

INTRODUCTION TO BOOKKEEPING

STUDY TEXT

Qualifications and Credit Framework

Q2022

This Study Text supports study for the following AAT qualifications:

AAT Level 2 Certificate in Accounting

AAT Level 2 Certificate in Bookkeeping

AAT Certificate in Accounting at SCQF Level 6

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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 February 2022.

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.



Foundation activities

These are questions to help ground your knowledge and consolidate your understanding on areas you're finding tricky.



Extension activities

These questions are for if you're feeling confident or wish to develop your higher level skills.

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.

Business documents and books of prime entry

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

The purpose of business documents (1.1)

The process of recording bookkeeping transactions (1.2)

Create and use coding system (1.3)

Calculate invoice and credit note amounts (2.1)

Enter customer invoices and credit notes into books of prime entry (2.2)

Process receipts from customers (2.3)

Check the accuracy of supplier invoices and credit notes (3.1)

Enter purchase supplier invoices and credit notes into books of prime entry (3.2)

CONTENTS

- 1 Business transactions
- 2 Business documents for a credit transaction
- 3 Coding
- 4 Books of prime entry

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 Introduction to Bookkeeping 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.

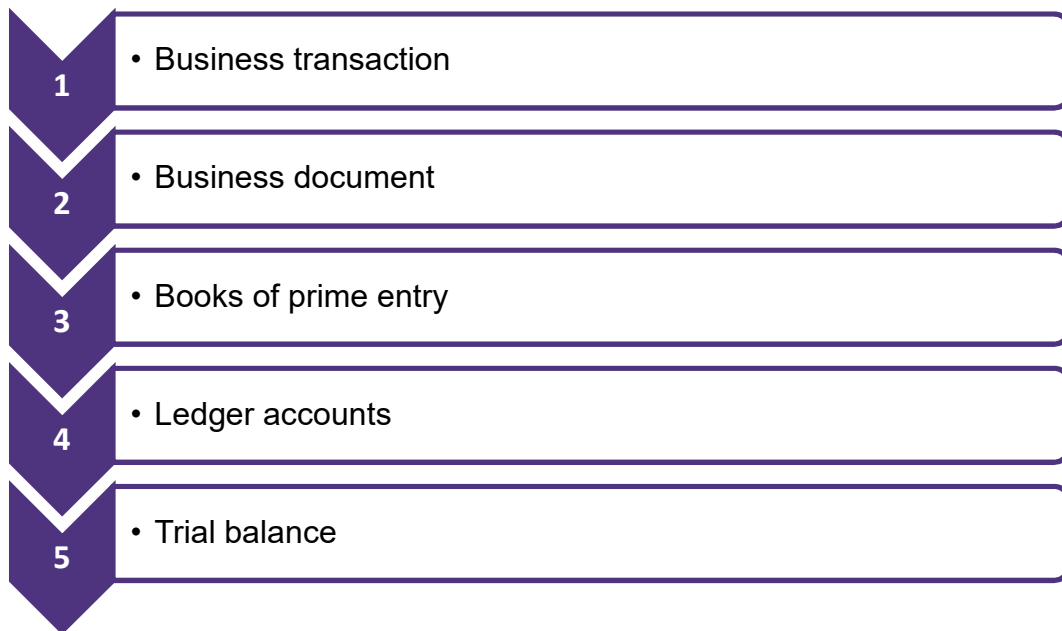
1.3 Cash sales and purchases

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. The seller will tell the customer the price of the goods and the customer then offers payment for them, in the form of cash or a debit or credit card. Once paid, a receipt (usually printed automatically) will be given to the customer. 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 or via a website. The first decision to be made is whether to allow the customer credit for this sale i.e. the period of time they can take before paying the invoice.

1.6 Overview of the accounting system

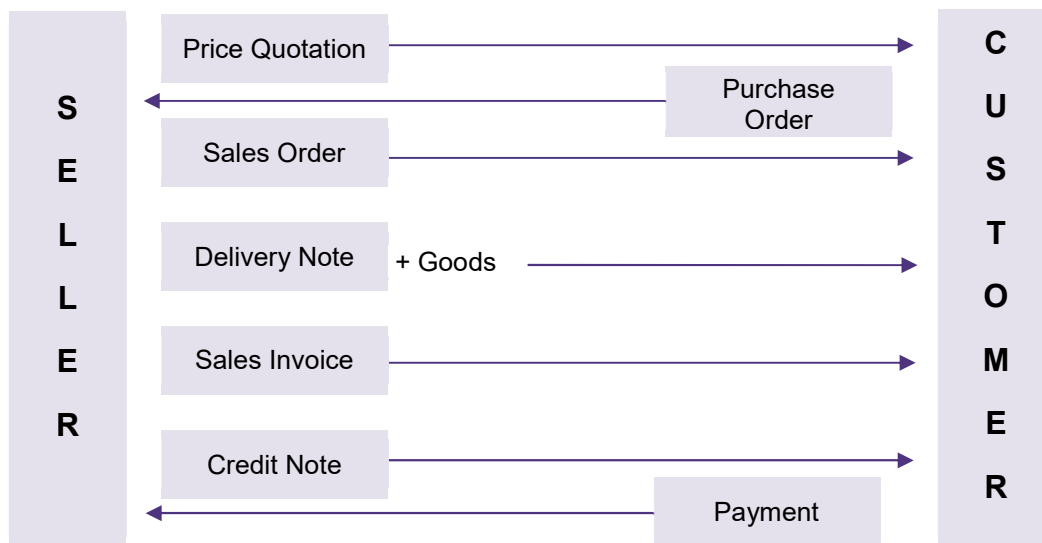


- (1) Initially a **business transaction** will take place: a credit sale, a credit purchase, a cash sale, a cash purchase, another expense either paid from the bank or by cash, cash paid into the bank, withdrawal of cash from the bank and owner's drawings.
- (2) A **business document** will be produced 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'.
- (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.
- (5) A **trial balance** is a list of all of the ledger accounts in the accounting system and is used as a control to check that transactions have been recorded correctly in the double-entry system prior to the preparation of the financial statements.

2 Business documents for a credit transaction

2.1 Overview

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



2.2 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 desired goods can be bought.

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' × 4' Code CB0351 £23.00 per unit, excluding VAT

↑ Details of goods

J Kramer

Sales Manager

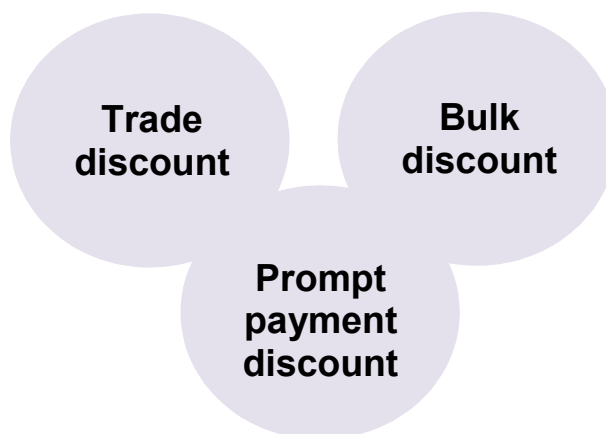
← Authorisation signature

↑ Price being quoted

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

2.3 Discounts

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





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