issued to the customer.

Some credit notes may be issued without a returns inwards note. For example, an error may have been made in pricing on an invoice but the customer is satisfied with the goods and does not need to return them.

These credit notes must be issued only after written authorisation has been received from a supervisor or manager and must be reviewed and approved before being sent to the customer or recorded.

12.4 Preparing credit notes

A credit note is effectively the reverse of an invoice and therefore will tend to include all the details that would normally appear on a sales invoice.

Using the example of Alpha Limited from earlier in the chapter, if Alpha Limited returned two of the chipboard panels, the credit note would be as follows.

City Woods Suppliers



192 Old Kent Road
London
SE1 8QT

*Name and address
of issuer of credit
note*

*Sequential credit
note number*

Tel: 020 7248 7009
Email: sales@citywoodssuppliers.co.uk

*VAT registration
number of supplier*

Credit note no: CN 02542
Tax point: 30 September 20X3
VAT reg no: 618 2201 63
Return inwards note no: 01531
Invoice no: 1005673
Account no: AL 6215

*Returns inwards
note reference*

Date of credit note

CREDIT NOTE

Credit to:

Alpha Limited
Mountjoy St
London W12 6RS

*Name and address
of customer*

*Customer's account
code*

Date: 30 September 20X3

Description	Code	Quantity	VAT rate %	Unit price £	Amount exclusive of VAT £
Chipboard 6' x 4'	CB0351	2	20	23.00	46.00
<i>Goods returned total</i>					46.00
<i>VAT</i>					46.00
<i>VAT charged</i>					9.20
<i>Total amount of credit</i>					55.20

*Rate of VAT on
goods returned*

13 Coding

13.1 Introduction



Definition – Code

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

Coding is used within an organisation to provide an efficient and accurate way of referencing customers, suppliers, products and other accounts within the accounting system.

Codes are used in accounting records and the accounting system; within day books, sales and purchases ledgers and other business documents.



Definitions

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

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

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

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

A code can be an alphabetical, numerical or alphanumeric identification system.



Definitions

Alphabetical codes consist of letters. If ordering alphabetically the order is a system whereby characters are placed in order of their position in the conventional ordering of an alphabet.

Numerical codes consist of numbers. If ordering numerically it can be ascending or descending.

Alphanumeric codes are a combination of alphabetic and numeric characters.

Customer files will normally be filed alphabetically by name or perhaps alphanumerically if part of the name is used within the code combined with a number allocation. Sales invoices tend to be filed in sequential order based upon invoice number.

Invoices should be coded to show:

- product group/type for analysis of sales/purchases
- customer/supplier account number.

There are several different systems of coding which can be used by a business.

13.2 Sequence codes

Allocate a number, or a letter, to items in a simple list.

For example:

<i>Code</i>	<i>Name</i>
01	ADAMS, Joan
02	AITKEN, James
03	ALCOCK, Freda
04	BROWN, Joe

13.3 Block codes

These allocate bands of numbers to particular categories.

For example, consider a furniture manufacturer who produces several types of tables, chairs and entertainment units. He could assign a code to each particular brand as follows:

<i>Product type</i>	<i>Block code</i>
Tables	01 – 19
Chairs	20 – 29
Entertainment units	30 – 39

13.4 Significant digit codes

These are a particular type of group classification code where individual digits and letters are used to represent features of the coded item. The example given is one used to describe different kinds of vehicle tyres sold by a garage.

<i>Code</i>	<i>Item</i>
TT67015B	Tube Tyre 670 x 15 Blackwall
LT67015W	Tubeless Tyre 670 x 15 Whitewall

13.5 Faceted codes

Faceted codes are another type of group classification code by which the digits of the code are divided into facets of several digits and each facet represents some attribute of the item being coded. These codes are similar to significant digit codes but are purely numerical.

Example: Faceted code for types of carpet.

Facet 1 = type of weave (1 digit)	1 = Cord
	2 = Twist
	3 = Short tufted, etc
Facet 2 = material (1 digit)	1 = All wool
	2 = 80% wool, 20% nylon
	3 = 50% wool, 50% nylon, etc
Facet 3 = pattern (2 digits)	01 = Self colour (plain)
	02 = Self colour (embossed)
	03 = Fig leaf, etc
Facet 4 = colour (2 digits)	01 = Off white
	02 = Bright yellow
	03 = Scarlet, etc

A typical code would be 2/2/03/02 representing a twist carpet in 80% wool, 20% nylon, pattern fig leaf and colour bright yellow.

Note that a two-digit facet allows up to 100 different codings (00 to 99).

13.6 Decimal codes (or hierarchical codes)

These are yet another form of a group classification code. The most obvious example of a decimal code is the Universal Decimal Code (UDC) devised by Dewey and widely used for the classification of books in libraries. UDC divides all human knowledge into more and more detailed categories as shown.

<i>Code</i>	<i>Item</i>
3	Social science
37	Education
372	Elementary
372.2	Kindergarten
372.21	Methods
372.215	Songs and games

Whatever the coding system used it is important for accounting purposes that the invoices and credit notes are coded according to type of sales and the particular customer.

You may be expected to code items such as sales invoices or credit notes according to a coding system that is given to you in an assessment.



Test your understanding 4

Is the cheque number used in a cheque book an example of a sequential code or a hierarchical code?



Test your understanding 5

ABC Ltd uses codes within the accounting system. An extract from the general ledger coding list is given below:

General ledger account	Code number
Equipment	10
Receivables	20
Electricity	30
Purchases	40
Sales	50

Required:

- (a) Why are the general ledger codes numbered in steps of 10, rather than 1,2,3,4?
- (b) Give 3 examples of the use of code numbers in an accounting system, other than general ledger accounts codes.
- (c) Are the following statements true or false?

	TRUE/ FALSE
General ledger codes help when barcoding an item of inventory	
General ledger codes help when filing a financial document	
General ledger codes help trace relevant accounts quickly and easily	
General ledger codes help find the total amount owing to a supplier	



Test your understanding 6

Nethan Builders code all purchase invoices and credit notes with a supplier code and a general ledger code. Extracts of the codes used are as follows:

Supplier	Supplier account code
Haddow Bros	HAD29
AJ Broom & Company Ltd	AJB14
Jenson Ltd	JEN32
JM Bond & Co	JMB33

Item	General ledger code
Softwood	GL110
Hardwood	GL112
Sand	GL130
Steel	GL140
Brick	GL145

Required:

For each of the invoices and credit note shown below select the appropriate supplier account code and general ledger code to be used to code them.

SALES INVOICE

Haddow Bros

Invoice to:
Nethan Builders
Brecon House
Stamford Road
Manchester
M16 4PL

The White House, Standing Way, Manchester
M13 6FH
Tel: 0161 560 3140
Fax: 0161 560 5140

Deliver to:
As above

Invoice no: 033912
Tax point: 22 April 20X1
VAT reg no: 460 3559 71
Purchase order no.: 7166

Code	Description	Quantity	VAT rate %	Unit price £	Amount excl of VAT £
PLY8FE1	Plywood Hardwood 2440 x 1220 mm	12 sheets	20	17.80	213.60
VAT at 20%					42.72
Total amount payable					256.32
Deduct discount of 2% if paid within 10 days					

SALES INVOICE

Invoice to:
Nethan Builders
Brecon House
Stamford Road
Manchester
M16 4PL

Jenson Ltd
30 Longfield Park, Kingsway, M45 2TP

Invoice no: 47792
Tax point: 22 April 20X1
VAT reg no: 641 3229 45
Purchase order no: 7162

Deliver to:
As above

<i>Code</i>	<i>Description</i>	<i>Quantity</i>	<i>VAT rate %</i>	<i>Unit price £</i>	<i>Amount excl of VAT £</i>
PL432115	Steel rods 32 x 115 mm	14	20	30.25	423.50
PL432140	Steel rods 32 x 138 mm	8	20	33.15	265.20
Trade discount 15%					688.70
					103.30
VAT at 20%					585.40
					117.08
Total amount payable					702.48
Deduct discount of 3% if paid within 14 days					

SALES INVOICE

Invoice to:
Nethan Builders
Brecon House
Stamford Road
Manchester
M16 4PL

A J Broom & Company Limited

59 Parkway, Manchester, M2 6EG
Tel: 0161 560 3392
Fax: 0161 560 5322

Invoice no: 046123
Tax point: 22 April 20X1
VAT reg no: 661 2359 07
Purchase order no: 7164

Deliver to:
As above

<i>Code</i>	<i>Description</i>	<i>Quantity</i>	<i>VAT rate %</i>	<i>Unit price £</i>	<i>Amount excl of VAT £</i>
DGS472	SDG Softwood	9.6 m	20	8.44	81.02
CIBF653	BIC Softwood	7	20	12.30	86.10
Trade discount 10%					167.12
					16.71
VAT at 20%					150.41
					30.08
Total amount payable					180.49

CREDIT NOTE**J M Bond & Co**

Credit note to:
Nethan Builders
Brecon House
Stamford Road
Manchester
M16 4PL

North Park Industrial Estate, Manchester, M12 4TU
Tel: 0161 561 3214
Fax: 0161 561 3060

Credit note no: 06192
Tax point: 22 April 20X1
VAT no: 461 4367 91
Invoice no: 331624

<i>Code</i>	<i>Description</i>	<i>Quantity</i>	<i>VAT rate %</i>	<i>Unit price £</i>	<i>Amount excl of VAT £</i>
DGSS4163	Structural softwood untreated	6m	20	6.85	41.10
Trade discount 20%					41.10
					8.22
					32.88
VAT at 20%					6.57
Total amount of credit					39.45

14 Summary

In this chapter we have concentrated on the purpose and flow of a range of business documents. Before preparing an invoice it is necessary to ensure that this is for a valid sale by checking the order and delivery details. It is important that we understand the need to check business documents that are received and sent to ensure they agree to supporting documents, the calculations are correct in accordance with discounts and the treatment of VAT.

Test your understanding answers



Test your understanding 1

- (i) $£100.00 \times 20/100 = £20.00$
- (ii) $£250.00 \times 20/100 = £50.00$
- (iii) $£480.00 \times 20/120 = £80.00$
- (iv) $£600.00 \times 20/120 = £100.00$



Test your understanding 2

Discrepancies:

- (1) incorrect product code
- (2) incorrect price per unit (per chair)



Test your understanding 3

SALES INVOICE

Invoice to:

Bella Boutique
10 Main Street
Prestwick
South Ayrshire
KA9 4BB

Smith Fashions

4 Booth Road
Newton Mearns
G2 1PW
Tel: 0141 333 989
Email: admin@smithfashions.co.uk

Deliver to:

As above

Invoice no: **1587**
Tax point: 22 September 20X6
VAT reg no: 488 7922 26
Delivery note no: **165**
Account no: **BB01**

Code	Description	Quantity	VAT rate	Unit price	Total
			%	£	£
SAZT01	Aztec embellished mini skirt	20	20	25.00	500.00
TLIV02	Live, Laugh, Love slogan top	20	20	12.50	250.00
TMES03	Mesh stripe top	20	20	20.00	400.00
Net amount of goods					1,150.00
Trade discount @ 10%					(115.00)
Net amount of goods after discount					1,035.00
VAT					207.00
Total amount payable					1,242.00



Test your understanding 4

A sequential code (the numbers run in sequential order).



Test your understanding 5

- (a) To allow for expansion of the number of accounts in the general (main) ledger
- (b) Any three from:
- Customer account codes
 - Supplier account codes
 - Product codes
 - Inventory codes
 - VAT codes
 - Department codes

(c)

	TRUE/ FALSE
General ledger codes help when barcoding an item of inventory	FALSE
General ledger codes help when filing a financial document	FALSE
General ledger codes help trace relevant accounts quickly and easily	TRUE
General ledger codes help find the total amount owing to a supplier	FALSE



Test your understanding 6

Invoice from:	Supplier account code	General ledger code
Haddow Bros	HAD29	GL112
Jenson Ltd	JEN32	GL140
AJ Broom & Company Ltd	AJB14	GL110
JM Bond & Co	JMB33	GL110