Mock Exam One

AAT L3 Advanced Book-keeping

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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.

We hope very much that you enjoy this AAT mock practice assessment and wish you the very best for your exam success!

For feedback please contact our team aatlivelearning@gmail.com

Mock Exam One
AAT L3 Advanced Book-keeping

Assessment information:

You have **2 hours** to complete this practice assessment.

This assessment contains **5 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.

Task 1 (21 marks)

This task is about non-current assets.

You are working on the accounting records of a business known as A.N. Business.

A.N. Business is a VAT registered business.

The business has part-exchanged an item of machinery in its factory. The following is the relevant purchase invoice for the new machine.

To: A.N. Business	**From: Z Business Invoice number: 1123**	**Date: 1 Sept 20X6**
Item	**Details**	**£**
Machine AZ50	AZ50	19,000.00
Software	for AZ50	1,290.00
2 x PC Monitors (screens)	@ £150 each for AZ50	300.00
Delivery and installation	for AZ50	800.00
Net total		21,390.00
VAT 20%		4,278.00
Total		25,668.00

VAT can be reclaimed on the purchase of these items.

The following relates to the machine replaced by the business.

Item description	**Machine AX56**
Date of purchase	01/09/X4
Date of sale	24/07/X7
Part-exchange value	£2,000.00 plus VAT

- A.N. Business has a policy of capitalising expenditure over £200.
- Plant and machinery is depreciated at 25% per annum on a diminishing balance basis.
- Motor vehicles are depreciated at 35% per annum on a diminishing balance basis.
- A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

(a) For the year ended 31 August 20X7, record the following in the extract from the non-current asset register below.

- Any acquisitions of non-current assets
- Any disposals of non-current assets
- Depreciation

(18 marks)

Note: Not every cell will require an entry and not all cells will accept entries. Choose answers where a grey picklist is required and insert numerical answers in the highlighted grey cells only.
Show your numerical answers to TWO decimal places.
Use DD/MM/YY format for any dates.

Description /Serial number	Acquisition date	Cost £	Depreciation charges £	Carrying amount £	Funding method	Disposal proceeds £	Disposal date
Plant and machinery							
Machine AX56	01/09/X4	13000.00			Loan		
Year ended 31/08/X5			3250.00	9750.00			
Year ended 31/08/X6			2437.50	7312.50			
Year ended 31/08/X7			Picklist 1	Picklist 2			
Picklist 3					Picklist 4		
Year ended 31/08/X7							
Motor vehicles							
Car EN65 RBV	23/01/X6	6700.00			Loan		
Year ended 31/08/X6			2345.00	4355.00			
Year ended 31/08/X7							
Car BN60 DFV	26/08/X5	7800.00			Finance lease		
Year ended 31/08/X5			2730.00	5070.00			
Year ended 31/08/X6			1774.50	3295.50			
Year ended 31/08/X7							

Picklist 1	Picklist 2	Picklist 3	Picklist 4
0.00	**9750.00**	**Machine AX56**	**Cash**
2031.25	**7312.50**	**Car BN60 DFV**	**Lease arrangement**
1828.13	**0.00**	**Car EN65 RBV**	**Hire Purchase**
1523.44	**13000.00**	**Machine AZ50**	**Part Exchange**

(b) Complete the following calculation (3 marks)

Calculate the gain or loss on disposal of Machine AX56 for the year ended 31 August 20X7. **Show your answer rounded to TWO decimal places. Use a minus sign or brackets to indicate a loss on disposal.**

£ [ ]

End of Task

Task 2 (17 marks)

This task is about ledger accounting for non-current assets.

You are working on the accounting records of a business for the year ended 31 August 20X7.

VAT can be ignored.

A new machine has been acquired, the cost was £18,930 and the purchase was paid for from the business bank account. The business plans to sell the new machine after 5 years when its residual value is expected to be £2,000.

Machines are depreciated using the straight-line method. A full year's depreciation is charged in the year of acquisition. Depreciation has already been entered in the accounting records of the business for existing machines and the amount is shown below in the ledger accounts.

Make entries in the ledger accounts below for the acquisition and depreciation charge for the new machine for the year ended 31 August 20X7. For each ledger account show clearly the balance to be carried down or transferred to the statement of profit or loss, as appropriate.

(a) Calculate the depreciation charge of the new machine for the year ended 31 August 20X7

£ [ ]

Make entries in the accounts below for:

- **The acquisition of the new machine**
- **The depreciation charge for the new machine**

(12 marks)

Picklist: Bank, Depreciation charges, Disposals, Machinery accumulated depreciation, Machinery at cost, Profit or loss account, Purchases, Purchases ledger control account, Sales, Sales ledger control account, Machine running expenses. Balance b/d, Balance c/d.

Machinery at cost

	£		£
Balance b/d	84900		
	84900		0

Machinery accumulated depreciation

	£		£
		Balance b/d	49200
	0		49200

Depreciation charges

	£		£
Balance b/d	22600		
	22600		0

A business sold a van during its accounting period. The van originally cost £18,000 and had accumulated depreciation of £12,600. It was sold for £1,600 and the money was deposited in the business bank account. The accounting policy of the business is that no depreciation is charged in the year of disposal.

(b) Drag and drop the account names to the debit and credit columns to show the accounting entries for the £1,600 proceeds received from sale of the van.

(2 marks)

Disposals

Motor vehicles at cost

Bank

Debit	Credit

(c) Complete the following sentence. Do NOT use brackets or a minus sign.

(3 marks)

The business made a (**Picklist:** Gain, Loss) on the disposal of the van of £ ☐

End of Task

Task 3 (19 marks)

This task is about ledger accounting, including accruals and prepayments.

You are working on the accounting records of a business for the year ended 31 December 20X7.

In this task you are to ignore VAT.

Business policy: accounting for accruals and prepayments An entry is made to the income or expense account and an opposite entry to the relevant asset or liability account. In the following period, asset or liability entries are reversed.

You are looking at motor vehicle expenses for the year.

- The cash book for the year shows payments for motor vehicle expenses of £8,042.
- This includes £1,467 for the following payments relating to vehicle insurance.

Insurance Car EN15 RBV	**Insurance Car SG67 EEF**
Insurance for the period 1 May 20X7 to 30 April 20X8. **£900 for the period.**	Insurance for the period 1 January 20X7 to 31 December 20X7. **£567 for the period.**

(a) Complete the following statement. Do NOT use a minus sign or brackets.

(4 marks)

The motor vehicle expense account needs an adjustment for

[▼] of £ [ ] dated [▼]

Picklist	**Picklist**
Accrued expenses	31/12/X8
Accrued income	31/12/X7
Prepaid expenses	30/04/X8
Prepaid income	01/01/X7

(b) Update the motor vehicle expenses account

Show clearly:

- **the cash book figure**
- **the year end adjustment**
- **the transfer to the statement of profit or loss for the year.** (6 marks)

Motor vehicle expenses

	£		£
	0		0

Picklist: Motor vehicle expenses, Bank, Accrued expenses, Accrued income, Accrued income (reversal), Accrued expenses (reversal), Prepaid income, Statement of financial position, Prepaid income (reversal), Prepaid expenses (reversal), Profit or loss account, Prepaid expenses, Purchases ledger control account, Sales, Sales ledger control account, Balance b/d, Balance c/d.

(c) Enter the figures in the table shown below to the appropriate trial balance debit or credit columns.

Do not enter zeros in unused column cells. Do NOT use minus signs or brackets.

(2 marks)

Extract from the trial balance

	Ledger balance	Trial balance	
Account	**£**	**£ DR**	**£CR**
Prepaid income	1000		
Drawings	8900		
Carriage inwards	1029		
Accrued income	1504		

You are now reviewing interest received for the year ended 31 December 20X7.

- The business had accrued income for bank interest received of £45 at the beginning of the accounting period.
- The cash book for the year shows receipts for bank interest received of £142.
- The £142 does not include £26 interest received which relates to the period 01/12/X7 to 31/12/X7, this was credited in the bank statements on 2 January 20X8.

(d) Calculate bank interest received that will be shown as income in the statement of profit or loss for the year ended 31 December 20X7. Complete the table shown below. If necessary, use a minus sign only to indicate any deductions from the cash book figure.

(4 marks)

	£
Cash book figure	
Opening adjustment	
Closing adjustment	
Bank interest received for the year ended 31/12/X7	

(e) Show whether the following statements are true or false.

(3 marks)

	TRUE	**FALSE**
Accrued income provided at the year end will have the effect of increasing profits within the statement of profit or loss for the year.	☐	☐
Prepaid income is a current asset included within the statement of financial position.	☐	☐
Accrued expenses are a current liability included within the statement of financial position.	☐	☐

End of Task

Task 4 (23 marks)

This task is about accounting adjustments.

You are a trainee accountant technician and work in a finance department.

A trial balance shown below has been drawn up and balanced using a suspense account. You now need to make some corrections and adjustments for the year ended 31 December 20X7.

You may ignore VAT in this task.

The allowance for doubtful debts needs to be adjusted to 2% of outstanding trade receivables.

(a) Refer to the extract from the extended trial balance below. Calculate the value of the adjustment required (to the nearest £).

(2 marks)

£ [ ]

(b) Record the adjustment in (a) and the following adjustments in the extract from the extended trial balance below.

(14 marks)

- Office expenses of £90 have been correctly posted to the cashbook but no corresponding debit entry was made to office expenses.
- The purchase ledger control account in the general ledger has been extracted and included in the trial balance incorrectly as £5,999. The correct balance should be £6,739.
- Staff wages of £1,080 were posted in error to office expenses.

Extract from the extended trial balance

Ledger account	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Bank	21932			
Opening inventory	6781			
Irrecoverable debts	750			
Capital		24976		
Office expenses	4200			
Staff wages	16339			
Allowance for doubtful debts		400		
Allowance for doubtful debts - adjustment				
Depreciation charges	2952			
Van at cost	17400			
Van accumulated depreciation		6090		
Purchases	45688			
Purchase ledger control account		5999		
Sales		79991		
Sales ledger control account	24090			
Suspense		650		

(c) Show the journal entries that will be required to close off the purchase ledger control account for the year ended 31 December 20X7 and select an appropriate narrative.

(4 marks)

Journal

Account	Dr £	Cr £

Narrative for journal

Picklist for journal: Van expenses, Bank, Statement of financial position, Profit or loss account, Purchases ledger control account, Purchases, Sales, Sales ledger control account, Balance b/d, Balance c/d.

Picklist for narrative: Transfer to the profit or loss account, Transfer to the statement of financial position, Closure of purchase ledger control account for the year ended 31 December 20X7, Transfer to a suspense account.

(d) Show the journal entries that will be required to adjust for closing inventory of £13,422 for the year ended 31 December 20X7.

(3 marks)

Account	Dr £	Cr £

Picklist: Bank, Closing inventory (statement of profit or loss account), Purchases ledger control account, Purchases, Sales, Sales ledger control account, Balance b/d, Balance c/d, Closing inventory (statement of financial position).

End of Task

Task 5 (20 marks)

This task is about period end routines, using accounting records, ethical principles and the extended trial balance.

You are preparing a purchases ledger control account reconciliation for a sole trader as at 31 May 20X7.

The current balance showing in the purchases ledger control account is a credit of £27,042 and the total in the purchases ledger for all supplier account balances are a credit balance of £22,044.

The purchases ledger has been compared to the purchases ledger control account and the following errors or omissions have been identified:

1.	The total column of the purchase daybook was undercast by £1,000. The amount posted to the purchase ledger control account was £131,673 and the correct amount should be £132,673.
2.	Purchase returns of £5,640 have been credited to the purchase ledger control account in error. The correct entries have been made in the purchases ledger accounts of suppliers.
3.	A purchase invoice of £240 from Streets Ltd was omitted from purchases daybook. The correct entry was made in the purchase ledger account of the supplier.
4.	A set-off entry of £5,042 was omitted from the purchase ledger account of M. Smith. The correct entry was made in purchases ledger control account.
5.	Purchase returns of £120 was debited in error to the purchase ledger account of Winkle Traders Ltd instead of the purchase ledger account of Traders RUS Ltd.
6.	A purchase invoice was sent by a supplier for £360 in error, the correct amount should have been £3,600. The incorrect amount of £360 was posted to both the purchases ledger and purchases ledger control account.

(a) Using the table below show THREE adjustments that should appear in the purchases ledger control account. Enter only ONE figure for each line. Do not enter zeros in unused cells. Do NOT use minus signs or brackets.

(6 marks)

Account	Dr £	Cr £

Picklist: Adjustment 1, Adjustment 2, Adjustment 3, Adjustment 4, Adjustment 5, Adjustment 6

A colleague at work has raised a VAT matter and is concerned with how a certain VAT transaction should be treated in the accounting books and the VAT return of the business. The colleague asks Burt who is an AAT student but Burt knows little about VAT matters and is certainly not an expert.

(b) Which one of the following fundamental ethical principles would Burt most likely be in breach of, if he advised the colleague how the VAT matter should be dealt with.

(3 marks)

Integrity	☐
Professional competence and due care	☐
Confidentiality	☐

You are now working on the accounting records of a different business.

An extended trial balance is shown below and the adjustments have already been correctly entered.

(c) Extend the figures into the columns for the statement of profit or loss and the statement of financial position. Do NOT enter zeros into unused column cells. Complete the extended trial balance by totalling the columns and entering any profit or loss figure for the year ended.

(11 marks)

Extended trial balance

Ledger account	Ledger balances		Adjustments		Statement of profit or loss		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Purchases	13870			1200				
Purchase ledger control account		4520	2300					
Sales		80242						
Sales ledger control account	13298			2300				
Staff wages	27581			6000				
Bank	40211			56				
Allowance for doubtful debts: adjustment			450					
Allowance for doubtful debts		1846		450				
Purchases returns		740						
Office expenses	5698		56					
Closing inventory			1042	1042				
Depreciation charges			4000					
Office equipment at cost	20000							
Office equipment accumulated depreciation		12000		4000				
Opening inventory	930							
VAT		3241						
Capital		30999						
Drawings	12000		7200					
Total	133588	133588	15048	15048	0	0	0	0

Picklist

Profit/loss for the year
Suspense
Balance b/d
Balance c/d
Gross profit/loss for the year

Mock Exam One - Solutions

AAT L3 Advanced Book-keeping

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’) also called sales ledger control account.
- Accrued income.
- Prepaid expenses.
- 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’) also called purchases ledger control account.
- Prepaid income.
- Accrued expenses.

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.
- Commission received.

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.
- Irrecoverable debts expense.
- Increase (debit)/Decrease (credit) in allowances for doubtful debts.

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	**Credit**
Expenses	Liabilities
Assets	Income
Drawings	Capital

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'.

- **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.

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 (21 marks)

Part (a) (18 marks)

Description /Serial number	Acquisition date	Cost £	Depreciation charges £	Carrying amount £	Funding method	Disposal proceeds £	Disposal date
Plant and machinery							
Machine AX56	01/09/X4	13000.00			Loan		
Year ended 31/08/X5			3250.00	9750.00			
Year ended 31/08/X6			2437.50	7312.50			
Year ended 31/08/X7			**0.00**	**0.00**		**2000.00**	**24/07/X7**
Machine AZ50	**01/09/X6**	**21390.00**			**Part Exchange**		
Year ended 31/08/X7			**5347.50**	**16042.50**			
Motor vehicles							
Car EN65 RBV	23/01/X6	6700.00			Loan		
Year ended 31/08/X6			2345.00	4355.00			
Year ended 31/08/X7			**1524.25**	**2830.75**			
Car BN60 DFV	26/08/X5	7800.00			Finance lease		
Year ended 31/08/X5			2730.00	5070.00			
Year ended 31/08/X6			1774.50	3295.50			
Year ended 31/08/X7			**1153.43**	**2142.07**			

Tutor notes and workings:

To: A.N. Business	From: Z Business Invoice number: 1123	Date: 1 Sept 20X6
Item	**Details**	**£**
Machine AZ50	AZ50	**19,000.00**
Software	for AZ50	**1,290.00**
2 x PC Monitors (screens)	@ £150 each for AZ50	**300.00**
Delivery and installation	for AZ50	**800.00**
Net total		**21,390.00**
VAT 20%		4,278.00
Total		25,668.00

Machine AX56 (sold)

- This machine would be removed from the accounting records of the business by posting both the cost and accumulated depreciation for this asset to a disposal account. The carrying value would be zero since the asset has been removed.
- Depreciation charged is 0.00 because the accounting policy of the business is to apply none in the year of disposal.
- Disposal proceeds would be recorded in the non-current asset register excluding any VAT. The VAT on the transaction would have been posted to the VAT control account for the period.
- The correct date of sale (disposal) is required to be entered in the non-current asset register.

Machine AZ50 (purchased)

Capitalisation of cost for this machine

- Machine AZ50 £19,000 is capital expenditure.
- The software and 2 monitors are also capital expenditure. Even the though the monitors are below the cost £200 each (the accounting policy of capitalising expenditure), machine AZ50 'in aggregate' (in total) costs more than £200 for all items relating to this machine. The entire purchase cost should be capitalised.
- Delivery and installation cost is always treated as capital expenditure along with the asset.
- VAT should be ignored as the business will reclaim all VAT from the purchase price of the asset. The VAT on the transaction would have been posted to the VAT control account for the period.
- Total cost ignoring VAT that should be capitalised (items highlighted in red bold in the invoice above) should be £21,390.00.

Depreciation charges for machine AZ50

- Plant and machinery is depreciated at 25% per annum on a diminishing balance basis.
- A full year's depreciation is applied in the year of acquisition.
- £21,390 is the carrying value (and original cost as it has just been acquired) x 25% = £5,347.50 depreciation charged.
- The carrying value at the year-end is Cost £21,390.00 - Accumulated depreciation £5,347.50 = £16,042.50.

Car EN65 RBV

- Motor vehicles are depreciated at 35% per annum on a diminishing balance basis.
- The carrying value of the car at the beginning of the year was £4,355.00 x 35% depreciation rate = £1,524.25 depreciation charges.
- The carrying value at the beginning of the year was £4,355.00 less depreciation charged for the year £1524.25 = carrying value of the car at the end of the year £2830.75.

Car BN60 DFV

- Motor vehicles are depreciated at 35% per annum on a diminishing balance basis.
- The carrying value of this car at the beginning of the year was £3,295.50 x 35% depreciation rate = £1,153.43 depreciation charges.
- The carrying value of the car at the beginning of the year £3,295.50 less depreciation charges for the year £1,153.43 = carrying value of the car at the end of the year £2,142.07.

Part (b) (3 marks)

Carrying value at the beginning of the year	7312.50
Part exchange value	2000.00
Loss on disposal	-5312.50

There was a loss on disposal of machine AX56 due to the part exchange value being only £2,000, given as a reduction against the cost of the new asset. Proceeds were lower when compared to the carrying value of £7312.50. Whenever sale proceeds (cash or part exchange value) are less than the carrying value of the asset being sold, a loss will arise.

Task 2 (17 marks)

Part (a) (12 marks)

The straight-line method uses a constant amount of depreciation each year:

Straight Line Depreciation per annum = (Cost - Residual Value) / Useful Life of Asset.

Straight Line Depreciation per annum = (£18,930 - £2,000) / 5 years = £3,386 every year the same depreciation charge.

Machinery at cost

	£		£
Balance b/d	84900	Balance c/d	103830
Bank	18930		
	103830		103830

Machinery accumulated depreciation

	£		£
Balance c/d	52586	Balance b/d	49200
		Deprciation charges	3386
	52586		52586

Depreciation charges

	£		£
Balance b/d	22600	Profit or loss account	25986
Machinery accumulated depreciation	3386		
	25986		25986

Part (b) (2 marks)

Debit	**Credit**
Bank	Disposals

Part (c) (3 marks)

Gains or losses on disposal of non-current assets are calculated by comparing the carrying value of the asset (original cost - accumulated depreciation), to the proceeds received from sale (or disposal) of the asset.

The business made a **Loss** on the disposal of the van of £ | 3800 |

The carrying value of the van (original cost £18,000 - accumulated depreciation to date £12,600) was £5,400. It was sold for £1,600. So given it was sold for less than the carrying value there is a loss on disposal of the asset. The loss would be £5,400 carrying value less £1,600 sale proceeds = £3,800 loss on disposal.

Task 3 (19 marks)

(a) Complete the following statement.

(4 marks)

Prepaid expenses	of	£ 300	dated	31/12/X7

The £900 insurance payment is an expense consumed which relates to this accounting period and the next accounting period. The £900 paid relates to the period of time 1/5/X7 to 30/4/X8 (12 months). For the year ended 31 December 20X7, 1/1/X8 to 30/4/X8 (4 months) does not belong to this accounting period. The 4 months represents prepaid expenses in advance for the year ended. We would prorate in months how the amount for prepaid expenses for the year ended. £900 ÷ 12 months = £75 per month x 4 months = £300 prepaid expenses. This is an asset because the business has paid for expenses which it has not yet consumed any benefit from, but it will do so in the next accounting period.

All accruals or prepayments are provided as period end adjustments at the year ended, so entries to ledgers will always have the year-end date which is 31 December 20X7.

(b) Update the motor vehicle expenses account

(6 marks)

Motor vehicle expenses

	£		£
Bank	8042	Prepaid expenses	300
		Profit or loss account	7742
	8042		8042

Prepaid expenses are an asset in the statement of financial position. The double entry at the year ended is DR Prepaid expenses (asset) and CR motor vehicle expenses. This has the effect of reducing expenses by £300 which relates to the next accounting period.

(c) Enter the figures given in the table below in the appropriate trial balance columns.

(2 marks)

DEAD CLIC

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

Extract from the trial balance

	Ledger balance	Trial balance	
Account	**£**	**£ DR**	**£CR**
Prepaid income (liability)	1000		1000
Drawings (see DEADCLIC) drawings a DR	8900	8900	
Carriage inwards (expense)	1029	1029	
Accrued income (asset)	1504	1504	

(d) Calculate bank interest received that will be shown as income in the statement of profit or loss for the year ended 31 December 20X7.

(4 marks)

The £26 interest earned relates to the period 01/12/X7 to 31/12/X7, but was not received until after the year ended 31 December 20X7. It is accrued income which is income earned but not received and therefore not recorded currently in the books of the business. There is no need to prorate in months because the £26 is for one month only.

We need to at the end of the year DR Accrued income £26 (asset in the financial position) and CR Interest received £26 (increasing income in the profit or loss account). Accrued income at the beginning of the year would be simply the reverse of this entry because you are reversing at the beginning of the year whatever you did on the last day of the previous year.

To understand the calculations needed to complete this task, the best approach would be to draw up a ledger account as a working to check the logic is correct.

Interest received

	£		£
Accrued income (reversal)	45	Bank	142
Profit or loss account	123	Accrued income	26
	168		168

	£
Cash book figure	142
Opening adjustment	-45
Closing adjustment	26
Bank interest received for the year ended 31/12/X7	123

£26 of accrued income for the year end (earned, but not received) is added to the £142 interest received in the period. The £45 accrued income (reversal) at the beginning of the year is deducted to find the income to be recognised in the profit or loss account for the period.

(e) Complete the following true or false statements

(3 marks)

	TRUE	FALSE
Accrued income provided at the year end will have the effect of increasing profits within the statement of profit or loss for the year.	☑	☐
Prepaid income is a current asset included within the statement of financial position.	☐	☑
Accrued expenses are a current liability included within the statement of financial position.	☑	☐

- The first statement is true (refer to accrued income in the above task), it is a credit to income and therefore income will increase and therefore profits will increase.
- The second statement is false as prepaid income is a liability (DR Income CR Prepaid income), it is money received (recorded) which has not been earned until the next accounting period.
- The third statement is true, the double entry is to increase DR expenses and increase CR liabilities (accrued expenses), for expenses consumed but not yet paid for and not recorded in the books of the business.

Task 4 (23 marks)

(a) Refer to the extract from the extended trial balance below. Calculate the value of the adjustment required (to the nearest £).

(2 marks)

£ 82

The allowance for doubtful debts account is an opposite account to the SLCA and both are represented together in the financial position (SLCA is a debit balance and the allowance for doubtful debts a credit balance). Both accounts will be offset to find the net amount owed by credit customers. Similar to how we offset accumulated depreciation against the original cost of a non-current asset to find the carrying value of the asset.

The allowance for doubtful debts is calculated by applying a percentage expected for doubtful debts against the SLCA (asset) balance after accounting for any irrecoverable debts. In this question irrecoverable debts have already been provided for so the SLCA is £24,090 after irrecoverable debts have been adjusted for.

The allowance for doubtful debts for the year end must be 2% of the SLCA (£24,090 x 2% = £482). The current balance for the allowance for doubtful debts is a credit of £400. This credit balance needs to be increased to £482 credit (currently £400 credit), so we need to credit £82 to the increase the allowance for doubtful debts. The other side of the double entry always goes to the allowance for doubtful debts - adjustment which is represented in the profit or loss account.

- DR £82 allowance for doubtful debts - adjustment (profit or loss).
- CR £82 allowance for doubtful debts (financial position).

(b) Record the adjustment in (a) and the following adjustments in the extract from the extended trial balance below.

(14 marks)

- Office expenses of £90 have been correctly posted to the cashbook but no corresponding debit entry was made to office expenses. **Debit office expenses £90 and credit suspense account £90.** This is a single sided error where a credit to the cash book was made but no debit entry, so the suspense account holds a £90 debit entry until this is reversed.
- The purchase ledger control account in the general ledger has been extracted and included in the trial balance incorrectly as £5,999. The correct balance to be included is £6,739. £6,739 - £5,999 = PLCA £740 understated as a credit balance. **We need to credit another £740 to the PLCA. We need to debit the suspense account £740.** If £5,999 only was included as a credit in the trial balance, then £740 credit would be included in the suspense account to ensure the trial balance will balance. We now have reversed this entry.
- Staff wages of £1,080 were in error posted to office expenses. Take £1,080 out of **office expenses (credit to reduce the expense) and include in staff wages (debit to increase the expense) £1,080**. No imbalance between debits and credits exist with this error so no suspense account entry is required.

Ledger account	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Bank	21932			
Opening inventory	6781			
Irrecoverable debts	750			
Capital		24976		
Office expenses	4200		90	1080
Staff wages	16339		1080	
Allowance for doubtful debts		400		82
Allowance for doubtful debts - adjustment			82	
Depreciation charges	2952			
Van at cost	17400			
Van accumulated depreciation		6090		
Purchases	45688			
Purchase ledger control account		5999		740
Sales		79991		
Sales ledger control account	24090			
Suspense		650	740	90

(c) Show the journal entries that will be required to close off the purchase ledger control account for the year ended 31 December 20X7 and select an appropriate narrative.

(4 marks)

The purchase ledger control account in the general ledger is now £6,739 credit. It is a liability in the statement of financial position and must be balanced and transferred to it.

Journal

Account	Dr £	Cr £
Purchases ledger control account	6739	
Statement of financial position		6739

Narrative for journal

Transfer to the statement of financial position

(d) Show the journal entries that will be required to adjust for closing inventory of £13,422 for the year ended 31 December 20X7.

(3 marks)

Account	Dr £	Cr £
Closing inventory (statement of financial position)	13422	
Closing inventory (statement of profit or loss account)		13422

Closing inventory is a credit to the statement of profit or loss account. It reduces purchases and therefore cost of sales, for the cost of unsold goods at the year end. This adjustment ensures that only the purchase cost of inventory which has been sold will be matched against sales earned for the same period. Closing inventory (goods held for resale) is also an asset (debit) in the statement of financial position.

Task 5 (20 marks)

Part (a) 6 marks

This task can examine adjustments to a sales ledger control account (SLCA), purchase ledger control account (PLCA) or the cash book from reconciliations already undertaken in the task.

Account	Dr £	Cr £
Adjustment 1		1000
Adjustment 2	11280	
Adjustment 3		240

1.	The total column of the purchase daybook was undercast by £1,000. The amount posted to the purchase ledger control account was £131,673 and the correct amount should be £132,673. **The total column of the purchases daybook would be credited to the PLCA. Given the total was undercast (under added) by £1,000 then we need to post £1,000 more to the PLCA.** **CR PLCA £1,000 to increase liabilities to suppliers.**
2.	Purchase returns of £5,640 have been credited to the purchase ledger control account in error. The correct entries have been made in the purchases ledger accounts of suppliers. **Purchase returns should be a debit, not credit to the PLCA because they reduce liability to pay suppliers. We need to debit £5,640 to cancel the error and then debit again £5,640 to record the amount correctly (2 x £5,640) = £11,280 DR PLCA.**
3.	A purchase invoice of £240 from Streets Ltd was omitted from purchases daybook. The correct entry was made in the purchase ledger account of the supplier. **The purchases daybook would be used to credit the PLCA with the total of supplier invoices. Given £240 was omitted then we need to post another £240 more to the PLCA. CR PLCA £240 to increase liability to suppliers.**
4.	A set-off entry of £5,042 was omitted from the purchase ledger account of M. Smith. The correct entry was made in purchases ledger control account. **The PLCA has been correctly updated but the purchase ledger account of the supplier needs to be reduced by £5,042.**
5.	Purchase returns of £120 was debited in error to the purchase ledger account of Winkle Traders Ltd instead of the purchase ledger account of Traders RUS Ltd. **The wrong supplier account but a correct posting was made to the PLCA. Both the PLCA and purchase ledger balances would still agree.**
6.	A purchase invoice was sent by a supplier for £360 in error, the correct amount should have been £3,600. The incorrect amount of £360 was posted to both the purchases ledger and purchases ledger control account. **This is a supplier error and both the PLCA and purchases ledger has been updated by £360. When the correct invoice is received then both ledgers will be adjusted but currently both balances will still agree as they contain an entry for the same amount.**

A PLCA showing the adjustments and the reconciliation (agreement) to the total balances in the purchase ledger accounts has been shown below to aid logic and further understanding.

PLCA (Trade Payables)

	£		£
Adjustment 2	11280	Balance b/d	27042
Balance c/d	17002	Adjustment 1	1000
		Adjustment 3	240
	28282		28282

Adjustments to purchase ledger accounts

	£
Total balances from purchase ledger accounts	22044
Adjustment 4	-5042
Revised (corrected) balance from PLCA	17002

Adjustments 5 and 6 are not reconciling items and therefore ignored in the process above.

Part (b) 3 marks

Integrity	☐
Professional competence and due care	☑
Confidentiality	☐

AAT members and students should work to the best of their ability, diligently and with due care when performing tasks or giving advice. Without competence, then work must be done by supervision or review by someone who is an expert. To advise about this matter without competence would be in breach of professional competence and due care. There is nothing here to suggest a breach of confidentiality or being dishonest (lack of integrity) if VAT advice was given.

Part (c) 11 marks

Tutor note: the trial balance has two adjustments for closing inventory. The DR (an asset) for closing inventory to be included in the statement of financial position and a CR (reduction to purchases expenses) for closing inventory to be included within the statement of profit or loss for the year ended.

The exam will have autosum function for the trial balance totals, so you will not need to add up your columns in the exam task. There is also a picklist selection for the profit or loss for the year end which when the amount is included it should balance the last 4 columns of the ETB. If a profit for example below, then the profit amount is a debit to the statement of profit or loss (closing the profit or loss account for the year) and a credit (transfer) to the statement of financial position (increasing the capital account balance owed to the owner of the business).

Ledger account	Ledger balances		Adjustments		Statement of profit or loss		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Purchases	13870			1200	12670			
Purchase ledger control account		4520	2300					2220
Sales		80242				80242		
Sales ledger control account	13298			2300			10998	
Staff wages	27581			6000	21581			
Bank	40211			56			40155	
Allowance for doubtful debts: adjustment			450		450			
Allowance for doubtful debts		1846		450				2296
Purchases returns		740				740		
Office expenses	5698		56		5754			
Closing inventory			1042	1042		1042	1042	
Depreciation charges			4000		4000			
Office equipment at cost	20000						20000	
Office equipment accumulated depreciation		12000		4000				16000
Opening inventory	930				930			
VAT		3241						3241
Capital		30999						30999
Drawings	12000		7200				19200	
Profit/loss for the year					36639			36639
Total	133588	133588	15048	15048	82024	82024	91395	91395