

## Lesson 10 – Use the Journal

### Question 10.1

Gerald Wright is the owner of the Manor Road Filling Station. To date the books of the business have been kept on a single entry basis. However as from 1 May 201X, the start of a new financial year for the business, double entry books are to be kept.

Gerald has provided you with the following information at 1 May 201X:

	<b>£</b>
Premises	90,000
Fixtures and fittings	3,000
Equipment	2,000
Vehicle	12,500
Bank loan	30,000
Stock - fuel	5,500
Stock - sundries	1,750
Purchase ledger control	4,900
Sales ledger control	2,300
Bank	1,650 (overdrawn balance)
Cash	100
VAT	2,600 (owing to HMRC)

Complete the journal entry from which double entry books can be opened. You will need to calculate and insert as a balance Gerald's capital claim on the business. A journal is provided below for your use in completing this task.

**Manor Road Filling Station  
Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
1 May	Premises	<b>90,000</b>	
	Fixtures & fittings	<b>3,000</b>	
	Equipment	<b>2,000</b>	
	Vehicle	<b>12,500</b>	
	Bank loan		<b>30,000</b>
	Stock - fuel	<b>5,500</b>	
	Stock - Sundries	<b>1,750</b>	
	Purchase ledger control		<b>4,900</b>
	Sales ledger control	<b>2,300</b>	
	Bank		<b>1,650</b>
	Cash	<b>100</b>	
	VAT		<b>2,600</b>
	Capital		<b>78,000</b>
		<b>117,150</b>	<b>117,150</b>
	Assets, liabilities and capital of Manor Road Filling Station, on setting-up a double entry bookkeeping system for the business at 1 May 201X.		

**Question 10.2**

Norman Young is the proprietor of NY Fabrications. In the past the books of the business have been kept on a single entry basis. However, as from 1 July 201X, the start of a new financial year for the business, double entry records are to be kept.

Norman has provided you with the following information at 1 July 201X:

	<b>£</b>
Bank Current Account	2,000 (DR)
Cash	500
Fixtures and fittings	4,000
Machinery and equipment	24,500
Vehicle	20,000
Bank loan	12,000
Stock - materials	35,500
Sales ledger control	14,900
Purchase ledger control	16,400
VAT	2,500 (owing to HMRC)

Complete the journal entry from which the double entry bookkeeping system will be set up. You will need to calculate and insert as a balance Norman’s capital claim on the business. Use the following Journal to complete this task:

**NY Fabrications  
Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
1 July	Bank current account	<b>2,000</b>	
	Cash	<b>500</b>	
	Fixtures and fittings	<b>4,000</b>	
	Machinery and equipment	<b>24,500</b>	
	Vehicle	<b>20,000</b>	
	Bank loan		<b>12,000</b>
	Stock - Materials	<b>35,500</b>	
	Sales ledger control	<b>14,900</b>	
	Purchase ledger control		<b>16,400</b>
	VAT		<b>2,500</b>
	Capital		<b>70,500</b>
		<b>101,400</b>	<b>101,400</b>
	Assets, liabilities and capital of NY Fabrications, on setting-up a double entry bookkeeping system for the business at 1 July 201X.		

**Question 10.3**

Today’s date is 30 June 201X, the sales ledger control account in the general ledger of Fashionz (Wholesale) carries a balance of £96,460. This balance includes £960 owed to the business by a customer trading in the name of Second Glance Boutique.

Second Glance Boutique are now in liquidation and the balance on their account is to be written off as a bad debt. The amount owed by Second Glance Boutique to Fashionz (Wholesale) is for goods (inclusive of VAT at standard rate) invoiced to them over six months ago, therefore, VAT bad debt relief is to be claimed when writing off the balance on the account of Second Glance Boutique as a bad debt.

Complete the Journal entry, at 30 June 201X, to write of the balance on the accounts of Second Glance Boutique as a bad debt in the general ledger of Fashionz (Wholesale), and claim the VAT bad relief.

The following journal is provided for your use in completing the above task:

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 June	<b>Bad debts</b>	<b>800</b>	
	<b>VAT</b>	<b>160</b>	
	<b>Sales ledger control</b>		<b>960</b>
	Write off of balance on the account of Second Glance Boutique as a bad debt and claim for VAT bad debt relief. Business in liquidation.		

**Question 10.4**

Today's date is 31 August 201X the sales ledger control account in the general ledger of Northwest Trading carries a balance of £176,500. This balance includes the balance of £1,500 owed to the business by a customer trading in the name of Dandy & Co.

The balance on the account of Dandy & Co is in respect of goods (inclusive of VAT at the standard rate of 20%) invoiced to them on 14 January 201X. Northwest Trading has contacted Dandy & Co on several occasions requesting payment, but has to date been unable to collect the amount outstanding. A letter sent recently to Dandy & Co demanding payment has now been returned 'premises unoccupied'. The credit controller of Northwest Trading has recommended that the balance on the account of Dandy & Co be written off as a bad debt and that VAT bad debt relief be claimed.

**REQUIRED:**

- A. Prepare the Journal entry, as at 31 August 201X, to write of the bad debt and claim the VAT bad relief.
- B. Post from the Journal entry prepared in task A above to appropriate accounts in the general Ledger

The following journal and ledger extract are provided for your use in completing the above tasks:

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 August	<b>Bad debts</b>	<b>1,250</b>	
	<b>VAT</b>	<b>250</b>	
	<b>Sales ledger control</b>		<b>1,500</b>
	Write off of balance on the account of Dandy & Co as a bad debt and claim for VAT bad debt relief.		

**Northwest Trading – General Ledger (extract)**

<b>DR</b>			<b>CR</b>		
<b>201X</b>	<b>Details</b>	<b>£</b>	<b>201X</b>	<b>Details</b>	<b>£</b>
31 Aug	Balance b/d	176,500	<b>31 Aug</b>	<b>Bad debts</b>	<b>1,250</b>
			<b>31 Aug</b>	<b>VAT</b>	<b>250</b>

<b>DR</b>			<b>CR</b>		
<b>201X</b>	<b>Details</b>	<b>£</b>	<b>201X</b>	<b>Details</b>	<b>£</b>
<b>31 Aug</b>	<b>Sales ledger control</b>	<b>1,250</b>			

<b>DR</b>			<b>CR</b>		
<b>201X</b>	<b>Details</b>	<b>£</b>	<b>201X</b>	<b>Details</b>	<b>£</b>
<b>31 Aug</b>	<b>Sales ledger control</b>	<b>250</b>			

### Question 10.5

Acorn Electrics Ltd is a new business which started trading on 1 April 201X. Employees of the company are paid on the last day of each month from the business bank account by cheque. The following Payroll Analysis Sheet has been prepared for the month ended 30 April 201X:

PAYROLL ANALYSIS SHEET											
Month Ended: 30 April 201X											
Number	Name	Earnings				Employee Deductions				Net Pay £	Employer's National Insurance £
		Basic £	Overtime £	Bonus £	Total Gross Pay £	PAYE (Income Tax) £	National Insurance £	Other Voluntary Deductio ns £	Total Deductions £		
AE 1	B Baker	1,382.03	-	-	1,382.03	234.42	55.01	-	289.43	1,092.60	119.30
AE 2	K Dev	1,602.98	-	-	1,602.98	231.82	86.96	-	318.78	1,284.20	140.85
AE 3	I Khan	2,314.33	-	-	2,314.33	335.78	157.05	-	492.83	1,821.50	217.50
AE 4	S Peters	4,761.70	-	-	4,761.70	1,471.10	175.90	-	1647.00	3,114.70	463.05
AE 5	P Pratt	781.55	-	-	781.55	78.20	37.05	-	115.25	666.30	60.80
AE 6	V Rogers	1,619.16	-	-	1,619.16	256.20	88.56	-	344.76	1,274.40	156.08
AE 7	A Smith	2,920.00	-	-	2,920.00	631.90	175.90	-	807.80	2,112.20	295.70
AE 8	J Thom	2,018.16	-	-	2,018.16	354.86	135.00	-	489.86	1,528.30	181.75
<b>TOTALS</b>		17399.91	-	-	17,399.91	3,594.28	911.43	-	4,505.71	12,894.20	1,635.03

Acorn Electrics Ltd keeps the following accounts in its general ledger for the purpose of accounting for wages and salaries:

- Wages and salaries control
- PAYE/NIC creditor account
- Wages, salaries and contributions (expense account)

**Task A**

You are required to prepare journal entries at 30 April 201X as follows. Note journals are provided for your use when preparing the journal entries.

Complete the journal entry to account for the net pay paid to employees at 30 April 201X.

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 April	<b>Wages and salaries control</b>	<b>12,894.20</b>	
	<b>Bank</b>		<b>12,894.20</b>
	Net pay in April month 201X		

Complete the journal entry to account for PAYE income tax deducted from the gross pay of employees at 30 April 201X.

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 April	<b>Wages and salaries control</b>	<b>3,594.28</b>	
	<b>PAYE/NIC creditor</b>		<b>3,594.28</b>
	PAYE income tax deducted from gross pay at 30 April 201X		

Complete the journal entry to account for National Insurance Contributions (NIC's) deducted from the gross pay of employees at 30 April 201X

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 April	<b>Wages and salaries control</b>	<b>911.43</b>	
	<b>PAYE/NIC creditor</b>		<b>911.43</b>
	Employee NIC's deducted from gross pay at 30 April 201X		



DR		PAYE/NIC Creditor		CR	
201X	Details	£	201X	Details	£
30 April	Balance c/d	6,140.74	30 April	Wages and salaries control (PAYE income tax)	3,594.28
			30 April	Wages and salaries control (employee NIC's)	911.43
			30 April	Wages and salaries control (employer NIC's)	1,635.03
		6,140.74			6,140.74
			30 April	Balance c/d	6,140.74

### Task C

Complete the journal entry to clear employment costs at 30 April 201X from the Wages and Salaries Control Account to the Wages, Salaries and Contributions Account.

The following journal is provided for your use in completing this task.

### Journal

201X	Account name	DR £	CR £
30 April	Wages salaries and contributions	19,034.94	
	Wages and salaries control		19,034.94
	Transfer of employment costs for April month 201X from the wages and salaries control account, to the wages salaries and contributions expense account		

### Task D

Using the general ledger (extract) above, record entries at 30 April 201X in appropriate accounts in the general ledger from the journal entry you completed in Task C above.

### Task E

Close off the wages and salaries control account in the general ledger (extract), and balance off the PAYE/NIC creditor account at 30 April 201X, clearly showing balances carried down and brought down at that date.

### Question 10.6

Simtec Ltd started trading on 1 May 201X. Employees of the company are paid by cheque on the last day of each month.

The following details have been extracted from the Payroll Analysis Sheet of the company at 31 May 201X.

	<b>£</b>
Net pay	67,220
PAYE income tax deductions	16,489
NIC deductions (employee)	11,593
NIC contributions (employer)	12,576

### Task A

You are required to prepare journal entries at 31 May 201X as follows. Note journals are provided for your use when preparing the journal entries.

Complete the journal entry to account for the net pay paid to employees at 31 May 201X.

#### Journal

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 May	<b>Wages and salaries control</b>	<b>67,220</b>	
	<b>Bank</b>		<b>67,220</b>
	Net pay in May month 201X		

Complete the journal entry to account for PAYE income tax deducted from the gross pay of employees at 31 May 201X.

#### Journal

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 May	<b>Wages and salaries control</b>	<b>16,489</b>	
	<b>PAYE/NIC creditor</b>		<b>16,489</b>
	PAYE income tax deducted from gross pay at 31 May 201X		

Complete the journal entry to account for National Insurance Contributions (NIC's) deducted from the gross pay of employees at 31 May 201X

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 May	<b>Wages and salaries control</b>	<b>11,593</b>	
	<b>PAYE/NIC creditor</b>		<b>11,593</b>
	Employee NIC's deducted from gross pay at 31 May 201X		

Complete the journal entry to account for Employer National Insurance Contributions (NIC's) at 31 May 201X.

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 May	<b>Wages and salaries control</b>	<b>12,576</b>	
	<b>PAYE/NIC creditor</b>		<b>12,576</b>
	Employer NIC's for May month 201X		

**Task B**

You are provided below with an extract from the general ledger of Simtec Ltd. Record entries at 31 May 201X in appropriate accounts in the general ledger from the four journal entries you completed in Task A above.

**Simtec Ltd – General Ledger (extract)**

<b>DR</b>			<b>Wages and Salaries Control</b>		<b>CR</b>	
<b>201X</b>	<b>Details</b>	<b>£</b>	<b>201X</b>	<b>Details</b>	<b>£</b>	
31 May	<b>Bank (net pay)</b>	<b>67,220</b>	31 May	<b>Wages salaries and contributions</b>	<b>107,878</b>	
31 May	<b>PAYE/NIC creditor (income tax)</b>	<b>16,489</b>				
31 May	<b>PAYE /NIC creditor (employee NIC's)</b>	<b>11,593</b>				
31 May	<b>PAYE/NIC creditor (employer NIC's)</b>	<b>12,576</b>				
		<b>107,878</b>			<b>107,878</b>	

DR		Wages Salaries and Contributions		CR	
201X	Details	£	201X	Details	£
31 May	Wages and salaries control	107,878			

DR		PAYE/NIC Creditor		CR	
201X	Details	£	201X	Details	£
31 May	Balance c/d	40,658	31 May	Wages and salaries control (PAYE income tax)	16,489
			31 May	Wages and salaries control (employee NIC's)	11,593
			31 May	Wages and salaries control (employer NIC's)	12,576
		40,658			40,658
			31 May	Balance b/d	40,658

### Task C

Complete the journal entry to clear employment costs at 31 May 201X from the Wages and Salaries Control Account to the Wages, Salaries and Contributions Account.

The following journal is provided for your use in completing this task.

### Journal

201X	Account name	DR £	CR £
31 May	Wages salaries and contributions	107,878	
	Wages and salaries control		107,878
	Transfer of employment costs for May month 201X from the wages and salaries control account, to the wages salaries and contributions expense account		

### Task D

Using the general ledger (extract) above, record entries at 31 May 201X in appropriate accounts in the general ledger from the journal entry you completed in Task C above.

### Task E

Close off the wages and salaries control account in the general ledger (extract), and balance off the PAYE/NIC creditor account at 31 May 201X, clearly showing balances carried down and brought down at that date.

### Question 10.7

Which **one** of the following bookkeeping errors is an error of principle?

	✓
<b>A business makes a payment of £1,200 to a trade creditor by cheque, but the bookkeeper fails to record the payment in the bookkeeping system</b>	
<b>A business transfers £1,500 from its cash account into its bank account. The bookkeeper debits the cash account with £1,500, and credits the bank account with £1,500</b>	
<b>A business purchases a fork-lift truck at a cost of £7,250 for use in its warehouse, making payment by cheque. The bookkeeper debits the purchases account with £7,250, and credits the bank account with £7,250</b>	✓
<b>A business makes a payment of £210 to a garage for repairs to a delivery vehicle. The bookkeeper processes the transaction from the cheque book counterfoil as debit vehicle expenses account £120, credit bank account £120</b>	

### Question 10.8

An inexperienced bookkeeper has made a series of errors in recording transactions in the books of Alba & Co during the month of May 201X. The errors are listed below:

**Error 1** An amount of £1,500 taken by the proprietor of the business from the bank account of the business as personal drawings was recorded as:

Debit	-	Wages account	£1,000
Credit	-	Bank account	£1,000

**Error 2** A cheque for £850 paid for business insurance was recorded as:

Debit	-	Insurance account	£580
Credit	-	Bank account	£580

**Error 3** Repairs to a vehicle (vehicle expenses), costing £800 plus VAT of £160 and paid for by cheque were recorded as:

Debit	-	Vehicle cost account	£800
Debit	-	VAT account	£160
Credit	-	Bank account	£960

Using the journal provided below prepare the journal entry at 31 May 201X to correct **error 1**.

**Alba & Co**  
**Journal**

201X	Account name	DR £	CR £
31 May	Drawings	1,500	
	Wages		1,500
	Correction of error. Proprietor drawings recorded as wages		

Using the journal provided below prepare the journal entry at 31 May 201X to correct **error 2**.

**Alba & Co**  
**Journal**

201X	Account name	DR £	CR £
31 May	Insurance	270	
	Bank		270
	Correction of transposition error. Figures transposed when recorded in ledger accounts		

Using the journal provided below prepare the journal entry at 31 May 201X to correct **error 3**.

**Alba & Co**  
**Journal**

201X	Account name	DR £	CR £
31 May	Vehicle expenses	800	
	Vehicle cost		800
	Correction of error of principle. Repairs to a vehicle (vehicle expenses) recorded in the vehicle cost account		

### Question 10.9

Motor Spares Direct are registered for VAT. On reviewing the books of account of the business at 30 April 201X, the following bookkeeping errors were discovered:

**Error 1** A cheque for £240 (inclusive of VAT at 20%) paid to fix a leak in the roof of the business premises, has been recorded in the books as follows:

Debit - Property repairs £240  
Credit - Bank £240

**Error 2** Fixtures and fittings purchased for use in the business at a cost of £4,800 (inclusive of VAT at the standard rate of 20%), paid for by cheque, have been recorded in the books as follows:

Debit - Purchases £4,000  
Debit - VAT £800  
Credit - Bank £4,800

**Error 3** A payment of £570 by direct debit for business rates (outside the scope of the VAT system), has been recorded in the books as follows:

Debit - Rates £750  
Credit - Bank £750

Using the journal provided below prepare the journal entry at 30 April 201X to correct **error 1**.

#### Motor Spares Direct Journal

		DR £	CR £
201X	<b>Account name</b>		
30 April	<b>VAT Control</b>	<b>40</b>	
	<b>Property repairs</b>		<b>40</b>
	Correction of error. Amount inclusive of VAT recorded in property repairs account		

Using the journal provided below prepare the journal entry at 30 April 201X to correct **error 2**.

**Motor Spares Direct  
Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 April	<b>Fixtures and fittings</b>	<b>4,000</b>	
	<b>Purchases</b>		<b>4,000</b>
	Correction of error of principle. Fixtures and fitting recorded as purchases		

Using the journal provided below prepare the journal entry at 30 April 201X to correct **error 3**.

**Motor Spares Direct  
Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
30 April	<b>Bank</b>	<b>180</b>	
	<b>Rates</b>		<b>180</b>
	Correction of transposition error		