



Home Learning
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PRACTICAL BOOKKEEPING

The Manual Process

Level 2 Certificate

Daybooks
Bad Debt
Journals
The Cashbook
Petty Cash

Day Books for a VAT registered business

We have looked at day books previously in level 1. You may wish to refer back and read this section again with regards discounts etc.

When posting to the Day Books in a double entry situation for a VAT registered business, the invoices are listed as normal but the VAT is shown separately, as is the gross invoice total.

Consider the following example for Purchases.

PURCHASES DAY BOOK

Date	Supplier	Inv No	Net	VAT	Gross
Mar 1	I Patel	61	1015.00	203.00	1218.00
Mar 2	E Knox	583	914.00	182.80	1096.80
Mar 5	S Brown	1471	1400.00	280.00	1680.00
Mar 7	S Brown	1053	248.00	49.60	297.60
			3577.00	715.40	4292.40

When posting using the double entry system, the total of the Net column is posted to the debit side of the Purchases Account and the total of the VAT column is posted to the debit side of the VAT Account: individual gross items are posted to the credit side of each individual supplier's account as they occur at the end of the month.

NOMINAL LEDGER Purchases Account

Date	Details	£	Date	Details	£
March 31	PDB	3577.00			

VAT Account

Date	Details	£	Date	Details	£
March 31	PDB	715.40			

Practice Question 1d

The Credit Sales, Purchases, Sales Returns and Purchases Returns of **A Brown & Co** for the month of October 200X were as follows:

Oct		
1	Sold to W. Stoud	£235
3	Sold to J. Love	£ 94
4	Bought from W. Sykes	£273
5	Sold to W. Stoud	£987
8	Bought from J. Chapel	£799
9	Bought from S. Smith	£376
11	Sold to J. Love	£752
14	Sold to W. Stoud	£141
15	Sold to D. Reeve	£564
17	Bought from W. Sykes	£611
19	Goods returned from W. Stoud	£141
20	Sold to J. Love	£423
21	Goods returned from J. Love	£188
22	Goods returned to J. Chapel	£ 94
24	Bought from S. Smith	£329
25	Goods returned to W. Sykes	£235
27	Sold to W. Stoud	£940
28	Bought from W. Sykes	£517

Enter the above items into the appropriate Day Books and the relevant accounts in the Nominal, Sales and Purchases Ledgers. Note that all transactions are subject to VAT at 20% which needs to be added on. In addition, post the following receipts and payments to the appropriate accounts:

Receipts:

Oct 30	W Stoud	£1000
	J Love	£500

Payments:

Oct 30	W Sykes	£600
	S Smith	£450

Note: The balance in the Bank Account at the start of trading on Oct 30 is £5900 Dr and the Capital Account is £5900 Cr.

The correction of errors

However hard you try to be accurate, errors will occur in bookkeeping – after posting an entry any alterations and deletions should not be made in the ledger but by firstly making a journal entry then posting to the double entry accounts.

Example

On 1 June we discover goods sold on credit to Mr Jameson, costing £500.25, had incorrectly been entered into Mr James's account. To correct this error we must remove the entry from Mr James's account and enter it where it correctly belongs in Mr Jameson's account.

The Journal

Date	Details	Fo	DR	CR
June 1	Mr. Jameson acc	SL1	500.25	
	Mr. James acc	SL2		500.25
	Correction of error, posting to wrong account			

Mr Jameson Account (SL1)

Date	Details	£	Date	Details	£
June 1	Sales	500.25			

Mr James Account (SL2)

Date	Details	£	Date	Details	£
June 1	Sales	500.25	June 1	Mr Jameson	500.25

As we have seen, the end result of all our bookkeeping will be the Trial Balance and ultimately the final accounts. It is therefore important that the figures used to extract these are correct. Some errors will not affect the Trial Balance, and these can be quite time-consuming to find.

Reversal

This happens when the entry is posted to the wrong side of the account. The double entry is complete but the entries are in reverse. Correcting this type of error involves doubling the amount.

Example

Rent received of £400; entries reversed. Assume there is a single account, for both Rent Received and Rent Paid.

What was entered:

Bank		Rent Received/Paid	
	Rent received 400	Bank 400	

What should have been entered:

Bank		Rent Received/Paid	
Rent received 400			Bank 400

To correct the entry:

Reverse the original posting.

DEBIT Bank £400
CREDIT Rent Received £400

THIS CLEARS THE ORIGINAL POSTING

Make the correct entry

DEBIT Bank £400
CREDIT Rent Received £400

ALTERNATIVELY To make the correction in one posting

DEBIT Bank £800
CREDIT Rent Received £800

The Journal entries for these corrections can be found on page 42.

The bookkeeping entries for wages

Wages Summary

When compiling the wages for each employee, a wages sheet should be prepared giving the amounts of gross pay, PAYE, NIC any other deductions made and net pay after all the deductions have been made.

A worked example follows:

Gross Pay	PAYE Tax Deducted	NI deducted	Net Pay	Employer's NI contributions
£800	£89	£48	£663	£55

Bookkeeping entries

One method of entering these transactions into the books is as follows:

Stage 1: Entering the amounts due.

Wages

Date	Details	£	Date	Details	£
Aug 28	Gross wages Aug	800			
	Employers NI due	55			

HMRC

Date	Details	£	Date	Details	£
			Aug 28	PAYE due Aug	89
				Employee NI due	48
				Employer NI due	55

Net wages

Date	Details	£	Date	Details	£
			Aug 28	Net wages for Aug	663

You have now recorded the gross wages and employer's National Insurance Contributions as business expenses (these can be posted to separate accounts if preferred) and the fact that the net wages are currently owed to the employee and that all tax and NI contributions are owed to the HMRC.

The net wage will probably be paid at the end of the month whilst the HMRC payment is due to be paid on the 19th of the month following.

Required:

Open up a Two-Column Cash Book with the brought down balances. Enter all the transactions for the first week of August. Balance the Cash Book, ensuring that the brought down balance on the Cash Account is £50, which will form the float for the next week's trading. Bring down the balances for the start of the next week.

ANSWER – Lee Chu**Cash Book**

Date	Detail	fo	Cash	Bank	Date	Detail	fo	Cash	Bank
Aug 1	Bal b/d		50.00		Aug 1	Bal b/d			865.50
1	Sales	NL1	350.00		3	Cleaning	NL3	15.00	
3	Sales	NL1	335.00	65.00	4	Bank	c	400.00	
4	Cash	c		400.00		Sundries	NL2	30.00	
	Sales	NL1	150.00	50.00		Holbornes	PL1		489.99
5	Sales	NL1	330.00	250.00	5	Drawings	NL4	300.00	
6	Sales	NL1	500.00		6	Bank	c	920.00	
	Cash	c		920.00		Bal c/f		50.00	329.51
			1715.00	1685.00				1715.00	1685.00
Aug 8	Bal b/d		50.00	329.51					

Note on balancing:

When leaving a float in the Cash Account, first balance the Cash Account as follows: add up the debit column and enter the total (£1,715) on both sides of the Cash Account. Next enter the balance c/f (£50) into the credit side of the account and bring down the balance—then calculate the missing figure in the credit column of the Cash Account (£920). This will be the amount banked. Enter this as a contra entry in both accounts, and finally, balance the Bank Account as normal.

Now attempt Practice Questions 3b and 3c.

Practice Question 3b

Sanjay runs a small electrical repair business, working from home. He is not registered for VAT and keeps a very simple set of accounts. All transactions are recorded into a Two-Column Cash Book. Cash receipts are recorded in the cash column, and all cheques recorded in the bank column. Expenses can be made by cash or cheque and recorded appropriately.

At the start of November he has no cash remaining and £350 in his Bank Account. The following transactions are recorded during the month.

November	1	Received £56 by cheque for repairing a television. Also carried out a small re-wiring job for which he charged £15 and was paid in cash.
	4	Cashed a cheque for £25. Received £35 cash for small job. Paid £39.99 by cheque for some stock items he needed.
	7	Received £158 by cheque for repairing CD system.
	10	Received £100 cash for checking out an electrical appliance and replacing faulty wiring.
	13	Received cheque for work carried out £200. Paid out £35 cash for petrol
	16	Received £120 cash for repairing television. Banked £150 in cash.
	19	Paid cheque £110 for van insurance
	22	Received £50 cash for repairing vacuum cleaner
	26	Paid out £10 cash for small items of goods
	30	Received £75 cheque for job carried out.

Required:

Enter the above transactions into a Two-Column Cash Book and balance the Cash book as at 30 November.

Practice Question 3c

Record the following transactions for a new greengrocery retail business named '**The Green Grocer**' in a full double entry system. He is not VAT registered. Set up a two-column Bank/Cash Book.

Sept 1	Started business with £10,000 paid into a business Bank Account.
Sept 4	Paid rent by cheque £1,500
Sept 5	Purchased fixtures paying by cheque £2,000
Sept 8	Purchased Goods paying by cheque £1,000.
Sept 10	Transferred £200 cash from the Bank Account into the Cash Account
Sept 12	Sales for week: cash £750, cheques £400.
Sept 15	Paid £300 cash into bank.
Sept 20	Purchased £200 of Goods paying in cash.

Finish by balancing the accounts and preparing a Trial Balance as at 30 Sept.

EXAMPLE:

January 12 Paid out £15 cash for sundry items

January 13 Received £25 cash for a small sale (i.e. job done)

The entries would be:

Cash Account (6)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 10	Cash	c	100	200X Jan 12	Sundries	8	15
13	Sales	7	25	31	Balance c/f		110
			125				125
Feb 01	Balance b/d		110				

Sales (7)

Date	Details	fo	£	Date	Details	fo	£
Jan 31	Balance c/f		175	200X Jan 12	Bal b/d		150
			175	13	Cash	6	25
							175
				Feb 01	Balance b/d		175

Sundries (8)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 12	Cash	6	15				

Now complete Practice Question 3a that follows.