

Foundation Bookkeeping – 1

FLASH CARDS

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EXTRACT VAT AT 20%

Divide the gross amount by 6

To extract VAT from a gross amount (when VAT is 20%) just divide the gross amount by 6.

DEALING WITH A TRADE/ BULK DISCOUNT

Always deduct trade/bulk discount before calculating VAT

A trade and/or bulk discount must first be deducted on an invoice (and credit note) before calculating VAT on the net amount.

DIFFERENCE BETWEEN TRADE AND BULK DISCOUNT

Established customer
vs Quantity customer

A trade discount will be given to established customers whilst a bulk discount will be given to customers who buy over a specific quantity or value.

CAPITAL AND REVENUE EXPENDITURE

What's the difference?

Spending on new non-current assets or significantly improving existing ones is capital expenditure whilst spending on daily items for running a business is revenue expenditure.

THE ACCOUNTING EQUATION

Assets – Liabilities = Capital
or
Assets = Capital + Liabilities

Providing two of the three items of the equation are known then the missing item can be calculated using the above equation.

PETTY CASH

What's an imprest system?

This is when the petty cash is restored to a specific amount of cash at the end of a period (usually a week or month) so it starts the next period with the same amount as the previous period.

BALANCING A LEDGER ACCOUNT

Using balance c/d and balance b/d

When balancing a ledger account, ensure that both sides total the same by entering the balance c/d on the side which would have the lower total. The balance c/d goes above the totals, the balance b/d will go on the other side of the T account, below the totals.

POSTING FROM THE SALES DAY BOOK

What's the double entry?

When posting from the sales day book remember that NET and VAT stay together when posted to the ledgers.

Therefore the double entry is:

Dr Sales ledger control
Cr Sales } **Stay together**
Cr VAT

POSTING FROM THE PURCHASES DAY BOOK

What's the double entry?

When posting from the purchases day book remember that NET and VAT stay together when posted to the ledgers.

Therefore the double entry is:

Dr Purchases } **Stay together**
Dr VAT
Cr Purchases ledger control

ASSET VS LIABILITY

What's the difference?

An asset is something that is **owned** by the business.
A liability is something **owed** by the business.