Mock Exam One
AAT L2 Bookkeeping Controls

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This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject. They are produced by expert AAT tutors to ensure real AAT exam style and real AAT exam standard tasks and ensure the best chance of success.

All practice assessments are relevant for the current syllabus.

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Mock Exam One
AAT L2 Bookkeeping Controls

1

Assessment information:

You have **1 hour and 30 minutes** to complete this practice assessment.

This assessment contains **10 tasks** and you should attempt to complete **every** task.
Each task is independent. You will not need to refer to your answers to previous tasks.
Read every task carefully to make sure you understand what is required.

The standard rate of VAT is 20%.

Where the date is relevant, it is given in the task data.
Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions say otherwise.

You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 100 57

You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.

The tasks in this assessment are set in different business situations where the following apply:

- All businesses use a manual bookkeeping system.
- Double entry takes place in the general ledger. Individual accounts of trade receivables and trade payable are kept in the sales and purchases ledgers as subsidiary accounts.
- The cash book and petty cash book should be treated as part of the double entry system unless the task instructions state otherwise.
- The VAT is 20%.

Task 1 (12 marks)

Organisations use different payment methods.

(a) Match each situation with the most appropriate payment method below.

(4 marks)

Situation	Method of payment
A business wants to pay a fixed amount of money at monthly intervals to pay off a bank loan.	
A business needs to make a one off payment to a supplier, but wants to postpone any withdrawals from their bank account for at least 2 working days.	
A business needs to pay for a one off high-value property transaction which must be paid at a specific future date.	
A business needs to purchase small amounts of stationary from the local stationary shop.	

Method of payment:

Bank draft

Standing order

Cheque

Cash

CHAPS

Faster Payments

(b) Complete the following sentence.

(1 mark)

The method of payment in (a) above that would generally have no effect on the bank balance would be [   ] ⬇

Picklist: Bank draft, Standing order, Cheque, Cash, CHAPS, Faster Payments.

It is important to understand the effect of errors in a bookkeeping system.

(c) Show whether the errors below will cause or will not cause an imbalance in a trial balance, by placing the appropriate answer against each error. You may use each answer more than once.

(4 marks)

Error	Effect on trial balance
A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.	
The purchase ledger control account was correctly credited with £990 but the debit posting made to purchases was incorrectly entered as £1,071.	
Interest paid of £246 showing in the bank statement for the month has not been entered in the cash book.	
The sales ledger of SS Ltd has been incorrectly debited with a sales invoice which should have been posted to the sales ledger account of SNS Limited.	

Answer:

Will cause an imbalance

Will not cause an imbalance

You are preparing a bank reconciliation for a business.

The bank statements have been compared with the cash book and the following points noted.

1.	A BACS payment to a supplier for the month for £600 has not yet cleared the bank statements.
2.	Interest paid of £246 showing on the bank statements for the month has not been entered in the cash book.
3.	A remittance advice from a customer has been received and an entry made in the cash book for the correct amount of £1,040. This is not yet showing on the bank statements.
4.	The bank has made an error. Interest paid of £246 has been debited twice on the bank statements.
5.	A faster payment of £3,460 has been recorded in the cash book in error as £3,640.
6.	A BACS receipt from a customer for £4,500 appears on the bank statements but has not been recorded in the cash book.

(d) Use the following table to show the THREE items that should be entered in the cash book for reconciliation.

(3 marks)

Included in the cash book for reconciliation
⬇
⬇
⬇

Picklist: Item 1, Item 2, Item 3, Item 4, Item 5, Item 6.

End of Task

Task 2 (12 marks)

Payroll transactions are recorded using a wages control account.

The wages expense for the month is £112,911.
Other payroll information for the month is shown below.

Income tax and national insurance amounts are as follows:

- Income tax:	£10,823
- Employers NIC:	£6,831
- Employees NIC	£5,995

In addition there are pension deductions for 35 employees who each pay £100 a month for pension contributions.

Show the journal entries needed to record:

- **the net wages paid to employees**
- **the HM Revenue and Customs liability**
- **the pensions liability.**

(12 marks)

Picklist: Bank, Employee NIC, Employer NIC, HM Revenue and Customs, Income tax, Pensions, Wages control, Wages expense.

Journal to record the net wages paid to employees

Account name	Amount £	Debit	Credit
⬇		☐	☐
⬇		☐	☐

Journal to record the HM Revenue and Customs liability

Account name	Amount £	Debit	Credit
⬇		☐	☐
⬇		☐	☐

Journal to record the pensions liability

Account name	Amount £	Debit	Credit
⬇		☐	☐
⬇		☐	☐

End of Task

Task 3 (10 marks)

This is a customer in the sales ledger.

BGN Ltd

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 July	Balance b/f	4,500	9 July	Bank	11,600
4 July	Invoice 0009875	2,365	26 July	CN0092	55
21 July	Invoice 0009879	9,590			

The customer has now ceased trading owing the amount outstanding, which includes VAT.

(a) Record the journal entries needed in the general ledger to write off the irrecoverable debt.

Do not enter zero in unused debit or credit cells.

(6 marks)

Account name	Debit £	Credit £

Picklist: Irrecoverable debts, Bank, Purchases, Purchases ledger control, Sales ledger control, Sales, VAT control, BGN Ltd.

A new business has been started and a new set of ledger accounts are to be opened.

A partially completed journal to record the opening entries for the new business is shown below.

(b) Complete the journal by placing each amount in either the debit or credit column.

Do not enter zero in unused debit or credit cells.

(4 marks)

Account name	Amount £	Debit £	Credit £
Bank loan	5,000		
Computer	1,300		
Cash at bank	10,500		
Capital	6,800		

End of Task

Task 4 (10 marks)

A VAT control account for the month of August is being prepared. The balance brought down has already been entered at the beginning of August, the following transactions have not yet been recorded in the VAT control account.

- VAT total in the sales daybook   £3,492
- VAT total in the purchases daybook   £1,299
- VAT total in the purchases returns day book   £56
- VAT paid to HM Revenue and customs   £2,884

Complete the VAT control account shown below by placing the above entries on either the debit or credit side:

- **enter the VAT transactions for the month**
- **show the balance carried down and whether it will be a debit or credit balance**
- **insert the total that will be shown in both the debit and credit columns after the account has been balanced.**

(10 marks)

Picklist: Balance b/d, Balance c/d, Purchases daybook, Sales daybook, Bank, Purchases returns daybook, Sales returns day book, Discounts received, Discounts allowed, Cash sales, Cash purchases, Irrecoverable debts written off.

VAT control account

Details	Amount £	Details	Amount £
⬇		Balance b/d	2884
⬇		⬇	
⬇		⬇	
⬇		⬇	
⬇		⬇	
⬇		⬇	
⬇		⬇	
Total		Total	

End of Task

Task 5 (14 marks)

These are the balances in a sales ledger at 1 November.

Debit balances

Transactions	Amount £
Fast Traders	3,468
Hatter Ltd	2,602
MAM Plc	2,748
OSG Ltd	4,599

Credit balances

Transactions	Amount £
ABC Ltd	260
Zee Traders	250

The balance for the sales ledger control account on 1 November has not yet been recorded. The sales ledger control account had total debit entries amounting to £37,880 and total credit entries amounting to £26,984.

(a) Complete the reconciliation statement below by:

- **inserting the balance of the sales ledger control account**
- **inserting the total of the balances in the sales ledger**
- **calculating any difference.**

(3 marks)

Reconciliation statement	Amount £
Sales ledger control account balance	
Total of the balances in the sales ledger	
Difference	

(b) Which ONE of the reasons below could explain the difference you calculated in (a).

(1 mark)

Reasons	
Goods sold were entered twice in the sales ledger control account.	☐
Goods returned were not entered in the sales ledger account of a customer.	☐
A irrecoverable debt was written off in the sales ledger of a customer but not the sales ledger control account .	☐

This a summary of transactions with credit suppliers during November.

(c) Show whether each entry will be a debit or credit in the purchases ledger account control.

(7 marks)

Transaction	Amount £	Debit	Credit
Balance owing as at 1 November	9,387	☐	☐
Goods purchased	54,329	☐	☐
Goods returned	5,509	☐	☐
Set off entries to the sales ledger control	1,200	☐	☐
Discounts received	675	☐	☐
Journal credit to correct an error	440	☐	☐
Bank payments made	43,992	☐	☐

(d) Calculate the balance brought down in the purchases ledger control account at 1 December and show whether it is a debit or credit balance.

(3 marks)

Amount £	Debit	Credit
	☐	☐

End of Task

Task 6 (10 marks)

A bank statement and a cash book for May are shown below.

Check the bank statement against the cash book and enter:

- **Any transactions into the cash book as needed, including the relevant date of each transaction and cheque number if relevant**
- **The cash book balance carried down at 31 May**
- **The cash book balance brought down at 1 June**

Insert dates showing the day of the month and month as 3 letters e.g. 8 May, insert date as '8 May', or 11 May insert date as '11 May'.

Date 20XX	Details	Paid in £	Paid out £	Balance £
1 May	Balance b/f			8420 C
2 May	BACS		3992	4428 C
3 May	Cheque 009807		3200	1228 C
6 May	Counter credit	3489		4717 C
8 May	ECO Traders - BACS	1635		6352 C
14 May	V Ltd - Faster payment		5336	1016 C
14 May	Cheque 009812		4689	-3673 D
16 May	Cheque 009813		1139	-4812 D
24 May	Counter credit	5897		1085 C
28 May	Cheque 009815		3450	-2365 D
29 May	Bank charges		298	-2663 D
31 May	Cheque 009814		660	-3323 D
D = Debit C = Credit				

Picklist: Balance b/d, Balance c/d, Staff wages, W. Wren, DF Ltd, Ghol Limited, X Traders, YTG Limited, V Ltd, Bank charges, ASO Traders, ABC Ltd, ECO Traders, Cheque 0090807, Counter credit.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/d	5220	2 May		Staff wages	3992
6 May	ASO Traders	3489	11 May	009812	W. Wren	4689
24 May	ABC Ltd	5897	12 May	009813	DF Ltd	1139
	⬇		19 May	009814	Ghol Limited	660
	⬇		24 May	009815	X Traders	3450
	⬇		29 May	009816	YTG Limited	182
	⬇				⬇	
	⬇				⬇	
	⬇				⬇	
	⬇				⬇	
	⬇				⬇	

End of Task

Task 7 (14 marks)

A business bank statement for May showed an opening balance of £5,789 and a closing balance of £10,428.

The cash book below has been checked against the bank statement and the two highlighted items have been identified as unmatched. A bank reconciliation statement has been partially completed.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/f	6489	1 May	000185	Fisher Ltd	3589
8 May	NON Limited	1667	9 May		Ester Energy	1993
9 May	Mick Traders	6894	12 May	000186	DF Traders	950
19 May	X plc	4489	14 May	000187	ASBO Traders	2367
21 May	C. Wren	673	25 May	000188	D. Tom	130
28 May	D. Tom	624	26 May		ZMS Limited	885

(a) Complete the bank reconciliation as at 31 May.

Do not use a minus sign or brackets for deductions.

(4 marks)

Bank reconciliation statement	£
Balance as per bank statement	
Outstanding lodgements	
D. Tom	
Unpresented cheques	
D. Tom	
Balance as per cash book	

(b) Check that the bank reconciliation statement in (a) has been completed correctly by calculating:

- **The balance carried forward in the cash book**
- **The total of each of the bank columns in the cash book after the balance carried forward has been recorded**

(2 marks)

Balance carried forward £	Bank column totals £

This is a bank statement and cash book for a different business.

You are preparing a bank reconciliation statement at 31 October, starting with the balance taken from the bank statement.

Cash book

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
7 Oct	ASBO Traders	6489	1 Oct		Balance b/f	1992
11 Oct	R Ltd	5897	12 Oct		Staff wages - BACS	1355
22 Oct	SAG Limited	6265	15 Oct	007654	SAG Limited	6265
29 Oct	Fisher Trade	5402	17 Oct	007655	CP Plc	5894
31 Oct	SXT Plc	9330	18 Oct	007656	DFX Traders	3135
			21 Oct	007657	NOS Limited	660
			29 Oct		Gas Utilities - DD	268
			30 Oct	007658	BB Ltd	1250
			31 Oct		Bank charges	155

Bank statement

Date 20XX	Details	Paid in £	Paid out £	Balance £
1 Oct	Balance b/f			-737 D
5 Oct	Cheque 007652		1255	-1992 D
7 Oct	Counter credit	6489		4497 C
11 Oct	Counter credit	5897		10394 C
12 Oct	BACS		1355	9039 C
19 Oct	Gas Utilities - DD		268	8771 C
21 Oct	Cheque 007655		5894	2877 C
22 Oct	Cheque 007654		6265	-3388 D
22 Oct	Cheque 007654 - returned	6265		2877 C
23 Oct	Cheque 007656		3135	-258 D
31 Oct	Bank charges		155	-413 D
D = Debit C = Credit					

Picklist: Balance b/d, Balance c/d, Staff wages – BACS, SAG Limited, CP Plc, DFX Traders, NOS Limited, Gas Utilities – DD, Bank charges, ASBO Traders, R Ltd, Cheque 007652, Counter credit, Fisher Trade, SXT Plc, BB Ltd.

(c) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be added.

(4 marks)

Details	Amount £
⬇	
⬇	

(d) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be subtracted.

(4 marks)

Details	Amount £
⬇	
⬇	

End of Task

Task 8 (14 marks)

A suspense account has been opened with a balance of £81.

The error has been identified as an entry made in the general ledger. The purchase ledger control account was correctly credited with £990 but the debit posting made to purchases was incorrectly entered as £1,071.

(a) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**
- **remove the suspense account balance**

Do not enter a zero in unused debit or credit column cells.

(6 marks)

Picklist: VAT, Bank, Purchases, Purchases ledger control, Suspense.

Journal to remove the incorrect entry

Account name	Debit £	Credit £
⬇		

Journal to record the correct entry

Account name	Debit £	Credit £
⬇		

Journal to remove the suspense account balance

Account name	Debit £	Credit £
⬇		

Another error has been found in the general ledger. A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.

(b) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**

Do not enter a zero in unused debit or credit column cells.

(8 marks)

Picklist: Rent expenses, Bank, VAT, Purchases, Drawings, Suspense.

Journal to remove the incorrect entry

Account name	Debit £	Credit £
⬇		
⬇		

Journal to record the correct entry

Account name	Debit £	Credit £
⬇		
⬇		

End of Task

Task 9 (10 marks)

The journal entries below have been prepared to correct a transposition error.

Journal

Account name	Debit £	Credit £
Sales ledger control	1310	
Suspense		1310

Journal

Account name	Debit £	Credit £
Suspense	1230	
Sales ledger control		1230

Record the journal entries in the general ledger accounts below and show the balance carried down in the sales ledger control account.

(10 marks)

Picklist: Balance b/d, Balance c/d, Bank, Suspense, Sales ledger control.

Sales ledger control

Details	Amount £	Details	Amount £
Balance b/d	6722	Bank	4299
Sales	7169	⬇	
⬇		⬇	
⬇		⬇	
⬇		⬇	
Total		Total	

Suspense

Details	Amount £	Details	Amount £
Balance b/d	80	⬇	
⬇		⬇	
⬇		⬇	
Total		Total	

End of Task

Task 10 (14 marks)

On 31 May a trial balance was extracted and did not balance. The debit column totalled £132,955 and the credit column totalled £129,472.

(a) What entry is needed in the suspense account to balance the trial balance.

Do not enter a zero in the unused column cell.

(1 marks)

Amount name	Debit £	Credit £
Suspense		

The journal entries to correct all bookkeeping errors and a list of balances as they appear in the trial balance are shown below.

Journal

Account name	Debit £	Credit £
Bank	29	
Interest received		29
Sales ledger control	1200	
Suspense		1200

Journal

Account name	Debit £	Credit £
Motor vehicles	1500	
Suspense		1500
Motor vehicles	1500	
Suspense		1500

(b) Complete the table below to show:

- **the balance of each account after the journal entries have been recorded**
- **whether each balance will be a debit or credit entry in the trial balance**

List of balances

(8 marks)

Amount name	Original balance £	New balance £	Debit in the trial balance	Credit in the trial balance
Bank (not overdrawn)	5083		☐	☐
Interest received	125		☐	☐
Sales ledger control	6088		☐	☐
Motor vehicles	24560		☐	☐

On 31 January, a partially prepared trial balance had debit balances totalling £122,537 and credit balances totalling £121,077.

The accounts below have not yet been entered in the trial balance.

(c) Complete the table below to show whether each balance will be a debit or credit entry in the trial balance.

(3 marks)

Amount name	Balance £	Debit in the trial balance	Credit in the trial balance
Office expenses	2311	☐	☐
Rent received	4000	☐	☐
Discounts allowed	229	☐	☐

(d) What will be the totals of each column of the trial balance after the balances in (c) have been entered.

(2 marks)

Amount name	Debit £	Credit £
Totals		

End of Task

Mock Exam One - Solutions

AAT L2 Bookkeeping Controls

You may find the following tutor notes useful when answering exam practice tasks.

Elements of the financial statements

Five elements make up the general ledger accounts and financial statements of a business.

Assets

A resource controlled by the business as a result of past events and from which future economic benefits (money) are expected to flow to the business.

- Premises, machines, motor vehicles, office equipment or furniture and fittings.
- Inventory currently for resale.
- Trade receivables (money to be 'received').
- Money in the bank.
- Cash in hand.

Liabilities

A present obligation of the business arising from past events, the settlement of which is expected to result in an outflow from the business.

- VAT owed to HMRC
- Wages owed to staff
- Bank loans and overdrafts
- Trade payables (money to be 'paid').

Capital

The residual interest (whatever is left) from the assets of the business after deducting all of its liabilities. Total assets less total liabilities is equal to capital (also called 'net assets') of the business. This balance represents what is owed and accumulated by the business to its owner. A separate account for drawings can also be maintained in the general ledger, drawings is money taken from the business by the owner and rather than reducing the owners capital account for the money taken, a drawings account is kept as a separate account because it provides more information.

Income

Money earned or received by the business from the sale of goods or services that is makes or sells (its trade), or from other investments or trade sources.

- Cash sales (sales not on credit).
- Credit sales (sales on credit).
- Rent received from ownership and rental of premises.
- Bank interest received.
- Discounts received (PPD) from paying credit suppliers early.

Expenses

Costs incurred or paid for by the business in the normal course of trade in order to earn income. The cost of goods sold and other expenses must be matched with the sales revenues earned in the same period.

- Cash purchases (inventory purchases for resale and not on credit).
- Credit purchases (inventory purchases for resale and on credit).
- Rent payments (if the business is renting a property).
- Staff wages
- Motor vehicle running costs.
- Advertising.
- Depreciation such as wear and tear or loss of value to long-term assets such as machines or motor vehicles.
- Bank interest and charges.
- Discounts allowed (PPD) to credit customers who pay early.
- Accountancy and legal services.

Income and expenses are used to work out the amount of profit the business has generated. Any profits are owed to the owner of the business and increase the capital account of the owner.

DEAD CLIC

Don't get clouded in the double entry logic, ledgers are balances kept for the five elements of the financial statements and we are increasing or decreasing these balances according to the rules of double entry.

Important double entry terminology

DEAD CLIC defines what is the 'normal balance' or the natural state for a T account (general, sales or purchase ledger account).

DEAD CLIC is an acronym which gives the elements of financial statements and whether each element would be a debit or credit balance overall within a double entry ledger system. It can be used for determining the correct debit or credit balance but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease an account balance.

DEAD CLIC

Debit	**C**redit
Expenses	**L**iabilities
Assets	**I**ncome
Drawings	**C**apital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

Totalling and balancing ledger accounts

1. Look at both sides of the ledger account and find the side which has the biggest total amount (debits or credits).
2. Add up the 'total' of all the entries on the side that has the biggest total amount and put this 'total' amount on both sides of the ledger account.
3. Add up all the entries on the side of the ledger account that had the smallest total amount.
4. Work out on the side that had the smallest total amount, the difference between the total amount entered and the other entries made on this side. This is the balance carried down (c/d) at the end of the period.
5. The balance c/d is entered on the side of the ledger account that had the smallest total amount to ensure that both total amounts entered on either side of the ledger account agrees. This as an arithmetical control and considered good practice in manual ledger accounting.

The balance c/d is only a balancing figure to ensure both sides of the ledger account agree at the end of the period. The true debit or credit balance is brought down (b/d) on the opposite side to the balance carried down (c/d). The balance b/d is on the 1st (beginning) of the month and the balance c/d is at the end of the month 30th/31st (ignoring February).

The trial balance and errors

The purpose of a trial balance is to ensure that all entries made in an organisation's general ledger are properly balanced and to check the accuracy of entries made before a final set of financial accounts are produced. If the totals for debit and credit balances do not agree then errors have definitely occurred, but even if the totals for debit and credit balances do agree it does not guarantee the general ledger balances are free from errors or omissions.

Types of errors not disclosed by the trial balance

The following types of error all have one thing in common, the same amount has been debited and credited within the general ledger, but an error has still occurred. These type of errors do not cause an imbalance when a trial balance is prepared (total debits equal total credits in the trial balance). Types of errors not disclosed by the trial balance can be remembered using the acronym 'TOPCROC'. Because the trial balance will still balance these types of error are more difficult to detect.

- **T Transposition** (two or more digits are reversed when amounts are entered).
- **O Original entry** (errors occur when documents such as invoices or credit notes are prepared incorrectly or when erroneous documents are posted to the day books).
- **P Principle** (mis posting to the WRONG ledger account and WRONG financial element), for example an 'expense' debited instead to an 'asset', a fundamental error because assets and profits will be under or overstated.
- **C Commission** (mis posting to the WRONG ledger account but RIGHT financial element), for example an 'expense' debited instead to another type of 'expense', less fundamental than an error of principle because assets and profits will be not be under or overstated.
- **R Reversal of entries** (the debit and credit mis posted the wrong way around).
- **O Omission** of a transaction (no posting made in the general ledger).
- **C Compensating** errors (very rare but this can happen), two independent errors for two different amounts posted as a debit and credit, the two errors compensate and cancel each other out. The trial balance will still balance.

Types of errors disclosed by the trial balance

The following types of error all have one thing in common, they all cause an imbalance when a trial balance is prepared (total debits do not equal total credits in the trial balance). Types of errors disclosed by the trial balance can be remembered using the acronym 'TESCOS'.

The following errors will cause an imbalance in the trial balance since different amounts have been debited and credited to the general ledgers, so a suspense account will be opened to ensure the trial balance does balance temporarily.

- **T Transposition** e.g. error posted incorrectly on one side of a ledger account but correctly posted on the other side such as debit expenses £54 and credit bank £45.
- **E Extraction** e.g. a ledger balance is not totalled and balanced correctly, so the wrong ledger balance is now 'extracted' and represented incorrectly in the trial balance.
- **S Single entry** e.g. a debit entry posted, but no credit entry posted, or vice versa.
- **C Casting** (casting means 'adding') e.g. a column in a day book casted (added up) incorrectly and the incorrect amount posted to the general ledger.
- **O Omission** of a ledger balance within the trial balance e.g. a ledger balance completely missed out and not included in the trial balance.
- **S Same sided** e.g. 2 debit entries only posted in error, or 2 credit entries only posted in error, rather than a debit and a credit entry made correctly.

A suspense account can also be opened to hold any debit or credit imbalances that exist within the trial balance (the total of debits do not equal the total of credits in the trial balance). Inaccurate double entries have been made and the missing debit or credit is stored in the suspense account until it is found and corrected.

Examples of how suspense accounts are opened

Example 1

Trial Balance (totals before suspense account opened)	154,896	155,279
Suspense account opened (debit balance)	383	
Trial balance totals agree until error(s) found	155,279	155,279

Example 1 the trial balance does not balance. The suspense account is always opened for the difference that exists between debits and credits and to ensure debits equal credits. The larger amount is credit £155,279 and the smaller amount is debit £154,896. A debit amount of £155,279 - £154,896 = £383 is missing. A suspense account is opened as £383 debit balance to ensure the trial balance agrees and until the error(s) has been found.

Example 2

Trial Balance (totals before suspense account opened)	121,780	99,800
Suspense account opened (credit balance)		21,980
Trial balance totals agree until error(s) found	121,780	121,780

Example 2 the trial balance does not balance. The larger amount is debit £121,780 and the smaller amount is credit £99,800. A credit amount of £121,780 - £99,800 = £21,980 is missing. A suspense account is opened as £21,980 credit balance to ensure the trial balance agrees and until the error(s) has been found.

Task 1 (12 marks)

Your syllabus requires you to understand different payment methods and how each payment method effects the bank balance: The examinable methods are listed below and either:

- Reduce funds on the date of payment
- Reduce funds at a later date
- Have no effect

Summary

	Date of payment	At a later date	No effect on bank balance
Cash			✓
Cheque		✓	
Debit card	✓		
Credit card		✓	
Bank draft	✓		
Standing order	✓		
Direct debit	✓		
Direct credit	✓		
BACS		✓	
CHAPS	✓		
Faster payments	✓		

(a) Match each situation with the most appropriate payment method below.

(4 marks)

Situation	Method of payment
A business wants to pay a fixed amount of money at monthly intervals to pay off a bank loan.	Standing order
A business needs to make a one off payment to a supplier, but wants to postpone any withdrawals from their bank account for at least 2 working days.	Cheque
A business needs to pay for a one off high-value property transaction which must be paid at a specific future date.	CHAPS
A business needs to purchase small amounts of stationary from the local stationary shop.	Cash

(b) Complete the following sentence.

(1 mark)

The method of payment in (a) above that would generally have no effect on the bank balance would be **Cash**.

(c) Show whether the errors below will cause or will not cause an imbalance in a trial balance, by placing the appropriate answer against each error. You may use each answer more than once.

(4 marks)

Error	Effect on trial balance
A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.	Will not cause an imbalance
The purchase ledger control account was correctly credited with £990 but the debit posting made to purchases was incorrectly entered as £1,071.	Will cause an imbalance
Interest paid of £246 showing in the bank statement for the month has not been entered in the cash book.	Will not cause an imbalance
The sales ledger of SS Ltd has been incorrectly debited with a sales invoice which should have been posted to the sales ledger account of SNS Limited.	Will not cause an imbalance

(d) Use the following table to show the THREE items that should be entered in the cash book for reconciliation.

(3 marks)

Included in the cash book for reconciliation
Item 2
Item 5
Item 6

1.	A BACS payment to a supplier for the month of £600 has not yet cleared the bank statements. **A timing difference which does not affect the cash book but would be required to reconcile the cash book to the balance as per the bank statement.**
2.	Interest paid of £246 showing on the bank statements for the month has not been entered in the cash book. **The omitted item must be credited to the cash book as a payment. CR Cash Book £246.**
3.	A remittance advice from a customer has been received and an entry made in the cash book for the correct amount of £1,040. This is not yet showing on the bank statements. **A timing difference which does not affect the cash book but would be required to reconcile the cash book to the balance as per the bank statement.**
4.	The bank has made an error. Interest paid of £246 has been debited twice on the bank statements. **Debited on a bank statement means a payment has been taken, the bank has taken the payment of interest twice. The bank error does not affect the cashbook but an adjustment would be required to reconcile the cash book to the balance as per the bank statement.**
5.	A faster payment of £3,460 has been recorded in the cash book in error as £3,640. **A payment from the cash book would be a credit, and £3,640 has been credited. It should have been £3,460. So, £180 too much has been credited. We will need to debit the cash book (£3,640 - £3,460) to reduce the £180 overpayment recorded. DR Cash Book £180.**
6.	A BACS receipt from a customer for £4,500 appears on the bank statements but has not been recorded in the cash book. **The omitted item needs to be recorded as a receipt in the cash book. DR Cash Book £4,500.**

Task 2 (12 marks)

This exam task will be about the wages control account within the general ledger. The wages control account is simply an account where the 'total' (summary) of payroll transactions for staff are posted for each period. Just like for all other control accounts you have studied such as the sales or purchases ledger control accounts, we post the 'total amounts recorded' from payroll reports, not the detailed transactions relating to each employee.

The wages control account receives a summary total of all payroll calculations such as net salaries and other payroll liabilities such as pensions, trade union subscriptions, tax and national insurance (NIC) payments. Your exam will not require you to calculate tax and national insurance but the amounts can be provided and journal entries required to demonstrate the double entry for posting entries to the wages control account.

Employers may make payments on behalf of their employees such as employers national insurance contributions (NIC's) and employers pension contributions on behalf of the employee, these payments are expenses incurred by the business but not included in the calculation of net salaries when paying employees.

Employees will receive net salaries (gross salary after employee deductions), examples of employee deductions include employee tax, national insurance and other deductions such as pensions and trade union subscriptions paid by the employee.

After posting all wages expenses and wages liabilities for the period the wages control should always balance and reconcile to the payroll report for the period for all employees, it acts as a 'check' account for wages.

A proforma wages control account is included below to familiarise yourself with the DR and CR entries. This may help in exam tasks since if you know the right amount and correct debit or credit to the wages control account, then you can work out the other side of the double entry and other general ledger account where an entry needs to be made. Once net salaries have been paid ('bank payment') the balance that should exist within the wages control account should be zero.

Wages (payroll) control account

Details	Amount £	Details	Amount £
HMRC liability	X	Wages expenses	X
Pensions liability	X		
TU liability	X		
Bank (net salaries paid)	X		
Total	X	**Total**	X

Journal to record the net wages paid to employees

Account name	Amount £	Debit	Credit
Wages control	**85762**	✅	⬜
Bank	**85762**	⬜	✅

Payment of net salaries would be £112,911 wages expenses less all employer and employee deductions.

Wages expense	112,911
Less:	
Income tax	10,823
ER NIC	6,831
EE NIC	5,995
Pensions (£100 x 35 employees)	3,500
Net salaries	**85,762**

Journal to record the HM Revenue and Customs liability

Account name	Amount £	Debit	Credit
Wages control	**23649**	✅	⬜
HM Revenue and Customs	**23649**	⬜	✅

All tax and NIC contributions together, to pay HMRC:

ER NIC	6,831
EE NIC	5,995
Income tax	10,823
Total HMRC liability	23,649

Journal to record the pensions liability

Account name	Amount £	Debit	Credit
Wages control	3500	✓	☐
Pensions	3500	☐	✓

Pensions (£100 x 35 employees)   3,500

Task 3 (10 marks)

This task will be about journal entries to record accounting transactions. In particular it will test:

- Recording opening entries for a new business.
- Identifying and recording entries to write off irrecoverable debts: record VAT where appropriate.
- Calculating VAT from gross and net amounts.

Recording opening entries for a business

Opening entries for a business are the initial entries to record the transactions occurring at the start of business. Journal entries record these initial transactions since the general ledger balances at the start of trade will otherwise be zero. In your exam the type of business will be a sole trader.

Opening entries typically could include:

- Funding of the business via bank loans.

DR   Bank (asset 'money' increases).
CR   Bank loan (liability of the business increases due to money owed by the business to the bank).

- Funding of the business via money invested by the owner (capital)

DR   Bank (asset 'money' increases).
CR   Capital (investment made by the owner, and owed by the business to the owner).

- Assets introduced by the owner such as inventory, motor vehicles and tools.

DR   Assets (assets increase) such as inventory, motor vehicles and tools.
CR   Capital (investment made by the owner, and owed by the business to the owner).

- Initial business expenses paid for by the owner not the business such as rent, motor vehicle and electricity expenses.

DR   Expenses (expenses of the business increase) such as rent, motor vehicle and electricity expenses.
CR   Capital (investment made by the owner, and owed by the business to the owner).

Irrecoverable (bad) debts

Uncollectible or irrecoverable (bad) debt expenses are an unfortunate cost of doing business with credit customers, there is always the risk that goods will be supplied and the business is not paid for the money owed by the customer.

An irrecoverable debt is a customer debt that will not be collected, this is often due to the customer being insolvent, whereby they are unable to pay debts owed and cannot continue to trade.

Debts that cannot be recovered must be removed from the sales ledger, since it is very unlikely the business will be paid and the business is not willing to take action to collect it because of various reasons e.g. liquidation or insolvency. The sales ledger account of the customer will need to be closed (balance reduced to nil and 'account closed').

The sale originally made has been recorded as income when the goods were supplied and a sales invoice raised. The irrecoverable debt needs to be written off against profits as a business expense and offset against the sales income in the same period. An entry must be made in the general ledger as a period end adjustment for irrecoverable debts and a journal entry would be used to record this.

Double entry for an irrecoverable debt:

- **DEBIT** Irrecoverable debts (increase expenses)

- **CREDIT** Sales ledger control account (reduce assets)

The effect of the above double entry is that expenses will go up for irrecoverable written off and profits will fall, since the balance of the customer is uncollectable the sales ledger control account balance must also be reduced for the amount outstanding.

The accounting adjustment above assumes there was no VAT on the sales invoice, if VAT was charged on the sales invoice, then a slightly different double entry adjustment would be required.

- **DEBIT** Irrecoverable debts (increase expenses) - Amount excluding VAT

- **DEBIT** VAT control account (decrease liability to pay VAT) - VAT amount

- **CREDIT** Sales ledger control account (reduce assets) - Amount including VAT

(a) Record the journal entries needed in the general ledger to write off the irrecoverable debt.

Do not enter zero in unused debit or credit cells.

(6 marks)

BGN Ltd

Date 20XX	Details	Amount £	Date 20XX	Details	Amount £
1 July	Balance b/f	4,500	9 July	Bank	11,600
4 July	Invoice 0009875	2,365	26 July	CN0092	55
21 July	Invoice 0009879	9,590		**Balance c/f**	**4,800**
		16,455			16,455

The sales ledger account of the customer has been balanced above to identify the amount outstanding by the customer including VAT. To find the VAT amount you have £4,800 representing 120% (if you added 20% VAT to the net amount of 100%). £4,800 ÷ 120% x 20% = VAT £800. Alternatively, 20%/120% = 1/6 as a fraction. 1/6 x £4,800 = VAT £800. The remaining amount of the sale (net) is therefore £4,800 - £800 = £4,000.

Account name	Debit £	Credit £
Irrecoverable debts	**4000**	
VAT control	**800**	
Sales ledger control		**4800**

Opening entries for a business (in your exam it will be a sole trader) requires you to record by journal the initial entries used to record transactions occurring at the start of trade for the business. Postings for opening entries typically include the initial funding of the business (cash and other assets introduced), as well as any initial debts obtained (bank loans) or assets purchased. DEAD CLIC is an acronym which can be used for determining the correct debit or credit balance but the element (asset, liability, capital, income or expense) must be understood first.

(b) Complete the journal by placing each amount in either the debit or credit column.

Do not enter zero in unused debit or credit cells.

(4 marks)

Account name	Amount £	Debit £	Credit £
Bank loan	5,000		**5000**
Computer	1,300	**1300**	
Cash at bank	10,500	**10500**	
Capital	6,800		**6800**

Task 4 (10 marks)

Within this task you need to be able to:

- Prepare a VAT control account.
- Total and balance a VAT control account, including the balance carried down and balance brought down.

The VAT control account

The purpose of a VAT control account is to record all VAT payable on sales (outputs of the business) and record VAT reclaimed from purchases/expenses (inputs to the business), an accurate VAT balance can then be calculated, and either paid to (or reclaimed from) Her Majesty's Revenue and Customs (HMRC).

A proforma VAT control account is included below to familiarise yourself with the debit and credit entries. The summarised totals for VAT, are posted from the daybooks (books of prime entry) to the VAT control account for each accounting period to work out any VAT owed to, or from HMRC by the business. The below example assumes VAT is a liability since the balance b/d starts on the credit side indicating VAT is owed to HMRC. VAT can be a debit rather than a credit balance, since a business may reclaim back ('offset') more VAT for a period than it is obliged to pay over to HMRC, in which case it is due a refund from HMRC ('asset' not liability in this case).

Think of the debit and credit entries below as what increases VAT to be paid (credits increases liability) such as VAT on sales, and what decreases VAT to be paid (debits decrease liability) such as VAT reclaimed on purchases or expenses. You can then work from a 'sales' or 'purchases' perspective, to deal with more unusual transactions which have opposite entries. For example, if VAT on purchases is a debit (reduction in liability as you reclaim VAT on purchases), then purchases returns or discounts received by suppliers (both credit notes) would be a credit (increasing the liability). The reason would be that the VAT on the credit notes is offset against the VAT reclaimed on purchase invoices, overall, less VAT is therefore being reclaimed. Alternatively, the abbreviations of day books e.g. SDB, PDB etc, maybe used instead of the names of general ledger accounts for VAT postings made.

VAT control account (illustration)

Details	Amount £	Details	Amount £
Purchases daybook	15673	Balance b/d	4277
Cash purchases	2468	Sales daybook	36977
Cash expenses	346	Cash sales	3265
Sales returns day book	1250	Purchases returns daybook	675
Discounts allowed	55	Discounts received	510
Bank (payment of VAT to HMRC)	5752		
Balance c/d	20160		
Total	45704	Total	45704

Complete the VAT control account shown below by placing the above entries on either the debit or credit side:

- **enter the VAT transactions for the month**
- **show the balance carried down and whether it will be a debit or credit balance**
- **insert the total that will be shown in both the debit and credit columns after the account has been balanced.**

(10 marks)

VAT control account

Details	Amount £	Details	Amount £
Purchases daybook	1299	Balance b/d	2884
Bank	2884	Sales daybook	3492
Balance c/d	**2249**	Purchases returns day book	56
Total	6432	**Total**	6432

Task 5 (14 marks)

Within this exam task you must be able to do the following:

- Prepare control accounts: sales ledger and purchases ledger.
- Total and balance the control accounts: balance carried down; balance brought down.
- Total the balances of the individual sales and purchases ledger accounts: sales ledger debit/credit balances, purchases ledger debit/credit balance.

You must also be able to reconcile ('agree') control accounts (although this counts for a very small number of marks in your exam, as it can get complex):

- Identify discrepancies between the sales and purchases ledger control accounts and the individual ledgers
- Identify reasons for discrepancies between the sales and purchases ledger control accounts and the individual ledgers.

Day books (the books of 'original' or 'prime entry')

The books of prime entry keep a record of a business's transactions e.g. invoices, credit notes and bank transactions and are used to generate entries within the general ledger as part of a double entry bookkeeping system. In a manual system these are the day books of first entry occurring every day for accounting transactions, before the day books are totalled and the totals then posted to the general ledger accounts.

Accounting software completes the transfer of data from the books of prime entry to the general, sales and purchases ledgers automatically, however your exam tasks will be in the context of a manual book keeping system. You need to be able to transfer data from the books of prime entry (day books) to the relevant accounts in the general, sales or purchases ledgers.

Day books (the books of 'original' or 'prime entry')

- Sales Day Book (SDB records sales invoices sent to credit customers).

- Sales Returns Day Book (SRDB records credit notes given to reverse sales invoices sent to credit customers, due to goods returned from or disputes by customers).

- Discounts Allowed Day Book (DADB records credit notes given to reverse sales invoices sent to credit customers, due to prompt payment discounts allowed to settle their invoices earlier).

- Purchase Day Book (PDB records purchase invoices received from credit suppliers).

- Purchase Returns Day Book (PRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to goods returned to or disputes with suppliers).

- Discounts Received Day Book (DRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to prompt payment discounts allowed received by suppliers to settle purchase invoices earlier).

- Cash Book (CB bank and cash transactions) record all other cash and bank transactions of the business.

- Petty Cash Book (PCB records very small cash transactions of the business).

- Journal Book (JN records postings made to the general ledger for the correction of errors or omissions, and for period end adjustments that are not recorded in any of the other day books).

The sales (receivables) ledger control account

A proforma sales ledger control account (SLCA) is included below to familiarise yourself with the DR and CR entries. The summarised totals including VAT are posted from the daybooks (books of prime entry) to this control account for each accounting period. All entries are made including VAT since this sales control account keeps a summarised total of all total amounts owing from credit customers.

Note also the balance b/d is on the debit side since a SLCA is an asset (customers who owe money to the business) and only credit sales not cash sales are recorded in a SLCA. The entries within your exam task may use a SLCA for you to illustrate postings required from data given e.g. sales, discounts allowed etc.

Sales ledger control account (trade receivables)

	£		£
Balance b/d	X	Discounts allowed	X
Sales	X	Sales returns	X
		Irrecoverable debts	X
		Set-off entries (contras)	X
		Bank	X
		Balance c/d	X
	X		X

A set-off (contra) entry occurs when you have a customer who orders goods from a business and also supplies goods to the same business. So, the business would have a customer sales ledger account for amounts 'owed to it' and a supplier purchase ledger account for amounts 'owed by it'.

Purpose of the sales ledger control account

The SLCA is a summary account which checks the arithmetical accuracy of the sales ledger accounts of customers. At a glance you can see whether the general ledger balance for the sales ledger control account agrees with the sum of all the individual trade receivable accounts held within the sales ledger.

- Provides a check on the accuracy of the totals of the balances in the sales ledger.
- Provides totals for trade receivables (money owed) quickly and when a trial balance is being prepared.
- Identifies errors that have been made in the general ledger or the sales ledger.

Two types of error which are common are duplications and omissions. Both types of error may explain why the sales ledger control account does not reconcile to the sum of the sales ledger accounts of customers. These type of errors can apply to invoices, credit notes or bank receipts that have either been posted to one ledger system more than once (duplicated), or posted to one ledger system but not the other.

The purchase (payables) ledger control account

A proforma purchase ledger control account (PLCA) is included below to familiarise yourself with the DR and CR entries. The summarised totals including VAT, are posted from the daybooks (books of prime entry) to the control account for each accounting period. All entries are made including VAT since the purchases control account keeps a summarised total of all balances owed to credit suppliers.

Note also the balance b/d is on the credit side since a PLCA is an liability (suppliers who the business owes money to) and only credit purchases not cash purchases are included in a PLCA.

Purchase ledger control account (trade payables)

	£		£
Bank	X	Balance b/d	X
Discounts received	X	Bank	X
Purchase returns	X	Purchases	X
Set-off entries (contras)	X		
Balance c/d	X		
	X		X

Purpose of the purchases ledger control account

The PLCA is a summary account which checks the arithmetical accuracy of the purchases ledger accounts of suppliers. At a glance you can see whether the general ledger balance for the purchases ledger control agrees with the sum (total) of all the individual trade payable accounts held within the purchases ledger. Its purpose is similar to what is explained about the SLCA above.

(a) Complete the reconciliation statement below by:

- **inserting the balance of the sales ledger control account**
- **inserting the total of the balances in the sales ledger**
- **calculating any difference.**

(3 marks)

Balance on the sales ledger account:

Transactions	Amount £
Fast Traders	3,468
Hatter Ltd	2,602
MAM Plc	2,748
OSG Ltd	4,599
ABC Ltd	-260
Zee Traders	-250
Total	12,907

Reconciliation statement	Amount £
Sales ledger control account balance	10896
Total of the balances in the sales ledger	12907
Difference	2011

The sales ledger control account had debit entries amounting to £37,880 and credit entries amounting to £26,984. £37,880 DR + £26,984 CR = £10,896 DR.

(b) Which ONE of the reasons below could explain the difference you calculated in (a).

(1 mark)

Reasons	
Goods sold were entered twice in the sales ledger control account.	☐
Goods returned were not entered in the sales ledger account of a customer.	✅
A irrecoverable debt was written off in the sales ledger of a customer but not the sales ledger control account .	☐

- Goods sold were entered twice in the sales ledger control account. Sales invoices will increase the balance owed by customers. If entered twice in the sales ledger control, the balance owed in the sales ledger control would be higher than the balances in the sales ledger, this is not the case.

- **Goods returned were not entered in the sales ledger account of a customer.** Credit notes for goods returned will decrease the balance owed by customers. If not entered in the sales ledger account of a customer, the balance owed in the sales ledger would be higher than the balances in the sales ledger control account, and this is the case in the task.

- A irrecoverable debt was written off in the sales ledger of a customer but not the sales ledger control account. The writing off of any irrecoverable debts will decrease the balance owed by customers. If not entered in the sales ledger control account, the balance in the sales ledger control would be higher than the balances in the sales ledger accounts of customers, this is not the case.

(c) Show whether each entry will be a debit or credit in the purchases ledger account control.

(7 marks)

Transaction	Amount £	Debit	Credit
Balance owing as at 1 November	9,387	☐	☑
Goods purchased	54,329	☐	☑
Goods returned	5,509	☑	☐
Set off entries to the sales ledger control	1,200	☑	☐
Discounts received	675	☑	☐
Journal credit to correct an error	440	☐	☑
Bank payments made	43,992	☑	☐

A constructed purchase ledger control account is shown below to help with your understanding:

Purchases ledger control account

Details	Amount £	Details	Amount £
Bank	43,992	Balance b/d	9,387
Discounts received	675	Purchases	54,329
Purchases returns	5,509	Journal (credit)	440
Set off entry	1,200		
Balance c/d	12,780		
Totals	64,156	**Totals**	64,156
		Balance b/d	12,780

(d) Calculate the balance brought down in the purchases ledger control account at 1 December and show whether it is a debit or credit balance.

(3 marks)

Amount £	Debit	Credit
12,780	☐	✅

Task 6 (10 marks)

Task 6 and 7 of your exam will test your knowledge of bank reconciliations. This area of the syllabus accounts for a 20% weighting of your BKCL syllabus.

Reconcile a bank statement with the cash book

- Locate differences between items on the bank statement and entries in the cash book.
- Recognise items on the bank statement but not in the cash book and recognise items in the cash book but not on the bank statement: opening balance differences, bank interest paid/received, bank charges, automated payments/receipts, unpresented cheques and outstanding lodgements.

Use the bank statement to update the cash book

- Make appropriate entries from the bank statement into the cash book: bank interest paid/received, bank charges and automated payments/receipts
- Total and balance the cash book: credit/debit balance carried down; credit/debit balance brought down.

Produce a bank reconciliation statement

- Use appropriate items to complete a bank reconciliation statement: closing bank statement credit balance, unpresented cheques, outstanding lodgements.
- Check a bank statement has been correctly reconciled with a (debit) closing cash book balance.

To 'reconcile' means to resolve or agree. Two sets of records exist about the bank transactions of a business, those from the bank (the 'bank statements') and those in the business (a manual or digital cash book) as part of its own accounting system.

A bank reconciliation is a process that agrees the closing cash book balance kept internally by the business, to the closing balance on the bank statements at the end of the same period. This is an important internal control to help a business identify errors or omissions for its cash receipts or cash payments recorded, as well as help to discover fraud in a more timely manner.

Bank reconciliations can be performed weekly or monthly by a business to ensure an accurate and up-to-date bank balance. Bank statements are third party evidence provided by the bank and should always agree with the accounting transactions that were entered in the cash book.

Reasons for a bank reconciliation

- **Detecting errors** e.g. duplications, omissions (unrecorded transactions) or data entry errors for receipts or payments. Regular comparison of cash book transactions to bank statements as evidence provided by the bank will help to spot inaccuracies. It also helps to identify omissions from the cash book such as missed banks charges, bank interest paid, or received and other transactions that were not recorded in the cash book.

- **Identifying fraudulent transactions and theft** e.g. amounts recorded as received in the cash book, may not agree to the bank statements. Fraud could be committed where a person 'banks less and keeps the rest', regular reconciliations can spot these type of frauds.

- **Keeping track of trade payables and trade receivables** e.g. missed BACS or faster payments lodged with the bank by credit customers may not be identified until a bank reconciliation is performed. Customer and supplier accounts can be updated for errors and omissions more frequently to ensure correct balances are being maintained.

The process of completing a bank reconciliation

The cash book represents the bank balance in the general ledger of the business, if you have money in the bank it would be an asset and in 'debit', and if overdrawn (you owe money to the bank) it would be a liability and in 'credit'. To increase the bank balance, you debit cash receipts in the cash book and to decrease the bank balance you credit cash payments in the cash book. You must be able to total and balance a cash book in your AAT assessment.

A cash book in DEBIT means a positive bank balance ('debit' because the bank balance is an 'asset', assuming you are not overdrawn), however, a bank statement balance in this case would be in CREDIT. A cash book in CREDIT means the bank account in the general ledger is overdrawn (you owe money to the bank so 'credit' as a balance indicates a 'liability'), however, a bank statement balance in this case would be in DEBIT. The bank is showing your bank transactions from their own perspective (asset or liability), not yours, when they provide to you with a bank statement.

Completing a bank reconciliation

1. Tick (match) amounts for cash book payments (credits) against the bank statement payments (debits) **AND** tick (match) amounts for cash book receipts (debits) against the bank statement receipts (credits). The end result of this process is you will discover unmatched items normally in both sets of records. A green highlighter will be provided in the exam for you to highlight matched or unmatched items when you do this.

2. Make entries from the bank statements into the cash book for amounts on the bank statements that have not been recorded in the cash book. For example, bank interest received, bank interest paid, bank charges and automated

payments or receipts appearing in the bank statements that have been omitted (missed) from the cash book. In exam tasks a cash book could be provided and you have to record these items in the cash book and then total and balance the cash book so it is correct and up-to-date.

3. Complete a bank reconciliation statement to agree the correct cash book balance (from step 2 above) to the closing balance as shown on the bank statements. The cash book may have receipts or payments which do not appear on the bank statements, these are likely timing differences such as 'unpresented cheques' or 'outstanding lodgements'. For example, a business may write a cheque and record this as a payment in the cash book but the cheque may not have cleared the bank statements by the end of the period, but in time it will. A business may also 'lodge' (deposit or pay in) money into the bank and record this in the cash book but the money deposited has not cleared the bank statements at the end of the accounting period. We adjust the closing bank balance as per the bank statements for any 'timing differences' as a further control to agree the bank statements closing balance to the correct cash book balance derived from step 2 above.

An exam task will not require you to complete all 3 steps above given the duration of time allowed for each task is low. It is more likely that a task will examine step 1 and 2, or step 1 and 3 in a task.

Check the bank statement against the cash book and enter:

- **Any transactions into the cash book as needed, including the relevant date of each transaction and cheque number if relevant**
- **The cash book balance carried down at 31 May**
- **The cash book balance brought down at 1 June**

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/d	5220	2 May		Staff wages	3992
6 May	ASO Traders	3489	11 May	009812	W. Wren	4689
24 May	ABC Ltd	5897	12 May	009813	DF Ltd	1139
8 May	**ECO Traders**	**1635**	19 May	009814	Ghol Limited	660
31 May	**Balance c/d**	**3505**	24 May	009815	X Traders	3450
	⬇		29 May	009816	YTG Limited	182
	⬇		**14 May**		**V Ltd**	**5336**
	⬇		**30 May**		**Bank charges**	**298**
	⬇				⬇	
	⬇				⬇	
		19746				19746
	⬇		**1 Jun**		**Balance b/d**	**3505**

The cash book above is overdrawn (a liability) as the balance b/d is on the credit side.

A bank reconciliation has also been provided to help agree the logic, once the cash book has been updated.

Bank reconciliation 31 May

Balance as per bank statement 31 May	-3323
Add: outstanding lodgements	
Less: outstanding payments	
Cheque 009816	182
Balance as per cash book 31 May	-3505

Note also that cheque payment Cheque 009807 should be ignored in the entire reconciliation process, since it is an earlier timing difference from the last period, the bank reconciliation for the beginning of the month is also included below to help with your understanding.

Balance as per bank statement 1 May	8420
Less earlier timing differences	
Cheque 009807	-3200
Balance as per cash book 1 May	5220

Task 7 (14 marks)

Please see tutor notes in the solutions to task 6 to revise the process of bank reconciliations.

(a) Complete the bank reconciliation as at 31 May.

Bank reconciliation statement	£
Balance as per bank statement	10428
Outstanding lodgements	
D. Tom	624
Unpresented cheques	
D. Tom	130
Balance as per cash book	10922

The cash book below has been totalled and balanced to help with the logic and understanding. The closing balance as per the bank statement at 31 May reconciles ('agrees') to the cash book balance at 31 May (£10,922). The balance brought down (b/d) at 1 June is a debit balance which indicates an asset (the bank is not overdrawn).

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
1 May	Balance b/f	6489	1 May	000185	Fisher Ltd	3589
8 May	NON Limited	1667	9 May		Ester Energy	1993
9 May	Mick Traders	6894	12 May	000186	DF Traders	950
19 May	X plc	4489	14 May	000187	ASBO Traders	2367
21 May	C. Wren	673	25 May	000188	D. Tom	130
28 May	D. Tom	624	26 May		ZMS Limited	885
			31 May		Balance c/f	10922
	Totals	20836			**Totals**	20836
1 June	Balance b/f	10922				

(b) Check that the bank reconciliation statement in (a) has been completed correctly by calculating:

- **The balance carried forward in the cash book**
- **The total of each of the bank columns in the cash book after the balance carried forward has been recorded.**

(2 marks)

Balance carried forward £	Bank column totals £
10922	20836

The cash book shown above has been totalled and balanced to help further understanding in this task.

(c) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be added.

(4 marks)

Details	Amount £
Fisher Trade	5402
SXT Plc	9330

(d) Identify TWO transactions that should be entered in the bank reconciliation statement as amounts to be subtracted.

(4 marks)

Details	Amount £
NOS Limited	660
BB Ltd	1250

The cash book has been totalled and balanced and reconciled to the bank balance in the bank statement to help further your understanding. Cheque 007652 in the bank statement is an early timing difference between the cash book and bank statement and should be ignored.

Date 20XX	Details	Bank £	Date 20XX	Cheque number	Details	Bank £
7 Oct	ASBO Traders	6489	1 Oct		Balance b/f	1992
11 Oct	R Ltd	5897	12 Oct		Staff wages - BACS	1355
22 Oct	SAG Limited	6265	15 Oct	007654	SAG Limited	6265
29 Oct	**Fisher Trade**	**5402**	17 Oct	007655	CP Plc	5894
31 Oct	**SXT Plc**	**9330**	18 Oct	007656	DFX Traders	3135
			21 Oct	**007657**	**NOS Limited**	**660**
			29 Oct		Gas Utilities - DD	268
			30 Oct	**007658**	**BB Ltd**	**1250**
			31 Oct		Bank charges	155
			31 Oct		Balance c/f	12409
	Totals	33383			**Totals**	33383
1 Nov	Balance b/f	12409				

Bank reconciliation 31 October

Balance as per bank statement	-413
Add: outstanding lodgements	
Fisher Trade	5402
SXT Plc	9330
Less: outstanding payments	
NOS Limited	660
BB Ltd	1250
Balance as per cash book	12409

Task 8 (14 marks)

Within this task you will be expected to do the following:

Produce journal entries to correct errors not disclosed by the trial balance, correct errors using the journal: errors of commission, errors of omission, errors of original entry, errors of principle, reversal of entries, compensating errors.

Produce journal entries to correct errors disclosed by the trial balance, open a suspense account, correct errors and clear the suspense account using the journal.

Notes have been provided at the beginning of the solutions to this practice assessment if you want to revise the trial balance and errors.

 (a) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**
- **remove the suspense account balance.**

Do not enter a zero in unused debit or credit column cells.

(6 marks)

Journal to remove the incorrect entry

Account name	Debit £	Credit £
Purchases		1071

Journal to record the correct entry

Account name	Debit £	Credit £
Purchases	990	

Journal to remove the suspense account balance

Account name	Debit £	Credit £
Suspense	81	

The purchase ledger control account was correctly credited with £990 but the debit posting made to purchases was incorrectly entered as £1,071.

The debit posting to purchases should have been £990, but was entered as £1,071, so £1,071 - £990 = £81 was 'debited too much'. A suspense balance of '£81 credit' would have been created to balance the trial balance.

We need to credit purchases £1,071 to reverse the original error and then enter the correct amount by a debit to purchases of £990 instead, any difference by way of double entry will now be posted to the suspense account, a debit left to enter to the suspense account of £81.

The workings below helps to understand the logic further, think how it was done, do the opposite to reverse it, now think how it should be done and post the correct entry, any difference goes to the suspense account.

	The task information		The Solution required		How it is when corrected	
	HOW IT WAS		The journal		HOW IT SHOULD BE	
Ledger account	Existing Balances				Revised Balances	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Purchases ledger control account		990				990
Purchases	1071		990	1071	990	
Suspense		81	81			
Total	1071	1071	1071	1071	990	990

(b) Record the journal entries needed to:

- **remove the incorrect entry**
- **record the correct entry**

Do not enter a zero in unused debit or credit column cells.

(8 marks)

Journal to remove the incorrect entry

Account name	Debit £	Credit £
Bank		1000
Rent expenses	1000	

Journal to record the correct entry

Account name	Debit £	Credit £
Bank		1000
Rent expenses	1000	

This is an example of a reversal error (the DR and CR posted the wrong way around in the general ledger accounts). This type of error does not cause an imbalance in the trial balance and therefore no suspense account is opened. A rent payment of £1,000 has been incorrectly debited to the cashbook and credited to rent expenses.

The correct double entry should have been to DR Rent (increase expenses) and CR Bank (reduce an asset). Given the entry has been recorded in reverse, then we need to DR Rent £1,000 and CR Bank £1,000 to reverse the incorrect entry, and then to DR Rent £1,000 and CR Bank £1,000 (a duplicate of the first entry) to record the correct entry. The workings below helps to understand the logic further, think how it was done, do the opposite to reverse it, now think how it should be done and post the correct entry. The postings in both cases are the same so the net effect below as you can see would be to DR Rent expenses £2,000 and CR Bank £2,000.

	The task information		The Solution required		How it is when corrected	
	HOW IT WAS		The journal		HOW IT SHOULD BE	
Ledger account	Existing Balances				Revised Balances	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Bank	1000			2000		1000
Rent expenses		1000	2000		1000	
Total	1000	1000	2000	2000	1000	1000

Task 9 (10 marks)

Within this task you will be expected to use journal entries to make adjustments in the ledger accounts. You must be able to post journal entries to the general ledger accounts, total and balance the general ledger accounts: balance carried down, balance brought down.

Notes have been provided at the beginning of the solutions to this practice assessment if you want to revise the trial balance and errors.

Record the journal entries in the general ledger accounts below and show the balance carried down in the sales ledger control account.

Sales ledger control

Details	Amount £	Details	Amount £
Balance b/d	6722	Bank	4299
Sales	7169	Suspense	1230
Suspense	1310	**Balance c/d**	**9672**
Total	15201	Total	15201

Suspense

Details	Amount £	Details	Amount £
Balance b/d	80	Sales ledger control	1310
Sales ledger control	1230		
Total	1310	Total	1310

Task 10 (14 marks)

This task will be about redrafting the trial balance following adjustments by journal entries. You will need to be able to:

- Recalculate the balance of a general ledger account following journal entries.
- Complete a trial balance from adjusted and unadjusted balances.
- Balance the adjusted trial balance, total the debit and credit columns.

Notes have been provided at the beginning of the solutions to this practice assessment if you want to revise the trial balance and errors.

(a) What entry is needed in the suspense account to balance the trial balance.

Do not enter a zero in the unused column cell.

(1 marks)

Amount name	Debit £	Credit £
Suspense		3483

	DR	CR
Trial balance (imbalance)	132955	129472
Suspense		3483
Trial balance	132955	132955

(b) Complete the table below to show:

- **the balance of each account after the journal entries have been recorded**
- **whether each balance will be a debit or credit entry in the trial balance**

(8 marks)

List of balances

Amount name	Original balance £	New balance £	Debit in the trial balance	Credit in the trial balance
Bank (not overdrawn)	5083	5112	✓	☐
Interest received	125	154	☐	✓
Sales ledger control	6088	7288	✓	☐
Motor vehicles	24560	27560	✓	☐

Workings:

	Element	Existing Balances		Journal in task		Revised Balances	
		Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Bank (not overdrawn)	Asset	5083		29		5112	
Interest received	Income		125		29		154
Sales ledger control	Asset	6088		1200		7288	
Motor vehicles	Asset	24560		3000		27560	

(c) Complete the table below to show whether each balance will be a debit or credit entry in the trial balance.

(3 marks)

Amount name	Balance £	Debit in the trial balance	Credit in the trial balance
Office expenses	2311	☑	☐
Rent received	4000	☐	☑
Discounts allowed	229	☑	☐

Workings:

	Element	DR	CR
Trial Balance		122537	121077
Office expenses	Expense	2311	
Rent received	Income		4000
Discounts allowed	Expense	229	
		125077	125077

(d) What will be the totals of each column of the trial balance after the balances in (c) have been entered.

(2 marks)

Amount name	Debit £	Credit £
Totals	125077	125077