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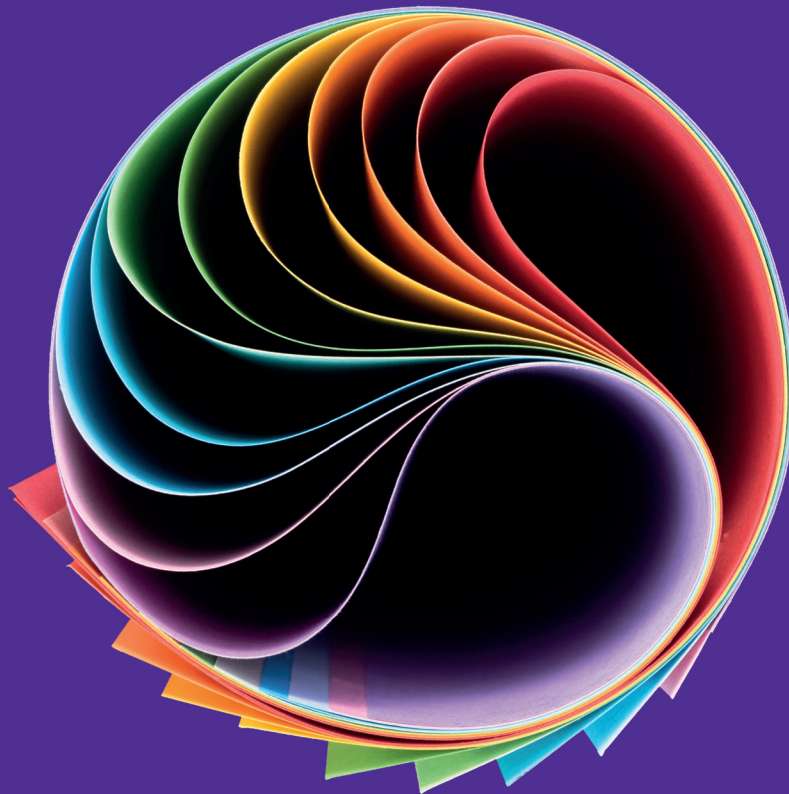
Executive
Preview

Accounting

for Cambridge International AS & A Level

MULTI-COMPONENT SAMPLE

David Hopkins, Deborah Malpas, Harold Randall,
Michael Seagrove, Sharon Elan-Puttick & Julie Whatford



Third edition

Digital Access



Cambridge Assessment
International Education

Endorsed for full syllabus coverage



Brighter Thinking

Better Learning

Dear teacher,

Welcome to the new edition of our *Accounting for Cambridge International AS & A Level* series, offering full support for the Cambridge International AS & A Level Accounting syllabus (9706) for examination from 2023.

This executive preview gives you a first look at our new resources and shows you how the key components – coursebook with digital access, workbook with digital access and a digital teacher’s resource – work together to support you and your learners.

In developing the series, we carried out extensive research with teachers around the world to make sure we understood your needs and challenges and how to best support you and your learners.

The coursebook is written in a clear and accessible language to enable all learners to understand the different aspects of financial or management accounting contained within the syllabus. It also includes the following:

- A new ‘Accounting in context’ feature offers real-world accounting scenarios and questions to engage learners
- Plenty of worked examples with step-by-step support ensure that learners understand how to put theory into practice
- Various activities throughout the coursebook give learners opportunities to practise a variety of accounting processes and solve problems either individually, in pairs or in groups
- A new ‘Think like an accountant’ feature in every chapter provides learners with thought-provoking case studies and questions to help them make connections between their studies and the world of work
- Hundreds of practice and exam-style questions throughout the resource develop learners’ evaluative and analytical skills so they can draw conclusions from accounting information and make appropriate recommendations
- A new ‘Preparing for assessment’ chapter explains the assessment objectives, differences between the examination papers and how to prepare for examination
- A glossary of key terms and ratios is included in the appendix to save learners valuable time when revising

The workbook supports learners’ progress even further, testing their understanding and enabling them to gain more experience of demonstrating the key subject skills. It has definitions of command words, key skills exercises, worked examples, exam-style questions and sample answers for learners to improve on and assess.

The teacher's resource is at the heart of this new series, helping you to use the resources effectively. It includes teaching notes, differentiation and assessment ideas, suggestions on how to tackle common misconceptions, language support ideas, a lesson plan template and an exemplar.

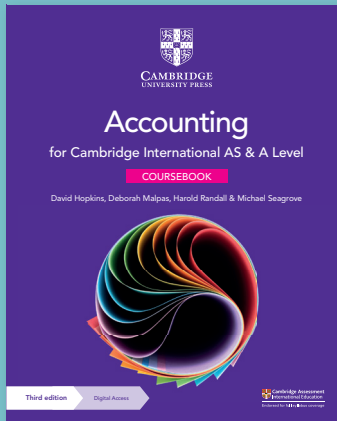
For each topic, there is a selection of starter ideas, main teaching ideas and plenary ideas so you can pick ones that meet the needs of your class. The teaching notes include a range of downloadable resources, such as language worksheets, topic worksheets and PowerPoint presentations. These supporting resources will help you to deliver the topics to your class and provide additional support in key areas, while saving you lesson-planning time.

We're very pleased to share with you sample chapters from our forthcoming coursebook, workbook and teacher's resource. We hope you enjoy looking through them and considering how they will support you and your learners. If you would like more information or have any questions, please contact your local sales representative: cambridge.org/education/find-your-sales-consultant

Biljana Savikj
Commissioning Editor for Accounting
Cambridge University Press

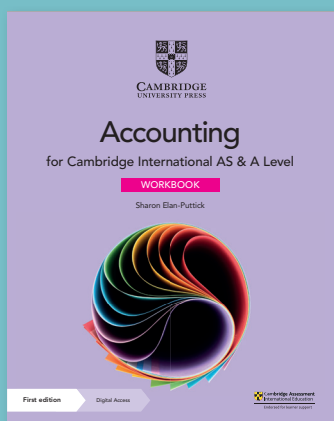
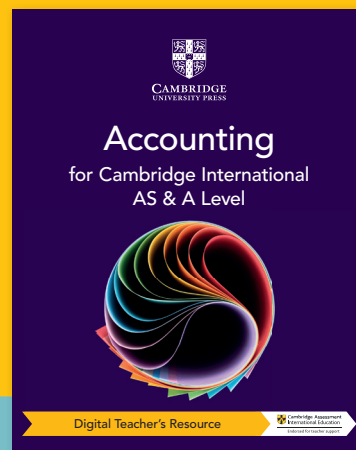
> How to use this series

This suite of resources supports learners and teachers following the Cambridge International AS & A Level Accounting syllabus (9706). All of the components in the series are designed to work together and help learners develop the necessary knowledge and skills for this subject.



The coursebook is designed for learners to use in class with guidance from the teacher. It offers complete coverage of the Cambridge International AS & A Level Accounting syllabus. Each chapter contains in-depth explanation of Accounting concepts with a variety of worked examples and activities to engage learners, help them make real-world connections and develop their analysis and evaluation skills.

The teacher's resource is the foundation of this series because it offers inspiring ideas about how to teach this course. It contains everything you need to deliver this course, including teaching guidance, lesson plans, suggestions for differentiation, assessment and language support, answers and extra materials including downloadable worksheets and slide presentations.



The workbook provides further practice of all the skills presented in the coursebook and is ideal for use in class or as homework. It provides engaging exercises, worked examples and opportunities for learners to evaluate sample answers so they can put into practice what they have learnt.



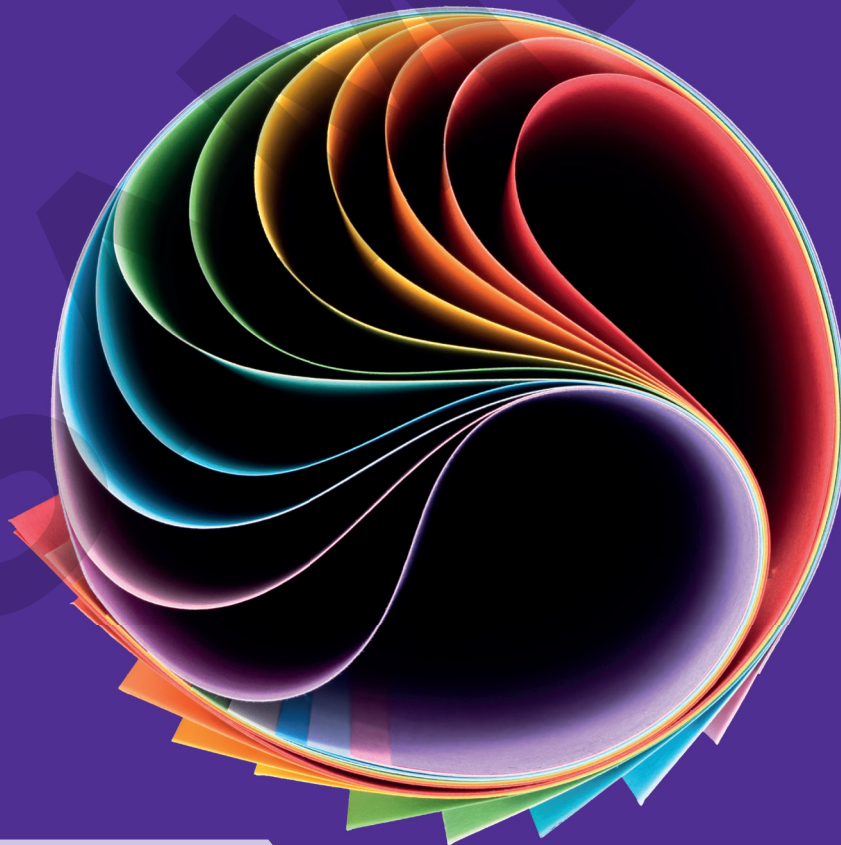
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Accounting

for Cambridge International AS & A Level

COURSEBOOK

David Hopkins, Deborah Malpas, Harold Randall & Michael Seagrove



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> How to use this book

Throughout this coursebook, you will notice recurring features that are designed to help your learning. Here is a brief overview of what you will find.

LEARNING INTENTIONS

Learning intentions open each chapter. These help you with navigation through the coursebook and indicate the important concepts in each topic.

ACCOUNTING IN CONTEXT

Accounting in context introduces you to the content in a chapter. These place some of the key ideas contained in the chapter into real-world accounting scenarios. They raise important issues for discussion, with questions that allow you to look in more detail at the topic.

TIPS

Tips are provided throughout this coursebook to help with your learning. The tips might cover how to avoid common errors or misconceptions, advice on difficult accountancy problems, evaluation and analysis skills, or guidance on how answers are arrived at.

ACTIVITIES

There are various activities throughout this coursebook. These include short case studies with evaluative or analytic questions, as well as opportunities to practice a variety of accounting processes and solve problems either individually, in pairs or in groups.

REFLECTION

Reflection questions direct you to look back on an activity and encourage you to think about your learning. You will reflect on and assess the process that you used to arrive at your answers.

WORKED EXAMPLE

Worked examples offer a clear step-by-step breakdown of complex accounting processes to show you how an outcome is achieved.

KEY TERMS

Key vocabulary and formulas are highlighted in the text when they are first introduced. An accompanying definition explains the meanings of these words and phrases. You will also find definitions of these words in the Glossary at the back of this book. There is also a separate appendix for all key formulas.

KEY CONCEPT LINKS

These explain how the coursebook's topics are integrated with the key concepts in the Cambridge International AS & A Level Accounting syllabus.

THINK LIKE AN ACCOUNTANT

Think like an accountant provides you with an opportunity to apply your accounting skills to current events across a variety of international settings. You will be encouraged to look at the world through an accounting lens. Designed to be thought-provoking and encourage discussion, the short case studies and questions raised will help you to make connections between your studies and the world of work.

PRACTICE AND EXAM-STYLE QUESTIONS

At the end of each chapter, you will find either practice or exam-style questions to check your understanding of the knowledge and skills you have learned so far and help you to prepare for examination.

SELF-EVALUATION CHECKLIST

At the end of each chapter, you will find a series of statements outlining the content that you should now understand. You might find it helpful to rate how confident you are for each of these statements when you are revising. You should revisit any topics that you rated 'Needs more work' or 'Almost there'.

› Part 1

The accounting system

› Chapter 1

Double-entry bookkeeping: Cash transactions

This chapter covers syllabus section AS Level 1.2

LEARNING INTENTIONS

In this chapter you will learn how to:

- describe how every financial transaction a business makes has two sides to it
- describe how double-entry bookkeeping records both sides of a transaction
- describe how each side of a transaction is recorded in its own ledger account, which has two sides
- describe how cash transactions involve immediate payment
- use ledger accounts to record cash transactions.

ACCOUNTING IN CONTEXT

Keep a record

Millions of new businesses start up every year across the globe. There are around 100 000 registered start-ups in India and 400 000 in South Africa alone. Whatever the industry or country, every new business should keep a record of its financial transactions.

Running out of cash is one of the biggest worries of new business owners as it can be the reason for business failure. Understanding how to record and manage money is a priority for many new business owners.

There is plenty of financial advice available. An internet search will provide information on common financial issues including opening a bank account, borrowing money and taking care of day-to-day spending. Banks, such as Barclays and HSBC, offer business accounts to start-ups. Many banks also offer information and advice to help with planning future income and expenditure and calculating profits.



Figure 1.1: Every new business should keep a record of its financial transactions.

Discuss in a pair or a group:

- What does a new business owner need to know about accounting when they start up?
- Why do banks provide free financial information and advice?
- What other organisations might offer free advice about money?

1.1 What is double-entry bookkeeping?

Every business uses an **accounting system** to record its financial transactions. This system can be used to make decisions or report on the financial performance of the business. The accounting system is based on **double-entry bookkeeping**.

For example, you give your friend \$5 in exchange for his book. From your point of view, the two sides of this financial transaction are:

- 1 you are *giving* him \$5 (one aspect)
- 2 you are *receiving* a book worth \$5 (the other aspect)

Every transaction involves giving and receiving. It is important that you *recognise* and *record* both sides of each transaction in your bookkeeping. The term double-entry bookkeeping comes from the fact that both sides are recorded. The two entries to record the two sides are made in *ledger accounts*.

1.2 Ledger accounts

Financial transactions are recorded in **ledgers** in **ledger accounts**. These accounts are sometimes called T accounts because each one looks like the capital letter T.

KEY TERMS

ledger: a book or computer file containing accounts.

ledger account: a history of all financial transactions of a similar nature.

KEY TERMS

accounting system: a system of collecting, storing and processing financial information and accounting data used by managers.

double-entry bookkeeping: a system of recording financial transactions that recognises there are two sides to every transaction.

TIP

It is important to remember that every transaction is recorded twice in the double-entry system.

Layout of a ledger account

Debit (dr)			Credit (cr)		
Date	Details	Amount \$	Date	Details	Amount \$

The two sides of an account separate what is received from what is given. The **debit side** records what is received into the account. The **credit side** records what is given.

When there is a financial transaction, one ledger account will have an entry on the debit side and one account will have an entry on the credit side. This is how we record financial transactions in the double-entry system.

In a ledger account, the date of a financial transaction is abbreviated with only three letters for the month. For example, 1 April is written Apr 1. The details (or narrative) state where the other entry is recorded.

KEY TERMS

debit side: left-hand side of an account where what is received is recorded.

credit side: right-hand side of an account where what is given is recorded.

1.3 Recording cash transactions

When a financial transaction involves money being paid or received straightaway, it is known as a cash transaction. Payments and receipts either through the bank account or as notes and coins are all considered cash transactions.

Bookkeeping treats the business as separate from the business owner(s). For example, if Haziq is a trader, all his financial transactions are recorded as those of the business and not as Haziq's personal financial transactions.

TIP

All financial transactions are recorded from the point of view of the business, not from those of its customers and suppliers or the business's owner.

WORKED EXAMPLE 1

Financial transaction 1

1 April. Haziq starts a business by paying \$10 000 into a new business bank account.

The two sides of this transaction are:

- the business bank account receives \$10 000
- Haziq gives the business \$10 000 **capital**

The double-entry for this transaction is:

- debit the bank account
- credit the **capital account**

To record the transaction the business must first open ledger accounts for capital and bank. Then the following two double-entry bookkeeping entries are made on 1 April:

Debit (Dr)			Credit (Cr)		
Date	Details	Amount \$	Date	Details	Amount \$
Apr 1	Haziq – capital	10 000 [1]			

Note: this is the business's bank account, not Haziq's personal bank account.

KEY TERMS

capital: the money invested in a business by its owner(s).

capital account: the account that records the money invested in a business by its owner(s).

1 Double-entry bookkeeping: Cash transactions AS Level 1.2

CONTINUED

Haziq – capital account			
Debit (Dr)		Credit (Cr)	
	\$		\$
		Apr 1 Bank	10000[2]

Notes:

- [1] The business has received \$10000, which has been paid into the business bank account, hence that account has been *debited*.
- [2] Haziq has given the business \$10000, hence his capital account has been *credited*. Entries in ledger accounts are known as **postings**, and bookkeepers are said to 'post' financial transactions to the accounts.

Financial transaction 2

2 April. Haziq buys a motor vehicle for the business and pays \$2000 from the business's bank account.

The two sides of this transaction are:

- 1 the business receives a \$2000 motor vehicle
- 2 the business bank account gives (pays out) \$2000

The double-entry for this transaction is:

- 1 debit the motor vehicle account
- 2 credit the bank account

The bank account already exists and a motor vehicles account must be opened. Then the following two bookkeeping entries are made on 2 April.

Bank account			
Debit		Credit	
	\$		\$
Apr 1 Haziq – capital	10000	Apr 2 Motor vehicles	2000

Motor vehicles account			
Debit		Credit	
	\$		\$
Apr 2 Bank	2000		

Financial transaction 3

3 April. Haziq buys goods that he will resell in the normal course of trade for \$3000 and pays out of the business bank account by debit card.

The two sides of this transaction are:

- 1 the **purchases** account receives \$3000 of goods
- 2 the bank account gives \$3000

The double-entry for this transaction is:

- 1 debit the purchases account
- 2 credit the bank account

A purchases account must be opened to record the goods being bought. Then the following two bookkeeping entries are made on 3 April.

KEY TERM

posting: the process of recording financial transactions in ledger accounts.

TIP

In Worked example 1, financial transactions are all recorded in ledger accounts.

KEY TERM

purchases: goods bought from suppliers that will be resold to customers.

CONTINUED

Bank account					
Debit			Credit		
		\$			\$
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000
			Apr 3	Purchases	3 000

Purchases account					
Debit			Credit		
		\$			\$
Apr 3	Bank	3 000			

Financial transaction 4

4 April. Haziq sells a quantity of the goods for \$800 and pays the money into the bank.

The two sides of this transaction are:

- 1 the bank account receives \$800
- 2 the sales account gives \$800 of goods to customers

The double-entry for this transaction is:

- 1 debit the bank account
- 2 credit the sales account

A sales account must be opened to record the goods being sold. Then the following two bookkeeping entries are made on 4 April.

Bank account					
Debit			Credit		
		\$			\$
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000
Apr 4	Sales	800	Apr 3	Purchases	3 000

Sales account					
Debit			Credit		
		\$			\$
			Apr 4	Bank	800

Financial transaction 5

7 April. A customer returns some goods and receives a refund of \$40.

The two sides of this transaction are:

- 1 the **sales returns (returns inwards)** account receives \$40
- 2 the bank account gives \$40 to the customer

Hence the double-entry for this transaction is:

- 1 debit the sales returns (returns inwards) account
- 2 credit the bank account

KEY TERM

sales returns (returns inwards): a customer who has already bought goods sends them back to the seller. A refund is given of any money already paid because goods are faulty or incorrect goods were delivered.

1 Double-entry bookkeeping: Cash transactions AS Level 1.2

CONTINUED

A sales returns account must be opened to record the goods being returned to the business from a customer. This account is also known as the returns in account. Then, the following two bookkeeping entries are made on 7 April.

Bank account					
Debit			Credit		

Sales returns account				
Debit			Credit	
		\$		\$
Apr 7	Bank	40		

Note: goods returned from a customer are debited to the sales returns account, not the sales account.

Financial transaction 6

8 April. Haziq returns some goods costing \$100 to a supplier and receives a refund.

The two sides of this transaction are:

- 1 the bank account receives \$100
- 2 the **purchase returns (returns outwards)** account gives \$100 of goods back to the supplier

The double-entry for this transaction is:

- 1 debit the bank account
- 2 credit the purchase returns (returns outwards) account

A purchase returns account must be opened to record the goods being returned to the supplier. This account is also known as the returns out account. Then, the following two bookkeeping entries are made on 8 April.

		Bank account			
Debit			Credit		
		\$			\$
Apr 1	Haziq – capital	10000	Apr 2	Motor vehicles	2000
Apr 4	Sales	800	Apr 3	Purchases	3000
Apr 8	Purchase returns	100	Apr 7	Sales returns	40

Purchase returns account				
Debit		Credit		
	\$			\$
		Apr 8	Bank	100

Note: goods returned to a supplier are debited to the purchase returns account, not the purchases account.

TIP

Remember that sales returns are sometimes referred to as returns inwards and purchase returns are sometimes referred to as returns outwards.

KEY TERM

purchase returns (returns outwards): purchased goods that are sent back to the supplier who agrees to accept them back and return any money paid.

CONTINUED

Financial transaction 7

10 April. Haziq buys another motor vehicle for the business and pays \$4 000 by cheque.

This financial transaction is similar in nature to transaction 2 on 2 April.

The double-entry for this transaction is:

- 1 debit the motor vehicle account
- 2 credit the bank account

No new ledger accounts need to be opened for this financial transaction as the business already has both a motor vehicle account and a bank account. The following two bookkeeping entries are made on 10 April.

Debit		Bank account		Credit	
		\$			\$
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000
Apr 4	Sales	800	Apr 3	Purchases	3 000
Apr 8	Purchase returns	100	Apr 7	Sales returns	40
			Apr 10	Motor vehicles	4 000

Debit		Motor vehicles account		Credit	
		\$			\$
Apr 2	Bank	2 000			
Apr 10	Bank	4 000			

An account is a history of all financial transactions of a similar nature. Therefore, it is not necessary to open another account for the second motor vehicle. Similarly, all purchases of office equipment are posted to the office equipment account, and all purchases of office furniture are posted to the office furniture account.

Financial transaction 8

11 April. Tania lends the business \$5 000. Haziq pays the money into the business bank account.

The two sides of this transaction are:

- 1 the bank account receives \$5 000
- 2 the loan from Tania account gives \$5 000 to the business

The double-entry for this transaction is:

- 1 debit the bank account
- 2 credit the Tania – loan account

1 Double-entry bookkeeping: Cash transactions AS Level 1.2

CONTINUED

A loan account specific to Tania must be opened. Then, the following two bookkeeping entries are made on 11 April.

Bank account					
Debit			Credit		
		\$			\$
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000
Apr 4	Sales	800	Apr 3	Purchases	3 000
Apr 8	Purchase returns	100	Apr 7	Sales returns	40
Apr 11	Tania – loan	5 000	Apr 10	Motor vehicles	4 000

Tania – loan account					
Debit			Credit		
		\$			\$
			Apr 11	Bank	5 000

Separate loan accounts are needed for each lender. If Tania lends the business more money in the future, another entry can be made into the ‘Tania – loan account’. However, if Kim also lends money to Haziq’s business, a new ‘Kim – loan account’ must be opened.

Financial transaction 9

12 April. Haziq pays rent for a warehouse by debit card, \$1 000.

The two sides of this transaction are:

- 1 the rent payable account receives \$1 000
- 2 the bank account gives \$1 000 for use of the warehouse

Hence the double-entry for this transaction is:

- 1 debit the rent payable account
- 2 credit the bank account

A rent account must be opened. This account is also known as the rent payable account. Then, the following two bookkeeping entries are made on 12 April.

Bank account					
Debit			Credit		
		\$			\$
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000
Apr 4	Sales	800	Apr 3	Purchases	3 000
Apr 8	Purchase returns	100	Apr 7	Sales returns	40
Apr 11	Tania – loan	5 000	Apr 10	Motor vehicles	4 000
			Apr 12	Rent payable	1 000

Rent payable account					
Debit			Credit		
		\$			\$
Apr 12	Bank	1 000			

CONTINUED

Financial transaction 10

14 April. Haziq rents part of the warehouse to his friend Lee and receives a cheque for \$300 for the rent. This is paid into the business bank account.

The two sides of this transaction are:

- 1 the bank account receives \$300
- 2 the rent receivable account gives \$300 of warehouse space to Lee

Hence the double-entry for this transaction is:

- 1 debit the bank account
- 2 credit the rent receivable

A rent received account must be opened. Then, the following two bookkeeping entries are made on 14 April.

Debit			Bank account			Credit		
			\$				\$	
Apr 1	Haziq – capital	10 000	Apr 2	Motor vehicles	2 000			
Apr 4	Sales	800	Apr 3	Purchases	3 000			
Apr 8	Purchase returns	100	Apr 7	Sales returns	40			
Apr 11	Tania – loan	5 000	Apr 10	Motor vehicles	4 000			
Apr 14	Rent receivable	300	Apr 12	Rent payable	1 000			

Rent receivable account			
Debit		Credit	
	\$		\$
		Apr	Bank
			300

TIP

Take care not to mix up rent (payable) with rent receivable. Rent is an expenditure of the business while rent receivable is income.

Financial transaction 11

15 April. Haziq pays wages by bank transfer, \$1 200.

The two sides of this transaction are:

- 1 the wages account receives \$1 200
- 2 the bank account gives \$1 200 to the staff for wages

The double-entry for this transaction is:

- 1 debit the wages account
- 2 credit the bank account

1 Double-entry bookkeeping: Cash transactions AS Level 1.2

CONTINUED

A wages account must be opened. Then, the following two bookkeeping entries are made on 15 April.

Bank account					
Debit			Credit		

		Wages account	
Debit			Credit
		\$	\$
Apr 15	Bank	1200	

Financial transaction 12

16 April. Haziq withdraws \$600 from the business bank account for personal use.

The two sides of this transaction are:

- 1 the **drawings** account receives \$600
- 2 the bank account gives \$600 to Haziq

Hence the double-entry for this transaction is:

- 1 debit the drawings account
- 2 credit the bank account

A drawings account must be opened. Then, the following two bookkeeping entries are made on 16 April.

Debit			Bank account			Credit				
			\$				\$			
Apr 1	Haziq – capital	10000	Apr 2	Motor vehicles	2000					
Apr 4	Sales	800	Apr 3	Purchases	3000					
Apr 8	Purchase returns	100	Apr 7	Sales returns	40					
Apr 11	Tania – loan	5000	Apr 10	Motor vehicles	4000					
Apr 14	Rent receivable	300	Apr 12	Rent payable	1000					
			Apr 15	Wages	1200					
			Apr 16	Drawings	600					

KEY TERM

drawings: money the business owner takes out of the business for personal use.

CONTINUED

Drawings account			
Debit		Credit	
	\$		\$
Apr 16 Bank	600		

Note: money drawn out of a business by the owner for personal use is debited to a drawings account, not to the owner's capital account (see Chapter 8 for explanation of drawings).

KEY CONCEPT LINK

Business entity: The accounting records for a business consider the financial transactions from the business's point of view. As a result, money put into the business by the owner is treated as capital for the business and money taken out of the business for personal spending by the owner is treated as drawings.

ACTIVITY 1.1

Here are the financial transactions for Faris's new business. Open the necessary ledger accounts and post the following financial transactions to them. All financial transactions use the bank account.

June

- Faris started a business by paying \$14 000 into his business bank account.
Prisha lent the business \$5 000.
Faris then had the following financial transactions:
- Purchased equipment for business use, \$10 000.
- Paid rent, \$700.
- Paid wages, \$600.
- Purchased good to resell, \$2 000.
- Sold some goods for \$1 500.
- Refunds money to customer for goods returned, \$300.
- Returns goods to supplier and receives refund, \$500.
- Faris takes \$400 out of the bank account for personal use.

REFLECTION

When answering Activity 1.1, how did you decide the account to debit and the account to credit? Did you get the account names correct? Were any of your debit and credit entries the wrong way round? If so, can you think of how to learn the correct debits and credits for the future?

1 Double-entry bookkeeping: Cash transactions AS Level 1.2

ACTIVITY 1.2

Complete the entries for the following table with information taken from the accounts of a trader:

	Name of account to debit	Name of account to credit
1	Paid rent by cheque.	
2	Postage and stationery paid by cheque.	
3	Telephone bill paid from the bank account by standing order [1].	
4	Heating and lighting bill paid from the bank account by standing order.	
5	Paid wages by cheque.	
6	Rent received directly into the bank account.	
7	Bank interest received into the bank account.	
8	Business owner takes money out of the bank account for personal expenses.	
9	Loan received from a friend, Lee.	
10	Loan repayment made on the loan from Lee.	
11	Purchases paid by debit card.	
12	Sold goods and banked the takings.	
13	Returned goods to supplier and banked the refund.	
14	Refunded money to customer by cheque for goods returned.	
15	Carriage inwards [2] paid by cheque.	
16	Carriage outwards [3] paid by cheque.	

Notes:

- [1] A standing order is a regular direct payment from a bank account.
- [2] Carriage inwards is the delivery cost of bringing the goods from the supplier to the business.
- [3] Carriage outwards is the cost of delivering goods to a customer (see Chapter 7 for explanation of carriage inwards and carriage outwards).

THINK LIKE AN ACCOUNTANT

Do you track your own finances?

Studying accounting sometimes makes people think more carefully about their own personal finances. Just as a business has lots of receipts and payments going in and out of its bank account, so too do many of us. Keeping track of our own personal income and spending habits can help us make more informed decisions about our finances. We may be less likely to run out of money.

You could set up your own double-entry accounts on paper or a spreadsheet. Alternatively, there are apps available to track personal spending. Is this something you do already? If not, you could try it for a month to see how useful it is.

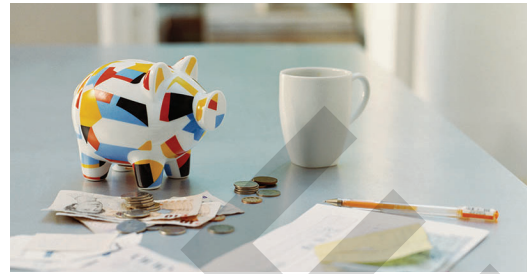


Figure 1.2: Keeping track of our own spending habits can help us make more informed decisions about our personal finances.

PRACTICE QUESTIONS

- 1 Which of the following financial transactions is most likely to require a debit entry in the bank account?

<p>A purchases</p> <p>B rent receivable</p> <p>C sales returns</p> <p>D wages</p>	<p>[1]</p>
---	------------
- 2 Amir bought goods for resale and paid for the goods to be delivered. Which entries in Amir's books record the delivery cost?

<p>Debit account</p> <p>A bank</p> <p>B bank</p> <p>C carriage inwards</p> <p>D carriage outwards</p>	<p>Credit account</p> <p>carriage inwards</p> <p>carriage outwards</p> <p>bank</p> <p>bank</p>	<p>[1]</p>
--	---	------------
- 3 A trader takes money from the business bank account for personal use. Which entries record this in his books?

<p>Debit account</p> <p>A bank</p> <p>B bank</p> <p>C capital</p> <p>D drawings</p>	<p>Credit account</p> <p>capital</p> <p>drawings</p> <p>bank</p> <p>bank</p>	<p>[1]</p>
--	---	------------

1 Double-entry bookkeeping: Cash transactions AS Level 1.2**CONTINUED**

- 4** Below are the financial transactions for Mira's new business. Open the necessary ledger accounts and post the following financial transactions to them. All transactions use the bank account.

June

- 1** Mira commenced business by paying \$20 000 into her business bank account.

Mira then had the following financial transactions:

- 2** Purchased machinery, \$12 000.
3 Paid rent for office space, \$1 200.
4 Bought goods for resale, \$4 000.
 Paid carriage inwards for delivery of goods supplied, \$30.
5 Sold some goods for \$3 500.
6 Paid for heating and lighting, \$200.
7 Received rent for subletting part of the office, \$300.
8 Bought more machinery, \$800.
9 Bought more goods for resale, \$2 000.
10 Sold goods, \$2 050.
 Paid carriage outwards for delivery to customer, \$50.
11 Repaid by cheque to customers for goods returned, \$100.
12 Bank interest received, \$10.

[16]**SELF-EVALUATION CHECKLIST**

After studying this chapter, complete a table like this:

You should be able to:	Needs more work	Almost there	Ready to move on
Explain that every financial transaction a business makes has two sides to it.			
Explain that double-entry bookkeeping records both sides of a financial transaction.			
Explain that each side of a financial transaction is recorded in its own ledger account, which has two sides.			
Explain that cash transactions involve immediate payment.			
Use ledger accounts to record cash transactions.			



› Chapter 2

Double-entry bookkeeping: Credit transactions

This chapter covers syllabus section AS Level 1.2

LEARNING INTENTIONS

In this chapter you will learn how to:

- use ledger accounts to record credit transactions and their payment
- distinguish between trade and cash discounts and record them in the ledger accounts
- distinguish between discounts allowed and discounts received and how to record each in the appropriate account.

ACCOUNTING IN CONTEXT

Buy now, pay later

7-Eleven is the largest chain of grocery and convenience stores in the world. It has thousands of outlets throughout North America, Asia, Europe and Australia and serves millions of customers. It sells a huge range of products from basics such as bread and milk to mobile phone accessories and newspapers.

Many manufacturers of convenience products are keen to have 7-Eleven as their customer. 7-Eleven selects its suppliers carefully so that it can ensure its stores are stocked with products that consumers would like to buy.

7-Eleven's customers must pay for the goods they buy immediately; sales are cash transactions. Suppliers to convenience stores such as 7-Eleven do not usually get paid immediately. Typically, there is a 30- to 60-day delay between the supplier supplying the goods and the supplier receiving payment for those goods. These purchases are credit transactions.

Credit transactions for both sales and purchases happen across industries especially when selling regularly to other businesses. Suppliers to 7-Eleven stores in Malaysia alone can be collectively owed more than \$80 million at any one time. This delay in paying suppliers is common business practice in retailing.

Discuss in a pair or a group:

- Why does 7-Eleven require immediate payment from its customers?
- Why does 7-Eleven expect to delay payment to its suppliers?
- Why are credit transactions more common when selling to other businesses rather than to individuals?



Figure 2.1: 7-Eleven is the largest global grocery and convenience store chain.

2.1 What are credit transactions?

Businesses do not always require their customers to pay immediately for the goods they buy. Sometimes customers are allowed to pay a few days, weeks or even months later. When a purchase occurs but the payment happens later, it is known as a **credit transaction**.

For example, Lai sells goods to Chin for \$500 on 31 May and gives Chin until 30 June to pay. The transaction is *on credit*, i.e. a credit transaction. The sale has taken place on 31 May and must be recorded in Lai's books of account *at that date*. No entries to record payment are made in Lai's books until the day that Chin pays Lai.

2.2 Recording credit transactions

A sale on credit is credited to the sales account and debited to an account in the customer's name. The customer who owes the business money is a **trade receivable**. When the customer (trade receivable) pays, their account is credited and the bank account debited.

A credit purchase is debited to a purchases account and credited to an account in the supplier's name. The supplier that the business owes money to is a **trade payable**. When the supplier (trade payable) is paid, their account is debited and the bank account credited.

KEY TERMS

credit transaction: a financial transaction where no money changes hands at the time of the transaction.

trade receivable: a customer that owes the business money.

trade payable: a supplier to whom the business owes money.

WORKED EXAMPLE 1

Lai owns a business that buys and sells on credit. This example shows Lai's ledger accounts.

Transaction 1: sales

31 May. Lai's business sells goods to Chin for \$500 and gives Chin until 30 June to pay.

This sale is a credit transaction because the customer does not pay immediately on May 31. Instead, Lai's business is owed money by the customer, Chin, who becomes a *trade receivable*.

In Chapter 1 we saw that where sales are paid for immediately (a cash transaction) we debit the bank account and credit the sales account. However, for a credit sale the debit will not be to the bank account. Instead, it is entered in an account for the customer.

The double-entry for this transaction is:

- 1 debit Chin's account
- 2 credit the sales account

The following two double-entry bookkeeping entries are made on 31 May.

Chin account			
Debit		Credit	
	\$		\$
May 31 Sales	500		

Sales account			
Debit		Credit	
	\$		\$
		May 31 Chin	500

The debit entry in Chin's account shows that he is a *trade receivable* in Lai's books; Chin owes Lai \$500 until he pays for the goods.

Transaction 2: purchases

31 May. Lai's business buys goods from Yan for \$400 and is given until 30 June to pay. This purchase is a credit transaction because the supplier is not paid immediately on May 31. Instead Lai's business owes money to the supplier, Yan, a *trade payable*.

For a credit purchase, the credit is entered in the supplier's account.

The double-entry for this transaction is:

- 1 debit the purchases account
- 2 credit Yan's account

The following two bookkeeping entries are made on 31 May.

Yan account			
Debit		Credit	
	\$		\$
		May 31 Purchases	400

TIP

If a business buys on credit, check whether it is buying goods for resale. If the goods are for resale then they are entered into the purchases account. If the business buys something such as machinery, then it is entered into the machinery account.

2 Double-entry bookkeeping: Credit transactions AS Level 1.2**CONTINUED**

Purchases account			
Debit		Credit	
	\$		\$
May 31	Yan	400	

The credit entry in Yan's account shows that he is a trade payable in Lai's books; Lai owes Yan \$400 until he pays for the goods.

Transaction 3: sales returns

4 June. Lai's customer, Chin, returns goods costing \$100 to Lai because they are damaged.

This sales return (returns inwards) is on the credit sale made on 31 May. Hence, on 4 June Lai's business does not give the customer any cash. Instead the customer, Chin, will now owe Lai's business less money.

We saw in Chapter 1 that where sales returns come from cash sales, we debit the sales returns account and credit the bank account. For a sales return from a credit sale, the credit is entered in the supplier's account instead of the bank account.

The double-entry for this transaction is therefore:

- 1 debit sales returns account
- 2 credit Chin's account

The following two bookkeeping entries are made on 4 June.

Sales returns account			
Debit		Credit	
	\$		\$
Jun 4	Chin	100	

Chin account			
Debit		Credit	
	\$		\$
May 31	Sales	500	
		Jun 4	Sales returns
			100

Transaction 4: purchase returns

5 June. Lai's business returns goods costing \$200 to the supplier, Yan, because they are the wrong size.

This purchase return (returns outwards) is on the credit purchase made on 31 May. Hence, on 5 June Lai's business does not receive cash from the supplier. Instead, Lai's business will owe the supplier, Yan, less money.

CONTINUED

For a purchase return from a credit purchase, the debit is entered in the supplier's account.

The double-entry for this transaction is:

- 1 debit Yan's account
- 2 credit purchases returns account

The following two bookkeeping entries are made on 5 June.

Yan account			
Debit		Credit	
	\$		\$
Jun 5	Purchases returns 200	May 31	Purchases 400

Purchases returns account			
Debit		Credit	
	\$		\$
		Jun 5	Yan 200

2.3 Recording payments for credit transactions

Goods bought or sold on credit must eventually be paid for. Customers that buy on credit may be given a month or even longer to pay. The sale is recorded on the day of the sale. The payment is recorded later when the money is received.

Purchases on credit are treated in a similar way with the purchase being recorded on the day of the purchase. The payment is recorded later when the payment is made.

WORKED EXAMPLE 2

(continuing from Worked example 1)

Transaction 5: receipts from credit customers

6 June. Chin pays all money owed on 6 June.

Chin pays Lai's business \$400 (\$500 – \$100).

Therefore, Chin's account gives \$400 and the bank account receives \$400.

The double-entry for this transaction is:

- 1 debit the bank account
- 2 credit Chin's account

The following two bookkeeping entries are made on 6 June.

Extract of the bank account:

Bank account			
Debit		Credit	
	\$		\$
Jun 6	Chin 400		

2 Double-entry bookkeeping: Credit transactions AS Level 1.2

CONTINUED

Chin account			
Debit		Credit	
	\$		\$
May 31 Sales	500	Jun 4 Sales returns	100
		Jun 6 Bank	400

Transaction 6: payments to suppliers for goods bought on credit

7 June. Lai's business pays Yan all money owed on 7 June.

Lai pays Yan \$200 (\$400 – \$200).

Therefore, the bank account gives \$200 and Yan's account receives \$200.

The double-entry for the payment to Yan of \$200 is:

- 1 debit Yan's account
- 2 credit the bank account

The following two bookkeeping entries are made on 7 June.

Extract of the bank account:

Bank account			
Debit		Credit	
	\$		\$
		Jun 7 Yan	200

Yan account			
Debit		Credit	
	\$		\$
Jun 5 Purchases returns	200	May 31 Purchases	400
Jun 7 Bank	200		

2.4 Discounts

A customer may be allowed to pay less than the selling price for the goods they have bought. This is called a discount. There are two types of discount:

- 1 trade discount
- 2 cash (or settlement) discount

Trade discount

A **trade discount** is typically given where the buyer and seller are in the same line of business. It is given as a percentage reduction from the normal price of a product.

Businesses may choose to offer trade discounts when a customer buys a large volume of goods. Businesses may also offer trade discounts to a customer that buys goods regularly or frequently. As a result, customers may be encouraged to buy more goods or to buy more often, and so increase sales for the business.

For example, goods that Lai's business sold to Chin for \$500 may have been sold normally for \$625. Chin has been given a trade discount of \$125 (20% of \$625). Although the normal price of the goods was \$625, the transaction was for \$500 and only \$500 is entered into the ledger accounts.

TIP

Trade discounts are used to calculate the value of a sale and are not recorded separately in ledger accounts.

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A trade discount is used to calculate the value of a sale, but it is not recorded separately in ledger accounts.

Cash (or settlement or prompt payment) discount

A **cash (or settlement) discount** is given to encourage a customer to pay quickly.

For example, Lai has given Chin one month to pay for the goods sold to him. Lai offers Chin a 5% cash discount on the amount due if Chin pays within seven days of the sale.

WORKED EXAMPLE 3

Transactions 5 and 6 would look very different if cash discounts had been allowed as shown next.

Alternative transaction 5: receipts with discounts allowed

6 June. Suppose Lai has allowed Chin a cash discount of 5% provided Chin pays by 7 June. Chin pays on 6 June.

When a customer pays for the goods they previously bought, we need to record the payment in the ledger accounts. If a cash discount is given then we must record this too. This is recorded in a **discounts allowed** account.

Before the cash discount Chin owes Lai \$400 (\$500 – \$100).

Chin meets the condition of the cash discount by paying on 6 June.

The cash discount is 5% of \$400 = \$20.

He will therefore pay only \$380 (\$400 – \$20).

The double-entry for the receipt from Chin of \$380 is:

- 1 debit the bank account
- 2 credit Chin's account

The double-entry for the \$20 discount allowed is:

- 1 debit the discounts allowed account
- 2 credit Chin's account

The following *four* bookkeeping entries are made on 6 June.

Extract of the bank account:

		Bank account	
		Debit	Credit
		\$	\$
Jun 6	Chin	380	

		Discounts allowed account	
		Debit	Credit
		\$	\$
Jun 6	Chin	20	

		Chin account	
		Debit	Credit
		\$	\$
May 31	Sales	500	
			Jun 4 Sales returns 100
			Jun 6 Bank 380
			Jun 6 Discounts allowed 20

KEY TERMS

trade discount: a reduction in the selling price of goods made by one trader to another.

cash (or settlement) discount: an allowance given by a seller to a customer to encourage the customer to pay an invoice before its due date for payment.

discounts allowed: cash discounts allowed to the customer of goods for prompt payment.

TIP

Cash discounts taken are always recorded in ledger accounts at the payment date.

2 Double-entry bookkeeping: Credit transactions AS Level 1.2

CONTINUED

Alternative transaction 6: payments with discounts received

7 June. Suppose Lai's supplier, Yan, has allowed Lai a cash discount of 5% provided Lai pays by 7 June, and Lai pays Yan on 7 June.

When a supplier is paid for goods they previously purchased, we need to record the payment in the ledger accounts. If a cash discount is given then we must record this too, in a **discounts received** account.

Before taking the cash discount, Lai owes Yan \$200 (\$400 – \$200).

Lai meets the condition of the cash discount by paying on 7 June.

The cash discount is 5% of \$200 – \$10.

She will therefore pay only \$190 (\$200 – \$10).

The double-entry for the payment to Yan of \$190 is:

- 1 debit Yan's account
- 2 credit the bank account

The double-entry for the \$20 discount received is:

- 1 debit Yan's account
- 2 credit the discount received account

The following *four* bookkeeping entries are made in Lai's business accounts on 7 June.

Debit		Bank account		Credit	
		\$			\$
			Jun 7	Yan	190

Debit		Yan account		Credit	
		\$			\$
Jun 5	Purchase returns	200	May 31	Purchases	400
Jun 7	Bank	190			
Jun 7	Discount received	10			

Debit		Discounts received account		Credit	
		\$			\$
			Jun 7	Yan	10

KEY TERM

discounts received: cash discounts received from the supplier of goods for prompt payment.

TIP

Note carefully whether a cash discount is to be deducted from settlements; that checks whether one is being offered and whether the time condition has been met.

KEY CONCEPT LINK

Duality (double-entry): Where there is a payment with a cash discount applied, we need to recognise that two transactions are actually taking place: the payment itself and the cash discount. As a result, there are four entries in the ledger accounts.

ACTIVITY 2.1

Below are the financial transactions for Max's business. Post the transactions to the ledger accounts. All goods are bought and sold on credit.

- October 1** Purchased goods from Tina that cost \$2 000.
2 Sold goods to Ali for \$300.
4 Returned goods to Tina that had cost \$200.
8 Purchased goods from Lim that cost \$2 400.
9 Sold goods to Omar for \$1 100.
10 Returned goods to Tina that had cost \$100.
11 All goods sold to Ali have been returned.

ACTIVITY 2.2

Below are the financial transactions for Peng's business. Post the transactions to the ledger accounts. All goods are bought and sold on credit.

- November 1** Bought goods from Ting that cost \$5 000 less trade discount of 15%.
5 Sold goods to Li for \$1 000.
10 Returned goods costing \$500 less discount to Ting.
15 Purchased goods from Wei that cost \$4 800 before trade discount of 20%.
20 Paid Ting all money owed.
 Paid Wei for goods bought on 15 November.
25 Received full payment from Li.

ACTIVITY 2.3

Complete the entries for the following table.

	Name of account(s) to debit	Name of account(s) to credit
1	Sell goods to Diya on credit.	
2	Buy machinery for use by the business on credit from Joints Ltd.	
3	Purchase goods on credit from Alan. Trade discount received.	
4	Return goods bought on credit to Alan.	
5	Goods bought on credit returned by Diya.	
6	Return goods to a supplier and bank refund.	
7	Refund money to a customer by cheque for goods returned.	
8	Pay Joints Ltd for goods bought.	
9	Receive full payment from Diya less cash discount.	
10	Pay Alan for goods bought less cash discount.	

REFLECTION

When completing Activity 2.3 how did you decide which account to debit and which account to credit? Did you think about which account 'gives' value and which 'receives' value?

Discuss your approach in pairs or small groups.

ACTIVITY 2.4

Zoe's business usually sells to the general public. A new business customer is interested in buying from her but wants to buy on credit.

Discuss in a small group the factors Zoe should consider when deciding whether to agree to sell on credit.

THINK LIKE AN ACCOUNTANT

Who do we trust with money?

Trust is important where money is involved. Buying and selling on credit between businesses is common business practice. It can be very useful, but it can be risky for a business to sell goods one day but then wait a month before receiving payment from the customer. How can the business be certain that the customer will pay? Can the customer afford to pay? Is the customer trustworthy or might they try to avoid paying?

If you were selling one of your personal possessions, would you insist on immediate payment? If so why? If not, are there any circumstances where you might be willing to allow payment to be delayed, e.g. the value of the possession, how well you know the buyer or if you have made a written agreement? Why might this make a difference?



Figure 2.2: If you were selling one of your personal possessions, would you insist on immediate payment?

PRACTICE QUESTIONS

- Which of the following transactions is most likely to require a credit entry in the bank account?
 - cash discount
 - cash sales
 - payment by a customer
 - payment to a supplier
- Jose bought goods on credit from Maria for \$200 less trade discount of \$30. Which entries record this transaction in Jose's books?

Account(s) to be debited	Account(s) to be credited
A Purchases \$170	Maria \$170
B Purchases \$170	Discounts allowed \$30 Maria \$200
C Purchases \$200	Maria \$200
D Purchases \$200	Maria \$170
Discounts received \$30	

[1]

[1]

CONTINUED

- 3** Myra sold goods on credit to Zara on 1 July. The goods are priced at \$1 000 but Myra allowed Zara a trade discount of 10% and offered a cash discount of 2% if she pays within seven days.

Which entries record this transaction in Myra's books on 1 July?

Account(s) to be debited	Account(s) to be credited
A Zara \$880	Sales \$880
B Zara \$882	
Discounts allowed \$18	Sales \$900
C Zara \$882	Sales \$882
D Zara \$900	Sales \$900

[1]

- 4** Below are financial transactions for Rachael's business. Post all the transactions to the ledger accounts. All goods were purchased on credit.

January 1	Purchases from Yun: \$800 less trade discount of 15%.
5	Purchases from Liyna: \$1 000 less trade discount of 10%.
6	Returns to Liyna of \$200 less trade discount.
9	Rachael settled her account with Liyna and was allowed 2% cash discount.
23	Rachael settled her account with Yun but was too late to receive a cash discount.

[10]

SELF-EVALUATION CHECKLIST

After studying this chapter, complete a table like this:

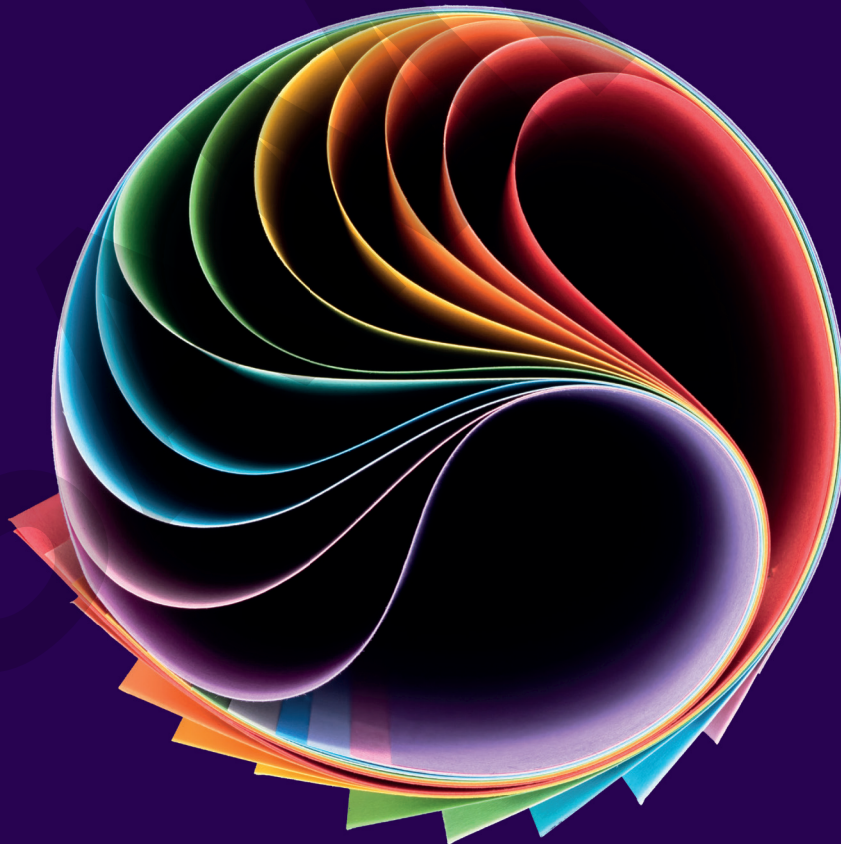
You should be able to:	Needs more work	Almost there	Ready to move on
Explain that credit transactions involve buying now and paying later.			
Explain that trade discounts are given by one trader to another.			
Explain that cash discounts taken are recorded in the accounts on the date of payment.			
Use ledger accounts to record credit transactions and their payment.			
Explain the difference between discounts allowed and discounts received and how to record each in the appropriate account.			



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Acknowledgements

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> 1 Double-entry bookkeeping: Cash transactions

Teaching plan

Topic	Approximate number of learning hours	Learning content	Resources
1.1 What is double-entry bookkeeping?	1 hour 30 minutes	Understand that double-entry bookkeeping is used to record the two sides of a transaction.	Coursebook Practice questions 1, 2 and 3 Workbook Worked example 1
1.2 Ledger accounts	3 hours	Know what ledgers and ledger accounts are.	Workbook Worked example 2 and Questions 2 and 3
1.3 Recording cash transactions	1 hour 30 minutes 5 hours	Understand cash transactions. Use the double-entry system to record cash transactions.	Coursebook Worked example 1, Activities 1.1 and 1.2, and Practice question 4 Workbook Exam-style questions 1 and 2 Topic worksheet 1.1 Language worksheet 1.1

BACKGROUND KNOWLEDGE

- This chapter provides learners with a foundation knowledge of double-entry bookkeeping that can be revisited and applied to many other areas of the syllabus. It is therefore important that learners thoroughly understand all aspects. As this initial chapter is an introduction you only need to cover the basics of cash transactions – more complex transactions will be considered in later chapters.
- Most learners will not have any prior knowledge of the terms used within this chapter. However, by using examples related to learners' personal purchases the terms can be introduced in a way that is easy to understand.

LANGUAGE SUPPORT

Some of the accounting terms introduced in this chapter have more than one meaning in the English language, and it is vital that learners appreciate the accounting context.

- Some international learners may associate 'drawings' with graphics/pictures/artwork, i.e. a drawing or the verb 'to draw'. In accounting this term takes on another meaning, which is where the business owner takes money out of the business for personal use.
- 'Posting' is another term with more than one meaning in the English language, leading to some international learners initially associating it with mail delivered, i.e. 'post' or a stake in the ground, i.e. a 'post'.
- 'Capital' is not to be confused with a capital letter or a capital city, e.g. London. In accounting it is a term to describe the money invested in a business by its owner(s).
- All transactions are recorded in the accounts from the point of view of the business. This is important to emphasise when introducing the terms to learners to support their understanding. It is important to 'model' the use of the correct terminology in the examples that you show while introducing the topic. Try to use examples from the learners' everyday transactions to help them to understand some concepts.
- If the learners are new to both accounting and business studies/enterprise it is important to outline how businesses operate as some learners may be unfamiliar with some concepts, e.g. some learners may not appreciate that customers may return products if they are faulty, which results in a 'sales return' for the business. If learners have studied accounting/business studies in the past, e.g. at IGCSE/GCSE, some of these concepts will be more familiar.

These are the key terms that they will come across in this chapter:

- **Accounting system:** A system of collecting, storing and processing financial information and accounting data used by managers.
- **Capital:** The money invested in a business by its owner(s).
- **Capital account:** The account that records the money invested in a business by its owner(s).
- **Carriage inwards:** The additional delivery cost paid by a business in excess of the purchase price of the goods purchased for resale. It is added to the cost of goods by the supplier.
- **Carriage outwards:** The additional cost charged by the seller to deliver goods sold.
- **Credit side:** Right-hand side of an account where what is given is recorded.
- **Debit side:** Left-hand side of an account where what is received is recorded.
- **Double-entry bookkeeping:** A system of recording accounting transactions that recognises that there are two sides to every transaction.
- **Drawings:** Money the business owner takes out of the business for personal use.
- **Ledger:** A book or computer file containing accounts.
- **Ledger account:** A history of all financial transactions of a similar nature.
- **Posting:** The process of recording financial transactions in ledger accounts.
- **Purchases:** Goods bought from suppliers that will be resold to customers.
- **Purchases returns (returns outwards):** Purchased goods that are sent back to the supplier who agrees to accept them back and return any money paid.
- **Sales returns (returns inwards):** A customer who has already bought goods sends them back to the seller. A refund is given of any money already paid because goods are faulty or incorrect goods were delivered.

LEARNING PLAN

Learning objectives	Learning intentions	Success criteria
1.2.1 The accounting system <ul style="list-style-type: none"> the principles of the double-entry system to record business transactions preparation of ledger accounts 	<ul style="list-style-type: none"> describe how every financial transaction a business makes has two sides to it describe how double-entry bookkeeping records both sides of a transaction describe how each side of a transaction is recorded in its own ledger account, which has two sides describe how cash transactions involve immediate payment use ledger accounts to record cash transactions 	<ul style="list-style-type: none"> explain that every financial transaction a business makes has two sides to it explain that double-entry bookkeeping records both sides of a transaction explain that each side of a transaction is recorded in its own ledger account, which has two sides explain that cash transactions involve immediate payment use ledger accounts to record cash transactions

Common misconceptions

Misconception	How to elicit	How to overcome
Learners think that cash transactions should only be entered into the accounting system once.	<p>Ask questions to probe learners' knowledge of how a business acquires cash.</p> <p>What activities does the business carry out to generate cash?</p> <p>Question the learners to explore why they feel it is important to accurately record cash transactions.</p>	<p>Discuss how cash is a resource that is owned by the business.</p> <p>Explain how the business bank balance/cash holding reduces when a cash transaction is made.</p> <p>Discuss why it is important to record this reduction so that the business's net worth is accurately recorded.</p>
Learners think that cash transactions can only be made using notes and coins.	<p>Have a class discussion asking learners to identify as many ways that a business transaction could be made, e.g. cash, credit card, cheque, etc.</p> <p>Invite learners to explore which methods are instant and which ones may involve a time delay.</p>	<p>Break down the definition of cash transactions, e.g. where payment is made straightaway.</p> <p>Discuss how transactions paid for by credit/debit card, cheque or online payment are also classed as immediate payment, as although no notes or coins are transferred the agreement to pay is straightaway.</p>
Learners think that ledger accounts are always prepared manually by businesses.	<p>Carry out a class research activity to explore how computers are used within modern businesses.</p> <p>Encourage the learners to complete one of the Activities within the Coursebook using a spreadsheet.</p>	<p>Discuss how most modern businesses rely on computers to record their business transactions and therefore ledger accounts are usually prepared with the support of computer applications.</p>

> CAMBRIDGE INTERNATIONAL AS & A LEVEL ACCOUNTING: TEACHER'S RESOURCE

Starter ideas

1 Accounting in context – Keep a record (10 minutes)

Resources: Accounting in context feature from Coursebook Chapter 1.

Description and purpose: Encourage learners to discuss the questions in pairs/groups. Encourage learners to share their answers with the rest of the class and stimulate a class discussion. Evaluate learners' prior knowledge of this topic.

What to do next: Use the class discussion to lead into the key topic areas.

2 The nature of business transactions (15 minutes)

Resources: Coursebook Chapter 1, whiteboard.

Description and purpose: Stimulate discussion among the learners about everyday transactions that they may carry out, e.g. purchasing a chocolate bar from a shop. This discussion could be started by asking learners:

- What was the last item you purchased?
- Where did you purchase it?
- How did you make the purchase? Cash?

Discuss how cash is lost when the purchase is made, yet the learner acquires a specific item, i.e. the chocolate bar. By relating to the everyday lives of learners they can understand how they represent a similar double-entry system when carrying out their own transactions.

What to do next: Use examples for a range of businesses (e.g. large businesses such as Apple or Ikea through to local small businesses such as a local hairdressers/barbers making a range of purchases such as carrier bags for customers' use or shampoo to wash clients' hair) to explain how business transactions follow a similar concept and why it is important to record both sides of the transaction accurately.

Main teaching ideas

1 What is double-entry bookkeeping? (40 minutes)

Learning outcome: Understand that double-entry bookkeeping is used to record the two sides of a transaction.

Resources: Coursebook Chapter 1, Workbook Chapter 1.

Description and purpose: By identifying a range of business transactions learners will be able to relate to the concept of double-entry and ledger entries more effectively.

Learners should read topic 1.1 What is double-entry bookkeeping in Chapter 1 of the Coursebook. Then lead a discussion about the example of giving a friend \$5 in exchange for the book.

Encourage learners to devise their own examples. Ask learners to work in pairs to identify a range of typical business transactions such as purchasing materials to produce products to sell or buying paper for the office printer. Learners could choose to base this activity on a business of their choice, or alternatively suggest a business such as Superdry or McDonald's. Learners could also work through worked example 1 in Chapter 1 of the Workbook to support this activity.

End with a class discussion to share ideas and produce a 'class list' of typical transactions to demonstrate that all transactions involve giving and receiving.

> Differentiation ideas:

- Support: Question learners to help them to consider why there are two sides to all business transactions.
- Challenge: Ask learners why it is important to accurately record business transactions. What may happen if business transactions are not recorded in full/accurately?

> **Assessment ideas:** While completing the activity, question learners. Do they understand the concept? Are the examples that the learners are creating accurate? Did learners generate the examples independently or did they need a lot of support?

> CAMBRIDGE INTERNATIONAL AS & A LEVEL ACCOUNTING: TEACHER'S RESOURCE

2 Ledger accounts (120 minutes)

Learning outcome: Know what ledgers and ledger account are.

Resources: Coursebook Chapter 1, calculator, whiteboard and pen.

Description and purpose: To enable learners to answer questions by creating their own ledger accounts.

Discuss the transactions in worked example 1 in detail. As each transaction is discussed, question the learners to assess their understanding.

Learners to use their knowledge from the homework reading to complete the questions within Topic worksheet 1.1.

Learners then work through Activities 1.1 to 1.3 in the Coursebook. Circulate the classroom to offer support as required. Encourage learners to support each other as peer support will help learners to understand the concepts.

Once all learners have completed the Activities, discuss and present the answers to the class. Encourage learners to ask questions if they did not get the correct answer.

> Differentiation ideas:

- Support: Circulate the classroom while learners are working and offer individualised support as required. Learners can ask any questions and you can observe which learners misunderstand the topic.
- Challenge: When answering Activity 1.3, how did you decide the account to debit and the account to credit? Were any of your debit and credit entries the wrong way round? If so, can you think of how to learn the correct debits and credits for the future?

> **Assessment ideas:** Completing the Activities is a way of assessing the learners. Did they answer all activities correctly? If a number of learners made similar errors, run through this topic again with the whole class.

Complete the Exam-style questions from Chapter 1 of the Workbook. Take the learners' work in to mark and offer detailed feedback.

3 Think like an accountant (60 minutes)

Learning outcome: Consolidate knowledge of the double-entry system and ledger account entries.

Resources: Coursebook, Workbook, flipchart/whiteboard.

Description and purpose: Consolidation of the key points covered in Chapter 1.

Tell learners a story to illustrate examples of business transaction errors, e.g. where a business has purchased a van, yet the bank balance does not change. How was the van paid for?

Encourage the learners to create a simple spreadsheet or use an app to record all of their personal transactions over the coming month. Encourage learners to share their first week results with others in the class during a lesson the following week.

Learners could then work through the Exam-style questions in Chapter 1 of the Workbook.

Once all learners have completed the Exam-style questions, discuss and present the answers to the class. Encourage learners to ask questions if they did not get the correct answer.

> Differentiation ideas:

- Support: Circulate the classroom while learners are working to offer individualised support. Learners can ask questions and you can observe which learners misunderstand the topic.
- Challenge: What are the benefits of using a double-entry system to manage the personal finances of a learner?

> **Assessment ideas:** Completing the Practice questions in the Coursebook is a way of assessing learner knowledge. Did learners answer all questions correctly?

> CAMBRIDGE INTERNATIONAL AS & A LEVEL ACCOUNTING: TEACHER'S RESOURCE

Plenary ideas

1 Self-review (10 minutes)

Resources: Coursebook Chapter 1, calculator.

Description and purpose: Encourage learners to correct any mistakes that they made with the Activities/ Exam-style questions. What entries were wrong and why? What is the correct entry/entries? What impact might this error have on the business's financial position/reporting?

> **Assessment ideas:** Learners to share their corrections with a peer. Did they make similar errors?

2 Revision notes (20 minutes)

Resources: Coursebook Chapter 1, Workbook Chapter 1, lined/plain paper, coloured pens/highlighters.

Description and purpose: Production of revision notes. Produce a mindmap/paragraph summary to outline the key principles of double-entry bookkeeping and ledger accounts. Make the notes visual using colour/ highlighting of key words/terms.

> **Assessment ideas:** Encourage learners to create a revision book/folder to collate all revision notes at the end of each chapter. This can be used for exam revision at the end of the course.

Topic worksheet 1.1 (downloadable)

Cash transactions

Topic worksheet 1.1 can be used to assess learners' knowledge and understanding of posting the account entries for cash transactions. It will offer additional practice at posting the account entries.

Language worksheet 1.1 (downloadable)

Cash transactions

Language worksheet 1.1 can be used to assess learners' knowledge and the language used when discussing cash transactions.

> 2 Double-entry bookkeeping: Credit transactions

Teaching plan

Topic	Approximate number of learning hours	Learning content	Resources
2.1 What are credit transactions?	1 hour 30 minutes	Understand credit transactions.	
2.2 Recording credit transactions 2.4 Discounts 2.3 Recording payments for credit transactions	7 hours	Use the double-entry system to record credit transactions. Know the difference between trade and cash discounts and how to treat them in the ledger accounts. Use the double-entry system to record payments to trade payables and receipts from trade receivables.	Coursebook Worked examples 1, 2 and 3, Activities 2.1 to 2.4 and Practice questions 1 to 4. Workbook Worked examples 1 and 2, Questions 1, 2 and 3, and Exam-style questions 1, 2 and 3 Language worksheet 2.1 PowerPoint presentation 2.1

BACKGROUND KNOWLEDGE

- This chapter provides learners with a foundation knowledge of double-entry bookkeeping for credit transactions. The key points from the topic will be transferred to many other areas of the specification so it is vital that learners understand the basic principles.
- Learners will have a basic knowledge of double-entry bookkeeping after studying the first chapter, which covered cash transactions, such as the basic debit and credit ledger entries for cash sales and purchases. Many of the principles will be expanded on in this chapter. By using examples related to simple business transactions learners will successfully understand the topic.
- For the purposes of this chapter you should only cover the basic principles of double-entry bookkeeping for credit transactions and should only go up to recording payments to trade payables and receipts from trade receivables. It is critical that learners understand the key terminology used within this topic.

LANGUAGE SUPPORT

Some of the accounting terms introduced in this chapter have more than one meaning in the English language, and it is vital that learners appreciate how the words are used within the accounting context.

- Some international learners may associate 'credit' with giving merit/praise/acknowledgement, or a 'grade' for an academic qualification. In accounting this term takes on another meaning and is where a purchase or sale occurs but the payment or receipt of money happens later.
- Credit transactions should not be confused with 'credit' entries to the ledger accounts. The use of the same word for different accounting transactions must be introduced carefully. It is important to 'model' the correct use of the terminology when working with learners.
- All transactions are recorded in the accounts from the point of view of the business. This is important to emphasise when introducing the terms to learners to support their understanding. It is important to 'model' the use of the correct terminology in the examples that you show while introducing the topic. Try to use simple examples that learners can easily relate to.
- Some textbooks and websites may use the term 'debtor' when referring to 'trade receivable' and 'creditor' when making reference to 'trade payable'. If the learners access other resources to support their studies you should point out this differing terminology; however, it is important that you consistently use the terms trade receivable and trade payable in class and during activities as these are the terms used by Cambridge International and are the ones that will be used in the examinations. Using terms interchangeably will reduce learners' understanding. To reduce the risk of learners using different terms you should consistently correct learners. By repeating this process learners will recognise that only the official terms should be used. Try to only use resources that support the official Cambridge International specification as this will reduce the risk of learners using the wrong vocabulary and also reduce the risk of misconceptions.
- Sometimes the term 'trade credit' is used when referring to credit transactions. Again this term is not part of the Cambridge International specification but may be one that learners could encounter if using supplementary resources. You should only define 'trade credit' if learners find it as otherwise it could cause confusion. Using the terms from the Cambridge International specification only will help learners' understanding and accurate communication.
- If learners are new to both accounting and business studies/enterprise it is important to outline how businesses operate as some learners may be unfamiliar with some concepts, e.g. some learners may not appreciate that businesses may not always pay for goods at the time of purchase and may be given a period of time to release the payment.

These are the key terms that are used in this chapter:

- **Cash (or settlement) discount:** An allowance given by a seller to a customer to encourage the customer to pay an invoice before its due date for payment.
- **Credit transaction:** A financial transaction where no money changes hands at the time of the transaction.
- **Discounts allowed:** Cash discounts allowed to the customer of goods for prompt payment.
- **Discounts received:** Cash discounts received from the supplier of goods for prompt payment.
- **Trade discount:** A reduction in the selling price of goods made by one trader to another.
- **Trade payable:** A supplier to whom the business owes money.
- **Trade receivable:** A customer that owes the business money.

LEARNING PLAN

Learning objectives	Learning intentions	Success criteria
1.2.1 The accounting system <ul style="list-style-type: none"> the principles of the double-entry system to record business transactions preparation of ledger accounts 	<ul style="list-style-type: none"> describe how every financial transaction a business makes has two sides to it describe how double-entry bookkeeping records both sides of a transaction describe how each side of a transaction is recorded in its own ledger account, which has two sides describe how cash transactions involve immediate payment use ledger accounts to record cash transactions 	<ul style="list-style-type: none"> explain that every financial transaction a business makes has two sides to it explain that double-entry bookkeeping records both sides of a transaction explain that each side of a transaction is recorded in its own ledger account, which has two sides explain that cash transactions involve immediate payment use ledger accounts to record cash transactions

Common misconceptions

Misconception	How to elicit	How to overcome
Learners think that credit sales/purchases only require one double-entry transaction.	Discuss the elements of a credit sale/purchase transaction. How and when does the payment pass between stakeholders? Ask learners why there needs to be two double-entry transactions on each of the dates – once when the sale/purchase is made and another when payment is made/received.	Remind learners that accurate business records are critical for all businesses. Explain that it is important to keep a record of when the payment is received and that the ledger accounts need to reflect this.
All credit transactions are recorded in one ledger book.	Discuss with the class how each customer/supplier must be managed separately from a financial perspective. Ask why some customers may pay for purchases early, whereas others may not pay until the due date. What are the benefits to each party? Explain how the ledger is divided into accounts for each named customer/supplier.	Remind learners that each customer and supplier is individual and carries out their business transactions under different terms. It is therefore important that each one is treated individually.
Some learners may use the wrong vocabulary, e.g. 'debtor' instead of 'trade receivable'.	This misconception can be identified during class discussions and/or in written work produced by learners.	It is important that you immediately correct learners using the wrong vocabulary. Many websites and other resources could use alternative terms and it is important that this is explained to learners, especially if they are using the word correctly.

Starter ideas

1 Accounting in context – Buy now, pay later (15 minutes)

Resources: Accounting in context feature from Coursebook Chapter 2.

Description and purpose: Encourage learners to complete the questions independently and then work with another learner to share their answers and encourage discussion. After all learners have had the opportunity to share their answers, stimulate a class discussion. Consider the value of the transactions reported in the feature. Evaluate learners' prior knowledge of this topic.

The purpose of this activity is to establish whether the learners have any prior knowledge of the topic so you can gauge the starting point for the session.

2 Credit purchases in action (10 minutes)

Resources: Flipchart paper, pens.

Description and purpose: Ask learners to work in pairs to identify as many purchases that a business may make as a credit transaction as they can think of.

They should list the purchases on the flipchart paper. To add an element of competition, give learners two minutes to make the list and offer a small reward for the pair with the longest list.

Main teaching ideas

1 What are credit transactions? (50 minutes)

Learning outcome: What are credit transactions and introduction to recording basic credit transactions.

Resources: PowerPoint presentation 2.1, Coursebook Chapter 2, Workbook Chapter 2 and whiteboard.

Description and purpose: By understanding the benefits of credit transactions to a seller and customer, learners can appreciate why they are used.

Ask learners to work in pairs to think of a range of advantages for a business which is selling products and also for a customer when purchasing products.

Class discussion to share ideas and produce a 'class list' of advantages. Do all learners agree with the benefits suggested? Are there trade-offs relating to the benefits suggested?

Ask learners to review worked example 1 in Chapter 2 of the Coursebook. As a class, review the basic ledger entries for sales and purchases. Summarise the key points on the whiteboard. This is the limit for this lesson. Learners should be encouraged to reflect on the points learnt ready for the next lesson.

To conclude this lesson ask learners to complete question 1 from Chapter 2 of the Workbook. Review the answers as a class.

> Differentiation ideas:

- **Support:** Circulate the classroom while learners work their way through the Activities. Offer differentiated support as required.
- **Challenge:** Do the benefits for one side of the transaction result in disadvantages for the other, or are credit transactions always a win-win for all parties? What action may each party take to reduce/limit any potential disadvantages? What impact might these actions have on the trading relationship? Try to encourage a class discussion from these points.

> **Assessment ideas:** While completing the Activities, question learners. Do they understand the concept? Are the benefits that the learners are creating accurate?

Ask learners to produce a short essay 'Assess the benefits of credit transactions for the seller and customer'. From reading the learners' work you can determine their level of understanding of the key principles.

2 Recording credit transactions (120 minutes)

Learning outcome: To be able to accurately record credit transactions, discounts and payments.

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Resources: PowerPoint presentation 2.1, Coursebook Chapter 2, Workbook Chapter 2, calculator, whiteboard, flipchart paper and pens.

Description and purpose: To enable learners to answer questions by creating their own ledger accounts to show the transactions/entries.

Review the contents of the worked examples in Chapter 2 of the Coursebook as a class for sales returns and purchases returns for credit transactions. Highlight the key difference between credit transactions and cash transactions, i.e. the credit must be entered in the supplier's account rather than the bank account as the supplier now owes the business less credit as a result of the returned item.

Review worked example 2 in Chapter 2 of the Coursebook, which shows how payments from customers and to suppliers are recorded for credit transactions.

As a class discuss the principles of offering discounts. Ask the learners to work in pairs to discuss why businesses offer discounts to their customers. How effective do they feel they may be and what impact do such discounts have on the finances of the business?

Learners could then do Activities 2.1 to 2.4 in Chapter 2 of the Coursebook. For Activity 2.4 the learners could be given flipchart paper and pens and encouraged to write their thoughts on the paper, which could then be stuck to the classroom wall for reinforcement.

Discuss and present the answers to all Activities to the class (consider discussing the answers for Activity 2.1 mid-way through the activity so that learners can avoid making any repeated errors). Encourage learners to ask questions if they did not get the correct answer, and correct any errors to reduce the risk of misconceptions.

› Differentiation ideas:

- Support: By circulating the classroom while learners are working through the questions you can offer individualised support as required. Learners can ask any questions and you can observe which learners understand/misunderstand the topic.
- Challenge: Credit transactions rely on a lot of trust between the parties. How can businesses reduce the risk of a customer never paying for the item? How might the customer react to such actions? Some customers are more 'credit-worthy' than others – how can a business evaluate the likelihood of a new customer paying promptly?

› **Assessment ideas:** Ask learners to complete the Practice questions at the end of Chapter 2 of the Coursebook and the Exam-style questions at the end of Chapter 2 of the Workbook. Encourage learners to complete the questions independently and take in their work for formal assessment. Offer feedback and correct any errors to support the learners. It is critical that learners be encouraged to present their work clearly and accurately at this early stage to prevent issues with more complex tasks later on.

Plenary ideas

1 Self-review (15 minutes)

Resources: Coursebook Chapter 2, Language worksheet 2.1.

Description and purpose: To support language acquisition, ask learners to complete Language worksheet 2.1 to review the key terminology used for credit transactions.

› **Assessment ideas:** Learners to share their answers as a class. Look for any patterns with correct and incorrect answers as they will help you plan future activities to recap previous learning.

2 Revision notes (20 minutes)

Resources: Coursebook Chapter 2, Workbook Chapter 2, lined/plain paper, coloured pens/highlighters.

Description and purpose: Production of revision notes. Produce a mindmap/paragraph summary to outline the key principles of double-entry bookkeeping and ledger accounts for credit transactions. Make the notes visual using colour/highlighting of key words/terms.

› **Assessment ideas:** Encourage learners to maintain the revision book/folder that they created for Chapter 1



Language worksheet 2.1 (downloadable)

Credit transactions

The purpose of this activity is to assess learners' knowledge and the language used when discussing credit transactions.

Learners to use their knowledge to complete the blanks on the worksheet. To differentiate you could give learners the options of the words to use, or add/remove words as required to add/reduce challenge.

PowerPoint presentation 2.1 (downloadable)

PowerPoint presentation 2.1 to support both activities in this chapter.

SAMPLE





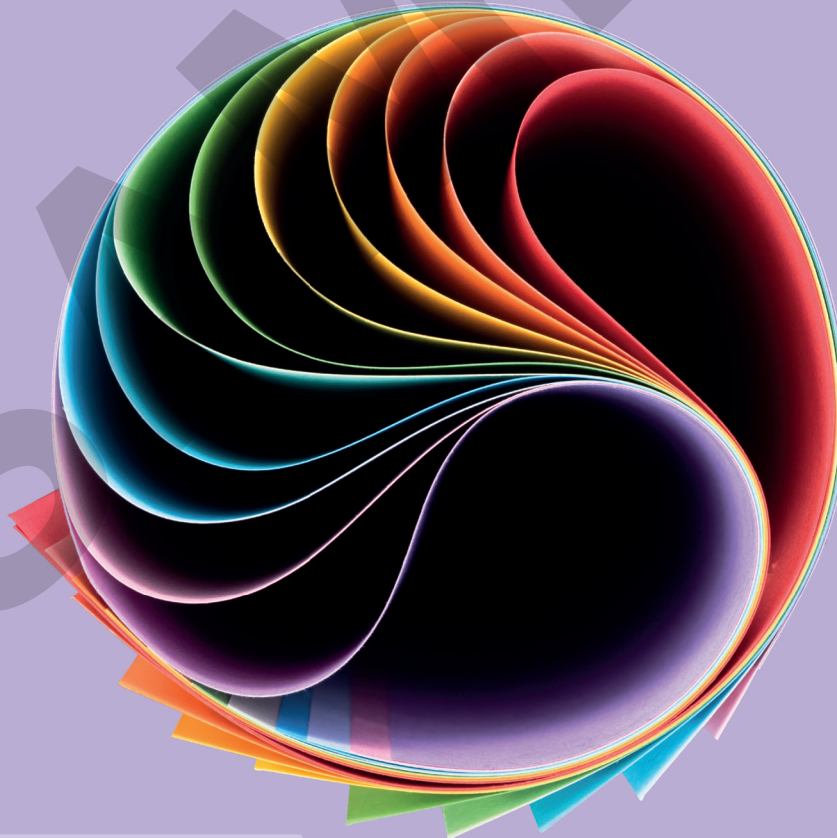
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Accounting

for Cambridge International AS & A Level

WORKBOOK

Sharon Elan-Puttick



First edition

Digital Access



Cambridge Assessment
International Education

Endorsed for learner support

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› Part 1

The accounting system

> Chapter 1

Double-entry bookkeeping: Cash transactions

LEARNING INTENTIONS

In this chapter you will:

- understand that double-entry bookkeeping is used to record the two sides of a transaction
- know what ledgers and ledger accounts are
- understand cash transactions
- use the double-entry system to record cash transactions

KEY TERMS

Accounting system Capital Capital account Credit side Debit side Double-entry bookkeeping Drawings
Ledger Ledger account Purchases Purchases returns Sales returns

Key skills exercises

Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- each transaction has two entries (giving and receiving) into the ledger system, hence the name double-entry system
- a ledger system records each financial transaction that takes place in a business
- one entry is on the debit side of an account and the second entry is on the credit side of an account for each transaction
- cash transactions involve money being paid or received straightaway.

You also need to be able to apply your knowledge and understanding of the double-entry system to the ledger accounts.

ARHAM'S CELL PHONE REPAIRS

Arham has decided to open his own cell phone repair shop.

He finds a shop location in Lahore, Pakistan, which is central and easy access for people. He rents the shop to get the business started and, if the business becomes successful, he will consider buying the premises.

To start the business, he needs shop fittings and equipment. In order to pay for these items, he needs some capital, which he deposits into the business bank account. Arham realises that his capital contribution will not cover all of his initial costs and so applies for a bank loan.

1 Double-entry bookkeeping: Cash transactions AS Level

WORKED EXAMPLE 1

Before Arham opens his shop to the public the following transactions take place.

State the accounts that will be debited and credited for each transaction (double-entry system).

Transaction	Account to debit (received into the account)	Account to credit (what is given)
Arham deposits his capital contribution into the business bank account	Bank	Capital
Paid rent by debit card	Rent expense	Bank
Purchased cell phones, chargers, cell phone covers for resale purposes	Purchases	Bank
Receives the bank loan via a bank transfer	Bank	Bank loan
Purchased equipment (tools etc.) and paid by cheque	Equipment	Bank
Returned some damaged phone covers he had bought for resale purposes	Bank	Purchases returns
Bought furniture for the shop by debit card	Furniture	Bank
Carriage inwards paid by debit card	Carriage inwards	Bank

TIP

We are dealing with cash transactions, which means money is either being spent or received by the business. The bank account will always be affected by these transactions.

- 1 Arham has now set up his shop and is ready to open his business to the public. In his first two weeks of business, the following transactions took place. State the account to debit and credit for each transaction.

Transaction	Account to debit (received into the account)	Account to credit (what is given)
Sold a cell phone and cover to a customer who paid by cheque		
Carriage outwards paid by cheque		
Banked the takings from selling goods		
Repaired a customer's cell phone and received the payment by a debit card payment		
A customer returned goods and was refunded from the bank account		
Paid light and heating by debit card		
Purchased new office equipment and paid by cheque		
Withdrew money from bank account for personal use		
Paid general expenses by cheque		
Returned unwanted goods to supplier and received refund by bank transfer		



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WORKED EXAMPLE 2

These are the transactions that took place in the first week of August 2019, the second month of Arham's business venture.

Prepare the ledger accounts for these transactions.

- Aug 1 Arham paid rent by bank transfer, \$2 500
- 2 Arham purchased more stock for his shop to the value of \$3 000 for resale
- 3 Purchased \$1 000 worth of shop fittings
- 4 Received \$400 by debit card from selling cell phones
- 5 Arham returned some damaged goods to the value of \$60
- 6 Arham withdrew \$200 from the business bank account for private use

Answer

Bank account			
Debit		Credit	
	\$		\$
Aug 4 Sales	400	Aug 1 Rent expense	2 500
Aug 5 Purchases returns	60	Aug 2 Purchases	3 000
		Aug 3 Shop fittings	1 000
		Aug 6 Drawings	200

Rent expense			
Debit		Credit	
	\$		\$
Aug 1 Bank	2 500		

Purchases account			
Debit		Credit	
	\$		\$
Aug 2 Bank	300		

Sales account			
Debit		Credit	
	\$		\$
		Aug 4 Bank	400

Purchases returns account			
Debit		Credit	
	\$		\$
		Aug 5 Bank	60

Drawings account			
Debit		Credit	
	\$		\$
Aug 6 Bank	200		

1 Double-entry bookkeeping: Cash transactions AS Level

CONTINUED

- Each transaction is entered into the bank account as these are cash transactions.
- The debit side is for cash received whereas the credit side is for cash paid.
- The double-entry from the bank account is to the account for which the cash was either received or spent.

- 2 Arham has now been in business for six months. He is so busy he can't run the shop on his own. He decides to employ an assistant. The following transactions took place in January 2020.

Prepare the ledger accounts for the following transactions.

- Jan 1 Arham deposited \$5000 into the business bank account as additional capital
- 2 Purchased equipment for business use to the value of \$6700, paid by cheque
- 3 Purchased \$4800 worth of stock for resale, paid by debit card
- 4 Received \$360 by bank transfer for goods sold
- 5 Returned \$230 worth of damaged goods
- 6 Paid light and heat account \$790 by cheque
- 7 Paid carriage outwards \$450 by bank transfer

- 3 Arham has owned his own business for a year now and it is very successful. He has decided not to buy his business premises yet but has bought another premises elsewhere, which he is renting out. The following transactions took place in July 2020.

Complete the table by stating which account to debit and which account to credit for each transaction, *then* prepare the ledger accounts by recording the transactions in the necessary ledger accounts.

	Transaction	Account to debit (received into the account)	Account to credit (what is given)
1	Purchased a motor vehicle for \$3600		
2	Received \$280 for sales		
3	Paid wages \$1200 for the shop assistant		
4	Returned damaged goods to a supplier, received a refund of \$270		
5	Paid carriage inwards \$180		
6	Received \$2500 from Hazeem for rent		
7	Purchased shop fittings worth \$690		
8	Withdrew \$560 for personal use		
9	Paid \$38 for stationery		
10	An dissatisfied customer returned goods worth \$470		



EXAM-STYLE MULTIPLE CHOICE QUESTIONS

- 1 Liyana owns a bakery. She recently bought an oven for business use and paid by cheque. Which entries in Liyana's books record this transaction?

	Debit account	Credit account
A	Bank	Purchases
B	Equipment	Bank
C	Purchases	Bank
D	Bank	Equipment

[1]

- 2 Souma is a plumber. He ordered some plumbing materials from Plumbing Requirements and discovered some were damaged when they were delivered. He returned the damaged materials and received a refund. How would this transaction be recorded in Souma's books of account?

	Debit account	Credit account
A	Purchases returns	Bank
B	Bank	Sales returns
C	Sales returns	Bank
D	Bank	Purchases returns

[1]

› Chapter 2

Double-entry bookkeeping: Credit transactions

LEARNING INTENTIONS

In this chapter you will:

- understand credit transactions
- use the double-entry system to record credit transactions
- know the difference between trade and cash discounts and how to treat them in the ledger accounts
- use the double-entry system to record payments to trade payables and receipts from trade receivables

KEY TERMS

Cash (settlement) discount Credit transaction Discount allowed Discount received Trade discount
Trade payable Trade receivable

Key skills exercises

Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- credit transactions are when a purchase or sale occurs but the payment or receipt of money happens later
- what a trade payable and trade receivable are
- a trade discount is a reduction in the selling price made by one trader to another
- a cash discount is an allowance given to encourage a customer to pay quickly.

You also need to be able to apply your knowledge and understanding of trade payables, trade receivables, trade discount and cash discount to the ledger accounts.

OMAR'S GROCERY STORE

Nestlé Malaysia is one of the leading companies in Kuala Lumpur. They manufacture products like Milo, Maggi, Nescafé and KitKat and sell them to many shops throughout Malaysia for resale purposes. Due to the large quantities of inventory being bought by businesses throughout Malaysia, Nestlé offers its customers credit transactions.

Omar owns a grocery store in Mont Kiara and buys goods from Nestlé Malaysia to be resold in his store. Omar has a deal with Nestlé to make all his purchases on credit (trade payables), with the agreement that he will pay for the goods within 60 days of purchase.

Omar also allows his customers to buy on credit from his store (trade receivables); he allows a 60-day period in which payments need to be made for goods purchased on credit.

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WORKED EXAMPLE 1

The following transactions took place in Omar's grocery store books of account in the month of May 2020.

State the accounts that will be debited and credited for each transaction (using the double-entry system) and then prepare the ledger accounts by recording the transactions in their ledger accounts.

Transaction		Account to debit (received into the account)	Account to credit (what is given)
May 3	Omar purchased goods on credit from Nestlé to the value of \$1 800	Purchases	Nestlé
8	Omar sold on credit to a customer, Sari, for \$460	Sari	Sales
13	Omar sold goods on credit valued at \$890 to Raj	Raj	Sales
20	Omar returned damaged goods to Nestlé, \$230	Nestlé	Purchases returns
26	Sari returned some unwanted goods which she bought on 8 May, \$56	Sales returns	Sari

Debit		Purchases		Credit	
		\$		\$	
May 3	Nestlé	1800			

Debit		Nestlé		Credit	
		\$		\$	
May 20	Returns	230	May 3	Nestlé	1800

Debit		Sari		Credit	
		\$		\$	
May 8	Sales	460	May 26	Returns	56

Debit		Sales		Credit	
		\$		\$	
			May 8	Sari	460

Debit		Purchases returns		Credit	
		\$		\$	
			May 20	Nestlé	230

Debit		Sales returns		Credit	
		\$		\$	
May 26	Sari	56			

2 Double-entry bookkeeping: Credit transactions AS Level

1 Omar's grocery store had the following transactions in June 2020.

State which two accounts are affected by each transaction and then prepare the ledger accounts by recording the transactions in their ledger accounts.

- Jun 2 Omar sold goods on credit to Zamrud for \$3400
 6 Omar bought goods on credit from Nestlé for \$5890
 10 Omar sold goods to Nawar on credit for \$2370
 16 Omar returned some unwanted goods to Nestlé for \$270
 21 Omar sold goods to Demak on credit for \$4680
 29 Nawar returned \$360 worth of goods which she purchased on 10 June as they were damaged

WORKED EXAMPLE 2

Omar's grocery store is struggling to get some trade receivables to pay their accounts on time. He decides to offer cash discounts to some of his credit customers to encourage them to pay their debts early.

Nestlé also offers Omar trade discount on his large orders and also offers a cash discount to Omar to pay his account early.

State which two accounts are affected by each transaction and then prepare the ledger accounts by recording the transactions in their ledger accounts.

Date	Transaction	Account to debit	Account to credit
Jul 3	Omar bought equipment from We Equip You for business use on credit for \$1300	Equipment	We Equip You
9	Hitam bought goods on credit from Omar's grocery store for \$3400; Omar offered Hitam a 5% cash discount if he paid his account by 31 July	Hitam	Sales
12	Omar returned some goods to Nestlé worth \$450	Nestlé	Purchases returns
15	Omar bought goods on credit to the value of \$6500 from Nestlé; they offered him a 4% trade discount as well as a 5% cash discount if he pays his account by 31 July	Purchases	Nestlé
21	Azura bought goods from Omar's grocery store worth \$3650; Omar agreed to a 6% cash discount if Azura can pay her account by 31 July	Azura	Sales
23	Hitam returned damaged goods to Omar's grocery store worth \$320; he originally purchased these goods on 9 July	Sales returns	Hitam
25	Omar paid Nestlé for the goods purchased on 15 July	Nestlé	Bank Discount received
28	Azura paid her account for the goods purchased on 21 July	Bank Discount allowed	Azura
29	Omar withdrew money for his own personal use, \$1240	Drawings	Bank
30	Hitam paid his account for the goods purchased on 9 July	Bank Discount allowed	Hitam

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CONTINUED

Equipment			
Debit			Credit
	\$		\$
Jul 3	We Equip You	1 300	

We EquipYou			
Debit			Credit
	\$		\$
		Jul 3	Equipment
			1 300

Hitam			
Debit			Credit
	\$		\$
Jul 9	Sales	3 400	
		Jul 23	Returns
			320
		Jul 30	Bank
			2 926
		Jul 30	Discount allowed
			154

Sales			
Debit			Credit
	\$		\$
		Jul 9	Hitam
			3 400
		Jul 21	Azura
			3 650

Nestlé			
Debit			Credit
	\$		\$
Jul 12	Returns	450	
Jul 15			Purchases
			624
Jul 25	Bank	5 928	
Jul 25	Discount received	312	

Purchases returns			
Debit			Credit
	\$		\$
		Jul 12	Nestlé
			450

Purchases			
Debit			Credit
	\$		\$
Jul 15	Nestlé	6 240	

TIP

If a business buys on credit for resale purposes the purchases account is debited. If a business buys on credit for office use then that specific account is debited, not the purchases account.

2 Double-entry bookkeeping: Credit transactions AS Level

CONTINUED

Azura			
Debit		Credit	
	\$		\$
Jul 21 Sales	3 650	Jul 28 Bank	3 431
		Jul 28 Discount allowed	219

Sales returns			
Debit		Credit	
	\$		\$
Jul 23 Hitam	320		

Bank			
Debit		Credit	
	\$		\$
Jul 28 Azura	3 431	Jul 25 Nestlé	6 432
Jul 30 Hitam	2 926	Jul 29 Drawings	1 240

Discount allowed			
Debit		Credit	
	\$		\$
Jul 28 Azura	219		
Jul 30 Haziq	154		

Drawings			
Debit		Credit	
	\$		\$
Jul 29 Bank	1 240		

Omar has found that offering cash discounts is helping his business receive money owed faster. He decides to offer trade discount to some of his customers as well, like he has been receiving from Nestlé.

2 The following transactions took place at Omar's grocery store in August 2020.

State which account to debit and which account to credit for each transaction to complete the table. Prepare the ledger accounts by recording the transactions in the necessary ledger accounts.

Date	Transaction	Account to debit	Account to credit
Aug 1	Omar deposited an additional capital contribution of \$15 000		
4	Sold goods on credit to Fajar for \$2 300, offered her a 3% trade discount		
9	Bought furniture on credit from Furniture World for \$6 950		

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Date	Transaction	Account to debit	Account to credit
13	Bought goods on credit from Nestlé for \$4 360, they offered a cash discount of 5% if the amount is paid by 31 August		
18	Fajar returned \$400 worth of goods purchased 4 August		
22	Sold goods to Maya for \$6 500, offered her a 2% cash discount if her account was settled by 31 August		
24	Refunded money to Maya for damaged goods purchased on 22 August to the value of \$250		
27	Paid the amount owed to Nestlé on 13 August by cheque		
31	Received a cheque from Maya for the goods purchased on 22 August		

- 3 Below are the financial transactions for Omar's grocery store for September 2020.

Prepare the ledger accounts for the transactions. All goods are bought and sold on credit.

Sep 2	Bought goods from Nestlé for \$3 000 less trade discount of $33\frac{1}{2}\%$
6	Sold goods to Bayu for \$5 600
11	Returned goods costing \$240 to Nestlé; originally bought on 2 September
18	Purchased goods from Nestlé which cost \$7 500 before trade discount of 6%
23	Paid Nestlé all the money owed for this month.
29	Received full payment from Bayu

TIP

For the transactions where Fajar returns goods on 18 August, which she originally purchased on 4 August, the discount offered on 4 August must also be taken into account for the returns.

EXAM-STYLE MULTIPLE CHOICE QUESTIONS

- 1 Muda bought goods on credit to the value of \$2 340 and received a trade discount of 5%. Which double-entry in Muda's business books is correct below?

Account to debit	Account to credit
A Sales \$2 340	Bank \$2 340
B Bank \$2 223	Muda \$2 223
C Purchases \$2 223	Trade payables \$2 223
D Trade receivables \$2 340	Sales \$2 340

[1]

- 2 Zakaria sold goods on credit to Zamrud to the value of \$9 600. Zakaria offered Zamrud a 5% trade discount as well as another 5% cash discount if Zamrud paid his account within 10 days. Zamrud paid his account within the time to receive the cash discount. Which entries record the payment in Zakaria's books?

Account(s) to debit	Account(s) to credit
A Purchases \$9 600	Zamrud \$9 600
B Bank \$8 664	
Discount allowed \$456	Zamrud \$9 120
C Zakaria \$9 120	Bank \$8 664
	Discount received \$456
D Zamrud \$9 600	Sales \$9 600

[1]