

AAT LEVEL 2

Unit: Business Accounting 1



Lesson 2

Topic: Accounting principles and Business Documentation

RECAP OF LAST LESSON

- 1. What is the difference between cash and credit transactions?**
- 2. Name any 3 users of accounting information.**
- 3. Name any 4 accounting terms.**
- 4. Name two expenses and two incomes.**

AIMS



1. To apply the principles of double-entry bookkeeping in different business transactions.



2. To explain the dual effect of accounting transactions.



3. To discuss different business documents.

PRINCIPLES OF BOOKKEEPING

Separate entity





DUAL EFFECT

- Paul buys machinery for cash 5,000.
- Name the two accounts involved:

1.

2.



ACTIVITY

- Imagine you are running a business.
- Think about the type of your business.
- Identify any two business transactions.
- **WORK IN PAIRS AND DISCUSS WITH YOUR PARTNER**
- What is the double effect for each of the transaction?

Examples to show how an accounting equation balances

- **Michael Fletcher set up a new business. He paid £40000 into a business bank account in order to start the business.**
- Effect 1 =
- Effect 2 =
- Accounting equation:
- **Assets = Liabilities + Capital**

Examples to show how an accounting equation balances

- Paid £2500 as 6 months rent on the shop.
- Effect 1 =
- Effect 2 =
- Accounting equation:
- **Assets = Liabilities + Capital**

Examples to show how an accounting equation balances

- **Bought goods for resale by cheque totalling £750.**

- Effect 1 =

- Effect 2 =

- Accounting equation:

- **Assets = Liabilities + Capital**

BUSINESS TRANSACTIONS: **CASH SALES**

• **CUSTOMER** → **SALES ASSISTANT**

• **Cash**

• **Cheque**

• **Debit card**

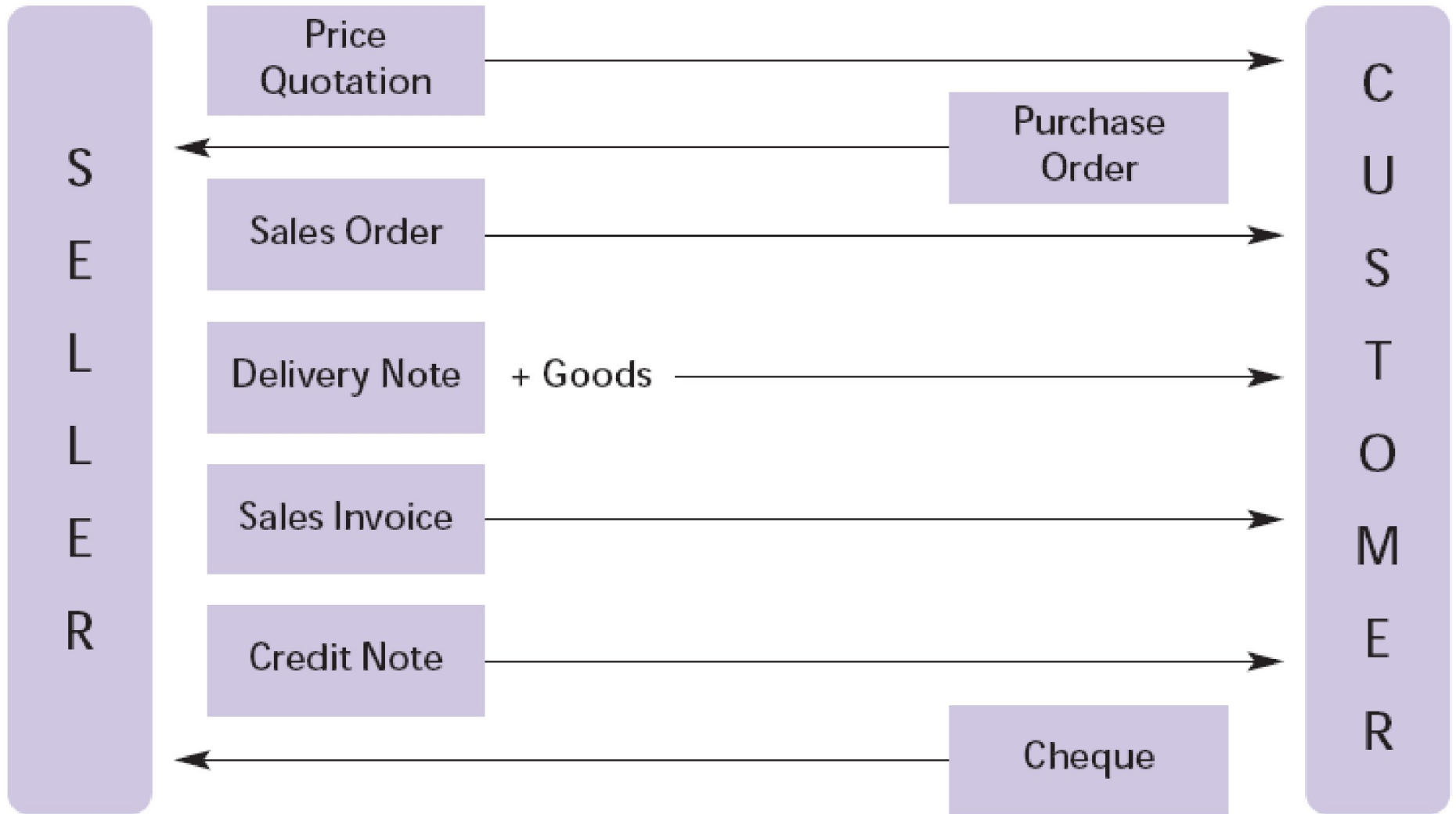
• **Credit card**

• **CUSTOMER** ← **SALES ASSISTANT**

Till receipt

Copy of credit/debit card

Credit sales: Sales cycle





SETTING UP A CREDIT SALE

- **PRICE ENQUIRY**
- **PRICE QUOTATION**
- **PURCHASE ORDER**
- **SALES ORDER**



PRICE ENQUIRY

- Enquiry made by the customer from the seller.
- May be a formal written document or a telephone call.



PRICE QUOTATION

- **An important document.**
- **A catalogue or price list.**
- **States the price at which the seller is prepared to sell the goods to the customer.**
- **It should be properly authorised.**

Purchase order

PURCHASE ORDER					
ALPHA LTD Mountjoy Street Shepherd's Bush LONDON W12		<i>Name and address of business placing the order</i>			
Tel: 0208 741 2962 Fax: 0208 741 2963 Date: 17 September 20X3 Purchase order no: P01562 VAT Reg no: 413 2790 04		<i>Order date</i>	<i>Sequential order number</i>	<i>VAT registration number of business placing the order</i>	
To: City Woods Suppliers 192 Old Kent Road London SE1 8QT		<i>Name and address of business the order is being placed with</i>			Delivery address (If different from above) 26 New Road Milton Keynes MK25 2BA
<i>Product</i>	<i>Ref</i>	<i>Quantity</i>	<i>Price per unit (ex VAT)</i> £	<i>Total (ex VAT)</i> £	
Chipboard sheeting 6' x 4'	CB0351	10	23.00	230	
Signed: <i>J Rowlands</i> Purchasing Manager					

PURCHASE ORDER (PO)

- Also known as customer order.
- The customer is ready to place the order for the goods, which may be in writing or on telephone.
- It contains the address to which the goods are to be delivered.
- It contains the description of the product.
- Price of the product.
- Must be carefully checked for details.



CREDIT LIMITS

- **There is always a risk involved in selling goods on credit.**
- **Credit limit is the maximum amount which a particular customer should ever be allowed to owe the business at any one time.**



SALES ORDER

- **Supplier confirms the order of the customer.**
- **Document containing:**
 - 1. Type of goods**
 - 2. Quantity**
 - 3. Delivery date**
 - 4. Location of supply**
 - 5. Price**
 - 6. Terms of sale**



SUPPLYING THE GOODS

- **DELIVERY NOTES**
- **SALES INVOICE**
- **PRICING GOODS & SERVICES**
- **CUSTOMER DETAILS**
- **EFFECT OF VAT**
- **OTHER TERMS FOUND ON INVOICES**



DELIVERY NOTE

- **Document accompanying goods despatched to a customer.**
- **It does not include any price information.**

BUSINESS DOCUMENTS

1. Invoices

2. Credit notes

3. Remittance advice notes

4. Petty cash vouchers



INVOICES

- Its is a primary business document that relates to credit transactions.
- **It is given by the seller to the buyer.**
- **It is a request for payment for the goods from the customers and details precisely how much is due and when.**
- **For the seller it is a sales invoice and for the buyer the same document is a purchase invoice.**
- **Prepared from the details shown on delivery notes.**



WHAT INFORMATION
SHOULD BE LISTED ON
AN INVOICE?

WHAT INFORMATION SHOULD BE LISTED ON AN INVOICE?

- **Date**
- **Invoice number**
- **Customer name and address**
- **Seller's name and address**
- **VAT details**
- **Terms of payment**
- **Purchase order number**
- **Number of items that were sold**
- **Price per item**
- **Description of goods (In words and codes)**
- **Total amount payable**
- **Other terms or conditions**

Sales invoice

City Woods Suppliers



192 Old Kent Road
London
SE1 8QT

Tel: 020 7248 7009 - Fax: 020 7248 7890

Invoice no: I005673
Tax point: 21 September 20X3
VAT reg no: 618 2201 63
Delivery note: DN005673
Account no: AL6215

INVOICE

To:

Alpha Limited
Mountjoy St
London W12 6RS

Date: 21 September 20X3

Delivery:

26 New Road
Milton Keynes
MK25 2BA

Delivery date:

Date: 25 September 20X3

Sales order number: 41161

We confirm the following order to be delivered as above.

<i>Product</i>	<i>Code</i>	<i>Quantity</i>	<i>Price per unit</i> £	<i>Total</i> £
Chipboard 6' x 4'	CB0351	10	23.00	230.00
			VAT	40.24
				270.25



CREDIT NOTES

- **A refund document.**
- **It reduces the amount owed by the buyer.**
- **REMEMBER:**
- **The goods have not yet been paid for.**
- **Prepared by the supplier (seller) and sent to the buyer.**

CREDIT NOTE:

Reverse of sales invoice

- CONTAINS THE FOLLOWING DETAILS:

1. The invoice number.
2. Reason for the issue of the credit note is stated at the bottom of the credit note.
3. The details are the same as on an invoice.

REASONS FOR ISSUING CREDIT NOTES

1. Short deliveries.

2. High unit price on the invoice.

3. Damaged or faulty goods.

4. To settle a dispute with the customer.

5. Customer returning perfect goods.



Remittance Advice

- **When a business issues an invoice to a customer, the invoice will often have a detachable slip.**
- **This slip is called a remittance advice.**
- **The remittance slip is returned by the customer when paying an invoice so as to identify what the payment is for.**

Remittance advice

- suppliers attach a remittance advice to the statement.
- the customer indicates which invoices are being paid.

REMITTANCE ADVICE

To: Bart & Partners
Spring House
Park Estate
Oldham OL2 3CF

Company name: Fells Brothers

Address: Simpfield House
Oldham OL1 3XJ

Date: 4 April 20X2

Date	Our ref	Amount £	Discount taken £	Paid £
15 Jan 20X2	INV 12611	308.50		308.50
Feb 20X2	CN 04779	(112.60)		(112.60)
20 Feb 20X2	INV 12683	419.80		419.80
02 Mar 20X2	INV 12710	384.20		
14 Mar 20X2	INV 12748	116.88		
			Total paid	£ 615.70
			Cheque no	047732

The background features a light green balloon at the top left, a light blue balloon in the middle left, and a light purple balloon at the bottom left. Yellow streamers and triangular shapes are scattered around the balloons.

Petty cash Voucher

- **A petty cash voucher is an internal document that details the business expenditure that an employee has incurred out of his own money.**
- **It is used by the petty cashier to write up the petty cash book.**

Petty cash voucher

Signature of person authorising voucher

Details of expenditure

PETTY CASH VOUCHER			Sequential voucher number	
Authorised by <i>F R Clarke</i>	Received by <i>L Kent</i>	Signature of claimant	No	<i>4173</i>
Date	Description	Amount		
<i>4 April 20X1</i>	<i>Train Fare</i>	<i>12</i>	<i>50</i>	
Total			<i>12</i>	<i>50</i>

Total paid to employee

BUSINESS DOCUMENTS

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