

Accounting activities

This may be the first time you've seen some of the terms and phrases we use, and they can be confusing. Our accountant's glossary in Appendix E explains what they all mean.

ACTIVITY 1 RECORDING TRANSACTIONS

Most businesses record income and expenditure in what is called a cash book. This can be a little misleading as it records not cash transactions but anything that affects the business bank account, such as cheques, debit card payments, direct debits/credits or standing orders.

Actual cash receipts or payments are recorded in a petty cash book.

- 1 In **worksheet 1** there is list of payments incurred by Props 'n' Frocks Limited during the month of July 20XX. Go through the list and note in the column provided whether the transaction should be recorded in the cash book or the petty cash book.
- 2 Using the information on VAT in section 5, go through the list of payments in worksheet 1 and note in the column provided whether the transaction is standard rated, 5%, zero rated, exempt or outside the scope of VAT - use the VAT key at the bottom of the worksheet to help you.
- 3 Enter each individual transaction into the cash book or petty cash book and enter the net amount under the appropriate analysis column. Insert the VAT element in the VAT column, calculating the VAT using the guidance notes in section 5. **Worksheets 2 and 3** show how to lay out the cash books. Set up your own cash book and petty cash book on an Excel spreadsheet.
- 4 Total each column of the cash book and petty cash book and ensure it adds across correctly.
- 5 Complete the petty cash book reconciliation at the bottom of **worksheet 3**.
- 6 **Worksheet 4** shows a list of company receipts for the month of July 20XX. The transactions are all standard rated so calculate the VAT and enter the transactions into the receipts cash book separating the net amount and the VAT. **Worksheet 5** shows how to lay out the receipts cash book. Use an Excel spreadsheet to set up your own receipts cash book.

ACTIVITY 2 BALANCING OFF AND RECONCILING

The purpose of the cash book and the petty cash book is to record all transactions for the company during the year. At the end of each month the books should be totalled and balanced off to show a month-end closing balance.

In order to ensure all the bank receipts and payments have been recorded, a bank reconciliation should be carried out. This is done to ensure that the balance on the cash book agrees with the balance on the bank statement at each month end.

- 1 In order to carry out a bank reconciliation you first need to complete the bank account summary on the top of **worksheet 6**. This enables you to balance the cash book and gives you the balance you expect to agree to the bank statement.
- 2 Once you have completed the cash book summary compare the balance as at 31 July 20XX to the bank statement extract on **worksheet 7** - you will see that it does not agree yet. (If it does there is something wrong!)

At this stage differences between the cash book balance and the bank statement could be due to a number of things:

- errors in the cash book
 - errors on the bank statement
 - transactions not recorded in the cash book
 - cheques written at the end of the month which have yet to clear the bank - outstanding cheques
 - monies paid into the bank at the end of the month which have yet to clear the bank - unrepresented lodgements.
- 3 To identify any of the above you need to tick from the cash book to the bank statement. Make sure you actually tick on the cash book and the bank statement when something agrees so that you can easily identify items:
 - in the cash book but not on the bank statement
 - on the bank statement but not recorded in the cash book.

- 4 As part of your ticking process, you should ensure the opening balances on the cash book and the bank statement agree - use the opening bank reconciliation on **worksheet 6**.
- 5 Once you have ticked through the cash book, amend the cash book and the cash book summary for any items on the statement but not in the cash book. Record on the bank reconciliation any items in the cash book that are not on the statement such as outstanding cheques and unpresented lodgements.

The bank reconciliation should now balance - ie, the amended cash book balance should agree with the adjusted bank statement balance.

If it doesn't ...

- a) You now know how it feels to be an accountant!
- b) Check through each stage of the process you have just been through.
- c) If it still doesn't balance ask your supervisor to show you the errors of your ways. They will probably be able to show you immediately where you went wrong. This will probably make you feel silly but don't worry, we've all been there!

ACTIVITY 3 FIXED ASSETS AND DEPRECIATION

A fixed asset is an asset used by a business to carry out their trade. It is an asset which will be used by the business over more than one accounting period. For example in an accountancy practice, as in many offices, the computers are all fixed assets as they help the practice to carry out their business and will be used for more than one accounting period.

Most businesses will keep a fixed asset register showing what assets they own at any point in time and their cost/value. Fixed assets are included on the balance sheet and they contribute to the wealth of the business.

Depreciation is charged to the profit and loss account and represents the use of the asset for the accounting period. Depreciation is spread over its useful life and can be calculated on either a reducing balance or a straight line basis.

REDUCING BALANCE METHOD (RB)

Depreciation is calculated at the appropriate rate on the net book value of the asset.

The net book value is the original cost less depreciation to date and is the value that is included on the balance sheet under fixed assets.

For example, if the net book value of an asset is £1,000 at the beginning of the year and the rate of depreciation is 10% reducing balance, then depreciation would be charged at $£1,000 \times 10\% = £100$

and the net book value at the end of the year would be £900 (£1,000 - £100).

The following year the depreciation will be 10% of £900 = £90

and the net book value would be £810 (£900 - £90).

STRAIGHT LINE METHOD (SL)

Depreciation is calculated at the same rate each year based on the original cost. So if an asset is purchased for £1,000 and is to be depreciated over four years straight line then the depreciation for each year of its useful life (ie, four years) would be $£1,000 \div 4 = £250$.

- 1 From the payments analysis work you did in activity 2 you will have identified two fixed asset purchases in the year. Using the pro forma fixed asset register in **worksheet 8**, set up your own register on an Excel spreadsheet and add these assets. Remember that it is the net amount (ie, net of VAT) that is capitalised.
- 2 Calculate the depreciation for the year ended 31 July 20XX on the assets included on the fixed asset register as necessary.

Have a look at the two invoices opposite.

INVOICE

To: Props 'n' Frocks Limited
 25-30 Dress Up Road
 Indisguise
 IT6 7RY

Sew 'n' Sew Ltd
 Needle Industrial Estate
 Pincushion Valley
 Threadon
 TH8 YU7

Date/Tax point: 2 July 20XX
 Invoice number: SNS5645
 Order number: 100606
 Account number: FDS01

| Goods | Price per unit | Total price |
|------------------------------|-----------------------|--------------------|
| x4 Sew-n-Sew Machines 20XX-1 | 50.00 | 1,000.00 |
| Add VAT at 20% | | 200.00 |
| Total payable | | 1,200.00 |

Payment terms strictly 30 days net
 Cheques made payable to Sew 'n' Sew Ltd
 Thank you for your custom

E&OE
 Carriage Paid
 VAT Registration 2564 2654 265

INVOICE

To: Props 'n' Frocks Limited
 25-30 Dress Up Road
 Indisguise
 IT6 7RY

Computer Crazy
 2 Disk House
 Makeshift
 Ramsden
 RD3 4KY

Date/Tax point: 5 July 20XX
 Invoice number: CC5465
 Order number: 564
 Account number: FD556

| Goods | Price per unit | Total price |
|----------------------|-----------------------|--------------------|
| x1 Genius Laptop | 2,127.66 | 2,127.66 |
| Add VAT at 20% | | 425.53 |
| Total payable | | 2,553.19 |

Payment terms strictly 30 days net
 Cheques made payable to Computer Crazy
 Thank you for your custom

E&OE
 Carriage Paid
 VAT Registration 6598 6545 236

Appendix A

WORKSHEET 1 - PAYMENTS LISTING

| DATE | AMOUNT £ | | SUPPLIER | DESCRIPTION | BANK OR PETTY CASH | VAT RATE |
|--------|----------|--------|-------------------------|---------------------|--------------------|----------|
| 2-Jul | 22.98 | DC | Witches R Us | Purchases | | |
| 4-Jul | 5.80 | Cash | Frangelwort Supermarket | Biscuits | | |
| 5-Jul | 102.38 | 120456 | Dress to Impress | Purchases | | |
| 4-Jul | 153.66 | 120457 | Party Accessorize Ltd | Purchases | | |
| 1-Jul | 2.66 | Cash | Post Office | Stamps | | |
| 2-Jul | 15.98 | Cash | Corner Shop | Wrapping paper | | |
| 3-Jul | 19.38 | Cash | DIY Shop | Shelf and hooks | | |
| 5-Jul | 850.00 | SO | Mungo | Dir's salary | | |
| 4-Jul | 26.19 | DC | Simply Stationery | Stationery | | |
| 8-Jul | 227.29 | 120458 | Wizards Magic | Purchases | | |
| 8-Jul | 91.47 | 120459 | Devils Surprise Ltd | Purchases | | |
| 9-Jul | 89.31 | 120460 | Spooky Timers | Purchases | | |
| 10-Jul | 26.19 | DC | PB Garages | Fuel | | |
| 12-Jul | 47.58 | DC | PB Garages | Fuel | | |
| 11-Jul | 21.67 | DC | Simply Stationery | Stationery | | |
| 10-Jul | 14.50 | Cash | Post Office | Stamps | | |
| 11-Jul | 20.37 | DC | Frangelwort Supermarket | Biscuits | | |
| 11-Jul | 1,545.23 | DD | HMRC | VAT June XX | | |
| 12-Jul | 116.98 | 120461 | Merlin's Madness | Purchases | | |
| 15-Jul | 262.45 | 120462 | Devils Surprise Ltd | Purchases | | |
| 16-Jul | 2.56 | Cash | Post Office | Stamps | | |
| 16-Jul | 9.19 | Cash | Frangelwort Supermarket | Biscuits | | |
| 16-Jul | 1,200.00 | DC | Sew 'n' Sew | Sewing | | |
| 16-Jul | 80.66 | 120463 | Dress to Impress | Purchases | | |
| 15-Jul | 14.88 | DC | Simply Stationery | Stationery | | |
| 17-Jul | 159.78 | DC | Sparks and Spencers | Lunch | | |
| 17-Jul | 26.20 | DC | PB Garages | Fuel | | |
| 18-Jul | 15.98 | Cash | Frangelwort Supermarket | Biscuits | | |
| 18-Jul | 80.23 | DC | Cars R Us | Repairs to pool car | | |
| 18-Jul | 3.25 | Cash | Post Office | Stamps | | |
| 19-Jul | 46.63 | 120464 | PB Garages | Fuel | | |
| 19-Jul | 65.97 | DD | Electricity Company | Electricity | | |
| 22-Jul | 77.66 | DD | Frangelwort Water Board | Water rates | | |
| 23-Jul | 235.56 | 120465 | Mungo | Private | | |
| 23-Jul | 19.63 | DC | Simply Stationery | Stationery | | |
| 22-Jul | 57.66 | DC | PB Garages | Fuel | | |
| 24-Jul | 2,553.19 | 120466 | Computer Crazy | New PCs for office | | |
| 24-Jul | 90.13 | DC | PB Garages | Fuel | | |
| 24-Jul | 356.56 | 120467 | Inland Revenue | NIC | | |
| 25-Jul | 24.07 | Cash | DIY Shop | Hooks for pictures | | |
| 26-Jul | 3,564.23 | DD | Wages | Wages | | |
| 26-Jul | 26.79 | DC | PB Garages | Fuel | | |
| 30-Jul | 444.56 | SO | Frangelwort Council | C Tax | | |
| 31-Jul | 15.99 | DC | Frangelwort Supermarket | Biscuits | | |
| 31-Jul | 36.42 | DC | Simply Stationery | Stationery | | |
| 30-Jul | 48.68 | DC | PB Garages | Fuel | | |

NB Electricity has a special VAT rate of 5%

KEY: DC debit card SO standing order DD direct debit 120456 cheque number

VAT KEY: os outside the scope 0 zero rated/exempt private private expenditure - VAT n/a 20 standard rated 20% 5 special rate of 5%

Appendix A

WORKSHEET 4 - RECEIPTS LISTING

| DATE | AMOUNT £ | CUSTOMER |
|--------|------------------|--------------------------|
| 2-Jul | 1,180.82 | Abracadabra Ltd |
| 3-Jul | 576.21 | Sizzlewitch Dramatics |
| 4-Jul | 153.46 | Sizzlewitch Dramatics |
| 4-Jul | 217.70 | Witty Wigs |
| 5-Jul | 90.54 | Party Accesorize Ltd |
| 4-Jul | 148.66 | Witty Wigs |
| 5-Jul | 67.64 | Knotwise Events |
| 4-Jul | 237.51 | Fairys R Us |
| 5-Jul | 46.18 | Bloosom Roosevelt |
| 10-Jul | 611.38 | Meliot Proudfoot |
| 10-Jul | 466.03 | Abracadabra Ltd |
| 15-Jul | 114.62 | Knotwise Events |
| 15-Jul | 1,133.85 | Sizzlewitch Dramatics |
| 16-Jul | 24.07 | Bloosom Roosevelt |
| 16-Jul | 66.62 | Merlin's Madness |
| 22-Jul | 33.34 | Lily Gangee |
| 17-Jul | 466.36 | Muncho Danderfluff |
| 18-Jul | 67.98 | Witty Wigs |
| 19-Jul | 91.56 | Clowns Topsy Turvey Town |
| 25-Jul | 46.63 | Ruby Knotwise |
| 25-Jul | 1,139.38 | Party Accessorize Ltd |
| 26-Jul | 91.56 | Fairys R Us |
| 26-Jul | 113.83 | Orange Blossom |
| 28-Jul | 1,251.39 | Sizzlewitch Dramatics |
| 29-Jul | 56.84 | Meliot Proudfoot |
| 31-Jul | 76.11 | Merlin's Madness |
| 31-Jul | 1,597.51 | Crazy Costumes |
| 31-Jul | 57.66 | Clowns Topsy Turvey Town |
| | 10,225.44 | |

Appendix A

WORKSHEET 6 - BANK ACCOUNTS AND RECONCILIATION

| | £ | £ |
|---|---|-----------|
| Balance as at 1 July 20XX | | 12,456.23 |
| Total payments for July | | |
| Total receipts for July | | |
| Balance per cashbook as at 31 July 20XX | | |

| BANK RECONCILIATION | £ | £ |
|--|---|---|
| Balance per bank statement | | |
| Add: unpresented lodgements | | |
| Less: outstanding cheques | | |
| Balance per cash book as at 31 July 20XX | | |

| OPENING BALANCE RECONCILIATION | £ | £ |
|--|--------|-----------|
| Balance per bank statement as at 1 July 20XX | | 12,701.83 |
| Less: outstanding cheques as at 1 July 20XX | 120455 | -245.60 |
| Balance per cash book as at 1 July 20XX | | 12,456.23 |

Appendix A

WORKSHEET 7 - EXTRACT FROM BANK STATEMENT

| DATE | CUSTOMER | TYPE | DEBIT £ | CREDIT £ |
|-----------------------------------|-------------------------|--------|----------|------------------|
| Balance as at 1 July 20XX | | | | 12,701.83 |
| 1-Jul | Cash Withdrawal | | 100.00 | |
| 2-Jul | Cheque Payment | 120455 | 245.60 | |
| 2-Jul | Witches R Us | DC | 22.98 | |
| 2-Jul | Credit | | | 1,180.82 |
| 3-Jul | Credit | | | 576.21 |
| 4-Jul | Simply Stationery | DC | 26.19 | |
| 4-Jul | Credit | | | 153.46 |
| 4-Jul | Credit | | | 217.70 |
| 4-Jul | Credit | | | 148.66 |
| 4-Jul | Credit | | | 237.51 |
| 5-Jul | Mungo | SO | 850.00 | |
| 5-Jul | Credit | | | 90.54 |
| 5-Jul | Credit | | | 67.64 |
| 5-Jul | Credit | | | 46.18 |
| 7-Jul | Cheque Payment | 120457 | 153.66 | |
| 8-Jul | Cheque Payment | 120456 | 102.38 | |
| 10-Jul | Cheque Payment | 120458 | 227.29 | |
| 10-Jul | PB Garages | DC | 26.19 | |
| 10-Jul | Credit | | | 611.38 |
| 10-Jul | Credit | | | 466.03 |
| 11-Jul | Cheque Payment | 120459 | 91.47 | |
| 11-Jul | Simply Stationery | DC | 21.67 | |
| 11-Jul | HMRC | DD | 1,545.23 | |
| 11-Jul | Frangelwort Supermarket | DC | 20.37 | |
| 12-Jul | Cheque Payment | 120460 | 89.31 | |
| 12-Jul | PB Garages | DC | 47.58 | |
| 15-Jul | Cheque Payment | 120461 | 116.98 | |
| 15-Jul | Simply Stationery | DC | 14.88 | |
| 15-Jul | Credit | | | 114.62 |
| 15-Jul | Credit | | | 1,133.85 |
| 16-Jul | Credit | | | 24.07 |
| 16-Jul | Credit | | | 66.62 |
| 16-Jul | Sew 'n' Sew | | 1,200.00 | |
| 17-Jul | Sparks and Spencers | DC | 159.78 | |
| 17-Jul | PB Garages | DC | 26.20 | |
| 17-Jul | Credit | | | 466.36 |
| 18-Jul | Cars R Us | DC | 80.23 | |
| 18-Jul | Credit | | | 67.98 |
| 19-Jul | Electricity Company | DD | 65.97 | |
| 19-Jul | Credit | | | 91.56 |
| 22-Jul | Cheque Payment | 120462 | 262.45 | |
| 22-Jul | Frangelwort Water Board | DD | 77.66 | |
| 22-Jul | PB Garages | DC | 57.66 | |
| 22-Jul | Credit | | | 33.34 |
| 23-Jul | Simply Stationery | DC | 19.63 | |
| 24-Jul | PB Garages | DC | 90.13 | |
| 24-Jul | Cheque Payment | 120463 | 80.66 | |
| 25-Jul | Credit | | | 46.63 |
| 25-Jul | Credit | | | 1,139.38 |
| 26-Jul | A/C 256645 (wages) | DD | 3,564.23 | |
| 26-Jul | PB Garages | DC | 26.79 | |
| 26-Jul | Credit | | | 91.56 |
| 26-Jul | Credit | | | 113.83 |
| 30-Jul | FCC | SO | 444.56 | |
| 30-Jul | PB Garages | DC | 48.68 | |
| 31-Jul | Frangelwort Supermarket | DC | 15.99 | |
| 31-Jul | Simply Stationery | DC | 36.42 | |
| Balance as at 31 July 20XX | | | | 9,928.94 |

KEY: DC debit card SO standing order DD direct debit ✓ agreed to cashbook × agreed to opening bank reconciliation

Appendix A

WORKSHEET 8 - FIXED ASSET REGISTER

| ASSET | DATE OF PURCHASE | DEPRECIATION RATE | ORIG COST £ | 20XX-6 £ | 20XX-5 £ | 20XX-4 £ | 20XX-3 £ | 20XX-2 £ | 20XX-1 £ | NBV AT 31 JUL 20XX-1 £ | 20XX £ | NBV AT 31 JUL 20XX £ |
|--------------------|------------------|-------------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------------------|------------------|----------------------------|
| Office furniture | 11/04/20XX-6 | 25% rb | 11,423.00 | 2,855.75 | 2,141.81 | 1,606.36 | 1,204.77 | 903.58 | 677.68 | 2,033.05 | | |
| Sewing machines | 12/08/20XX-5 | 25% rb | 25,450.00 | | | 6,362.50 | 4,771.87 | 3,578.91 | 2,684.18 | 8,052.54 | | |
| Fabric cutter | 25/10/20XX-5 | 15% rb | 18,666.00 | | | 2,799.90 | 2,379.92 | 2,022.92 | 1,719.49 | 9,743.77 | | |
| Template machine | 04/04/20XX-4 | 15% rb | 12,356.00 | | | 1,853.40 | 1,575.39 | 1,339.08 | 1,138.22 | 6,449.91 | | |
| Computers | 05/11/20XX-4 | 3 yrs sl | 8,522.00 | | | | 2,840.67 | 2,840.67 | 2,840.66 | 0.00 | | |
| Laptops | 26/08/20XX-3 | 3 yrs sl | 5,123.00 | | | | | 1,707.67 | 1,707.67 | 1,707.66 | | |
| Server | 02/02/20XX-2 | 3 yrs sl | 2,456.00 | | | | | 818.67 | 818.67 | 818.66 | | |
| Software | 18/04/20XX-1 | 3 yrs sl | 1,555.00 | | | | | | 518.33 | 1,036.67 | | |
| Fabric dye machine | 01/06/20XX-1 | 15% rb | 15,456.00 | | | | | | 2,318.40 | 13,137.60 | | |
| Total | | | 104,134.66 | | | | | | | 42,979.86 | 10,924.96 | 35,182.56 |

Sewing machines are depreciated at 25% rb

Computer equipment is depreciated straight line over three years