



## **Accounting (National 5)**

### **Additional course resource: treatment of Cash Discount**

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## Section 1 — Invoices

When a business sells goods and services on credit (buy now — pay later), they issue a bill known as an invoice. The invoice will show:

- ◆ Net Goods Value
- ◆ VAT
- ◆ Total Amount Due

A Cash Discount may be offered to the customer. This is an offer by a supplier to the customer of a reduction in the price of goods/services supplied if the customer pays promptly; that is, after an invoice has been issued and before full payment is due. For example, a business may offer a discount of 5% of the full price if payment is made within 28 days of the date of the invoice.

Recent tax legislation states that any invoice sent to the customer must not take account of the Cash Discount for prompt payment and figures omitting Cash Discount should initially be recorded in ledger accounts (see section 2). However, the legislation also states that for illustrative purposes, amounts due if the Cash Discount was taken up, may be shown in addition to the Main Invoice.

In SQA questions, **you will be asked to prepare an Illustrative Invoice** showing amounts due if the Cash Discount is taken up.

### Worked example

A business is to send an invoice after goods costing £800 have been purchased. There is 25% Trade Discount on the goods and VAT is at 20%. If the invoice is paid within 28 days, there is a Cash Discount of 10%.

Main Invoice	
Goods Value	£800
Less Trade Discount (25%)	<u>£200</u>
Net Goods Value	£600
VAT (20%)	<u>£120</u>
Final Total	£720

Illustrative Invoice	
Goods Value	£800
Less Trade Discount (25%)	<u>£200</u>
	£600
Less Cash Discount (10%)	<u>£60</u>
Net Goods Value	£540
VAT (20%)	<u>£108</u>
Final Total	£648

## Exercise 1

On 19 June Year 3, KSA furniture sold 4 executive desks and 7 premium chairs to a customer. To comply with tax laws, they will send the customer an invoice assuming the Cash Discount will not be taken up. However, they will also enclose an Illustrative Invoice showing the amount due if the Cash Discount is taken up.

Prepare the Illustrative Invoice to be sent to the customer showing the amount due **if the Cash Discount is taken up.**

<b>KSA OFFICE FURNITURE PRICE LIST</b>			
<b>CHAIRS</b>		<b>DESKS</b>	
Standard	£50	Standard	£120
Premium	£100	Premium	£200
Executive	£150	Executive	£350
<b>TABLES</b>		<b>FILING CABINETS</b>	
Standard	£90	Standard	£75
Premium	£160	Premium	£125
Executive	£220	Executive	£175
<b>TERMS:</b> Trade Discount — 5% Cash Discount — 2% one month VAT — 20%			
<b>DELIVERY:</b> £40 on all orders of 12 items or less			

## Exercise 2

Jack Short owns 24–7 Bike Repairs. He purchased the following goods from Universal Cycle Supplies:

- ◆ 24 Standard Size Bicycle Chains @ £4.50 each
- ◆ 16 Large Saddles @ £5.75 each

The terms were as follows:

Trade Discount:      12% if goods value £250.00 or over  
                              6% if goods value under £250.00

Cash Discount:        5% one month

VAT:                     20%

To comply with tax laws, Universal Cycle Supplies will send 24–7 Bike Repairs an invoice assuming the Cash Discount will not be taken up. However, they will also enclose an Illustrative Invoice showing the amount due if the Cash Discount is taken up.

Prepare the Illustrative Invoice to be sent to 24–7 Bike Repairs that shows the amount due **if the Cash Discount is taken up.**

### Exercise 3

The following is the price list for Kildare Farm Shop:

<b>Kildare Farm Shop — Price List</b>	
eggs	— £4 per box (of 48)
cream	— £0.80 per litre
butter	— £2.60 per 500 g pack
milk	— £0.50 per litre
ice cream	— £2.20 per litre tub
potatoes	— £3 per 10 kg sack

On 12 April, they supplied 960 eggs, 48 litres of milk and 120 kg of potatoes to the Beechwood Restaurant. The terms were as follows:

Trade Discount — 12.5%

Cash Discount — 10% one month

VAT is charged at 20%

Delivery — £8 on order value under £135, FREE on order value of £135 or more (order value is total before application of discounts and VAT)

To comply with tax laws, Kildare Farm Shop will send Beechwood Restaurant an invoice assuming the Cash Discount will not be taken up. However, they will also enclose an Illustrative Invoice showing the amount due if the Cash Discount is taken up.

Prepare the Illustrative Invoice to be sent to Beechwood Restaurant that shows the amount due **if the Cash Discount is taken up.**

## Section 2 — ledger accounts

When recording an invoice in the ledger accounts, the VAT on the full price (without Cash Discount) will be recorded initially. This is because at the time of the transaction, it is not known whether the Cash Discount will be taken up.

If the Cash Discount is taken up, then an adjustment will need to be made in the VAT Account. Looking at the example below (previously shown on page 3), it can be seen that the VAT figure is £12 lower when the Cash Discount is taken up. This will be adjusted in the VAT ledger and a credit note will be issued to reflect this.

<b>Main Invoice</b>	
Goods Value	£800
Less Trade Discount (25%)	<u>£200</u>
Net Goods Value	£600
VAT (20%)	<u>£120</u>
Final Total	£720

<b>Illustrative Invoice</b>	
Goods Value	£800
Less Trade Discount (25%)	<u>£200</u>
	£600
Less Cash Discount (10%)	<u>£60</u>
Net Goods Value	£540
VAT (20%)	<u>£108</u>
Final Total	£648

When tackling questions, it may be easier to do a little working before undertaking ledger entries to help understand the figures that need to be entered:

<b>Working</b>			
	<u>without Cash Discount</u>		<u>with Cash Discount</u>
NGV	£600	← <b>£60</b> (10% Discount)	→ £540
VAT	<u>£120</u>	← <b>£12</b> (VAT Refund)	→ <u>£108</u>
Final Total	£720		£648

NGV — Net Goods Value

In the seller's ledger accounts, the entries for when the Main Invoice is issued and the Cash Discount is taken up would be as follows:

	<b>Sales Revenue Account</b>	Dr	Cr	Bal	
①	A Person — Trade Receivable		£600.00	£600.00	Cr
	<b>VAT Account</b>	Dr	Cr	Bal	
①	A Person — Trade Receivable		£120.00	£120.00	Cr
③	A Person — Trade Receivable	£12.00		£108.00	Cr
	<b>A Person — Trade Receivable Account</b>	Dr	Cr	Bal	
①	Sales Revenue & VAT	£720.00		£720.00	Dr
②	Cash & Cash Equivalents		£648.00	£72.00	Dr
③	VAT		£12.00	£60.00	Dr
④	Discount Allowed		£60.00	0	
	<b>Cash &amp; Cash Equivalents Account</b>	Dr	Cr	Bal	
②	A Person — Trade Receivable	£648.00		£648.00	Dr
	<b>Discount Allowed Account</b>	Dr	Cr	Bal	
④	A Person — Trade Receivable	£60.00		£60.00	Dr

Entry ① — Figures from the Main Invoice are entered without taking account of the Cash Discount.

Entry ② — The payment by the customer of £648.00 indicates that they have taken up the Cash Discount as per the Illustrative Invoice.

Entry ③ — The difference in the VAT figures of £12.00 (£120.00 – £108.00) is recorded in the ledger accounts. The VAT Account is adjusted to ensure the actual amount of VAT paid is recorded.

Entry ④ — The Discount Allowed as shown on the Illustrative Invoice is recorded in the ledger accounts. As there are no other transactions, the Trade Receivables is cleared to 0. However, this may not always be the case and a balance may remain.

In some SQA questions, entries into ledgers will be made via a narrative rather than using documents. Using the same example, we can see the entry steps as follows:

**Example: using a narrative**

A Person — Trade Receivable, owes £720 from a transaction where they bought goods (Net Goods Value of £600 and VAT of £120). We received a cheque from them for £648, in full settlement of their account after they took up a 10% Cash Discount.

A credit note was issued to account for the amount of VAT that was included on the original invoice that now no longer needs to be paid.

	<b>VAT Account</b>	Dr	Cr	Bal	
①	Opening Balance		£120.00	£120.00	Cr
③	A Person — Trade Receivable	£12.00		£108.00	Cr
	<b>A Person — Trade Receivable Account</b>	Dr	Cr	Bal	
①	Opening Balance	£720.00		£720.00	Dr
②	Cash & Cash Equivalents		£648.00	£72.00	Dr
③	VAT		£12.00	£60.00	Dr
④	Discount Allowed		£60.00	0	
	<b>Cash &amp; Cash Equivalents Account</b>	Dr	Cr	Bal	
②	A Person — Trade Receivable	£648.00		£648.00	Dr
	<b>Discount Allowed Account</b>	Dr	Cr	Bal	
④	A Person — Trade Receivable	£60.00		£60.00	Dr

Entry ① — When undertaking ledger entries via narrative, opening balances may be provided. In this instance balance entries of £720.00 Dr in the A Person — Trade Receivable Account and £120.00 Cr in the VAT Account need to be entered. The Sales Account does not need to be shown in this instance, although in some questions the opening balance may be given.

Entry ② — The payment by the customer of £648.00 remains the same.

Entry ③ — The VAT refund of £12.00 is calculated by applying the Cash Discount to the original VAT amount ( $10\% \times £120.00$ ).

Entry ④ — The Discount Allowed of £60.00 is calculated by applying the Cash Discount to the original Net Goods Value amount ( $10\% \times £600.00$ ). As there are no other transactions, the Trade Receivables is cleared to 0. However, this may not always be the case and a balance may remain.

## Exercise 4

Using the information given below, make the necessary entries in the ledger accounts of Carmen Summers:

### Ledger Balances at 1 October:

Cash & Cash Equivalents	£98 Dr
VAT	£184 Dr

8 October Sold goods on credit to BRM Ltd — £500 plus VAT.

27 October Received a payment from BRM Ltd for £540, in full settlement of their account after they took up a 10% Cash Discount.

Issued a credit note to BRM Ltd to account for the amount of VAT recorded on 8 October, that now no longer needs to be paid.

## Exercise 5

Using the information given below, make the necessary entries in the ledger accounts of Jacob Malting:

### Ledger Balances at 1 May:

Cash & Cash Equivalents	£417 Cr
VAT	£51 Dr

6 May Bought goods on credit from Ace Supplies — £1,800 plus VAT.

19 May Made a payment to Ace Supplies for £2,052, in full settlement of the amount owing, after taking up a 5% Cash Discount.

An adjustment for the amount of VAT recorded on 6 May that now no longer needs to be paid, should be made.

## Exercise 6

Using the information given below, make the necessary entries in the ledger accounts of Flora's Flowers:

### Ledger Balances at 1 April:

Cash & Cash Equivalents	£629 Dr
VAT	£204 Cr
J Pollock — Trade Receivable	£587 Dr

14 April      Received a payment from J Pollock for £306, in full settlement of a transaction after they took up a 15% Cash Discount. The original invoice showed Net Goods Value of £300 and VAT of £60.

A credit note was issued to J Pollock to account for the amount of VAT recorded on the original transaction, that now no longer needs to be paid.

## Exercise 7

Using the information given below, make the necessary entries in the ledger accounts of William Wang:

### Ledger Balances at 1 July:

Cash & Cash Equivalents	£947 Dr
VAT	£466 Cr
Gannon Ltd — Trade Payable	£840 Cr

10 July      Made a payment to Gannon Ltd for £756, in full settlement of the amount owing on 1 July, after taking up a 10% Cash Discount.

The full amount of VAT owing to Gannon Ltd that was originally entered into the ledger was £140. An adjustment for the amount of VAT which now no longer needs to be paid, should be made.

## Exercise 8

Using the following documents, make the necessary entries in the ledger accounts of Dan's Healthy Drinks:

<b>Dan's Healthy Drinks Invoice (Copy)</b>	
To: Kate's Cafe	
Date: 5 December	
Net Goods Value	£125.00
VAT (20%)	£25.00
Final Total	£150.00
10% Cash Discount if paid within 30 days	

<b>Dan's Healthy Drinks Receipt (Copy)</b>
To: Kate's Cafe
Date: 22 December
We have received your payment of £135.00 in full settlement of the invoice sent on 5 December.

## Exercise 9

Using the following documents, make the necessary entries in the ledger accounts of Lucy's Juice Bar:

<b>A-Z Supplies Invoice</b>	
To: Lucy's Juice Bar	
Date: 9 August	
Net Goods Value	£320.00
VAT (20%)	£64.00
Final Total	£384.00
7.5% Cash Discount if paid within 1 month	

<b>e-Receipt</b>
To: Lucy's Juice Bar
From: A-Z Supplies
Date: 24 August
Thank you for your payment of £355.20 in full settlement of the invoice sent on 9 August.

## Exercise 10

Using the following documents and opening ledger balances, make the necessary entries in the ledger accounts of Wood Supplies:

### Ledger Balances at 1 September:

Cash & Cash Equivalents	£491.00 Dr
VAT	£110.00 Cr
Joe's Joiners — Trade Receivable	£198.00 Dr

<p style="text-align: center;"><b>Wood Supplies Receipt (Copy)</b></p> <p>To: Joe's Joiners Date: 7 September</p> <p>We have received £178.20 in full settlement of the balance on 1 September.</p>
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<p style="text-align: center;"><b>Wood Supplies Credit Note (Copy)</b></p> <p>To: Joe's Joiners Date: 7 September</p> <p>VAT Refund                      £3.30</p>
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## Exercise 11

Using the following documents and opening ledger balances, make the necessary entries in the ledger accounts of Scotty Tour Guides:

### Ledger Balances at 1 June:

Cash & Cash Equivalents	£134.00 Dr
VAT	£535.00 Dr
DCD Publishers – Trade Payable	£877.00 Cr

DCD Publishers Invoice	
To: Scotty Tour Guides	
Date: 4 June	
Net Goods Value	£92.00
VAT (20%)	£18.40
Final Total	£110.40
15% Cash Discount if paid within 28 days.	

e-Receipt
To: Scotty Tour Guides
From: DCD Publishers
Date: 10 June
Thank you for your payment of £443.70 in full settlement of the invoice sent on 25 May.

**Note:** the invoice of 25 May had Net Goods Value of £435.00 and VAT of £87.00. Cash Discount was 15%.

## Section 3 — Statement of Account

Just as in ledger accounts, the VAT refund when a Cash Discount is taken up must also be shown in a Statement of Account. This document shows the transactions that have taken place between the buyer and seller in a calendar month.

### Worked example

At the end of May, Lowe's Supplies sends a Statement of Account to Mark Jackson. Transactions for the month are as follows:

- 1 May            Balance due £552.00 (for items bought on 21 April).
- 7 May            Mark Jackson bought goods costing £170.00 (before the terms below were applied).
- 16 May          Mark Jackson paid £496.80 by cheque, in full settlement of the balance outstanding on 1 May. A credit note was issued to Mark Jackson for a VAT refund for the amount of VAT, which was included on the original invoice that now no longer needs to be paid. The VAT on the original invoice amounted to £92.00.

#### Lowe's Supplies — Terms of Sale:

Trade Discount 5%

VAT 20%

Cash Discount 10% one month

### Solution

<b>Lowe's Supplies Statement of Account</b>				
To: Mark Jackson				
For the month of May				
		Dr	Cr	Bal
	1 May	Opening Balance	£552.00	£552.00
①	7 May	Sales & VAT	£193.80	£745.80
②	16 May	Cash & Cash Equivalents		£496.80
③	16 May	VAT Refund		£9.20
③	16 May	Discount Allowed		£46.00
				£193.80

Entry ① — This is calculated by applying the Trade Discount and VAT as follows:

Goods Value	£170·00
Trade Discount (5%)	£8·50
Net Goods Value	£161·50
VAT	<u>£32·30</u>
Final Total	£193·80

**Note:** the Cash Discount has not been applied. This is because at this point in time, it is unknown whether the Cash Discount will be taken up.

Entry ② — The payment of £496·80 ‘in full settlement’ of an outstanding amount of £552·00 indicates that Mark Jackson has taken up the Cash Discount as per the terms of sale.

Entry ③ — Again, it may be easier to do working to calculate the correct figures for the VAT refund and Discount Allowed before entering them in the statement.

**Working**

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV (£552-£92)	£460·00	← <b>£46·00</b> (10% Discount)	→ £414·00
VAT	£92·00	← <b>£9·20</b> (VAT Refund)	→ £82·80
	<hr/>		<hr/>
Balance	£552·00		£496·80

## Exercise 12

At the end of July, Layla Patel sends a Statement of Account to Falkland College. Transactions for the month are as follows:

- 1 July            Balance due £618·00 (for items bought on 25 June).
- 6 July            Layla Patel sold goods to Falkland College costing £230·00 (before the terms below were applied).
- 20 July           Falkland College paid £599·46 by cheque, in full settlement of the balance outstanding on 1 July. A credit note was issued to Falkland College for a VAT refund for the amount of VAT that was included on the original invoice, that now no longer needs to be paid. The VAT on the original invoice amounted to £103·00.

**Layla Patel — Terms of Sale:**

Trade Discount 8%

VAT 20%

Cash Discount 3% one month

Prepare the Statement of Account to be sent to Falkland College at 31 July.

## Exercise 13

At the end of March, Dance Supplies sends a Statement of Account to Ballet Tots. Transactions for the month are as follows:

- 1 March      Balance due £282.00 (for items bought on 19 February).
  
- 11 March     Ballet Tots took advantage of a 10% Cash Discount and paid £253.80 in full settlement of the balance outstanding on 1 March. A credit note was issued by Dance Supplies for a VAT refund for the amount of VAT which was included on the original invoice, that now no longer needs to be paid. The VAT on the original invoice amounted to £47.00.

Prepare the Statement of Account to be sent to Ballet Tots at the end of March.

## Exercise 14

Roberta Rinaldi owns a food importing business. Credit customers are offered the following terms:

Trade Discount: 10%

Cash Discount: 5% if paid within one month

VAT: 20%

The following information is available for the month of May for the account of The Night Garden Bistro:

- 1 May            Balance due £1,200.00 (for items bought on 24 and 30 April).
  
- 9 May            The Night Garden bought produce costing £350.00 (before the above terms were applied).
  
- 10 May          The Night Garden returned some of the produce bought on 9 May, as the quality was not good enough. The value (after the above terms were applied) was £46.00.
  
- 19 May          The Night Garden paid £1,140.00 into Roberta Rinaldi's bank account, in full settlement of the balance outstanding on 1 May.

Roberta Rinaldi then issued a credit note to The Night Garden for a VAT refund for the amount of VAT which was included on the original invoices, that now no longer needs to be paid. The VAT on the original invoices amounted to £200.00.

Prepare the Statement of Account to be sent to The Night Garden at 31 May.

# Solutions

## Solution — exercise 1

4 Executive Desks @ £350	£1,400.00
7 Premium Chairs @ £100	£700.00
Goods Value	£2,100.00
Less Trade Discount (5%)	£105.00
	£1,995.00
Less Cash Discount (2%)	39.90
Net Goods Value	£1,955.10
VAT (20%)	£391.02
	£2,346.10
Delivery	£40.00
Final Total	£2,386.12

## Solution — exercise 2

24 Bicycle Chains @ £4.50	£108.00
16 Large Saddles @ £5.75	£92.00
Goods Value	£200.00
Less Trade Discount (6%)	£12.00
	£188.00
Less Cash Discount (5%)	£9.40
Net Goods Value	£178.60
VAT (20%)	£35.72
	£214.32

## Solution — exercise 3

20 boxes of eggs @ £4	£80.00
48 litres of milk @ £0.50	£24.00
12 sacks of potatoes @ £3	£36.00
Goods Value	£140.00
Less Trade Discount (12.5%)	£17.50
	£122.50
Less Cash Discount (10%)	£12.25
Net Goods Value	£110.25
VAT (20%)	£22.05
	£132.30
Delivery	-
Final Total	£132.30

Although the final total £132.30 is lower than the £135.00 threshold, delivery charges are calculated based on the goods value before discounts and VAT, which is £140.00.

## Solution — exercise 4

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£500	← <b>£50</b> (10% Discount)	£450
VAT	£100	← <b>£10</b> (VAT Refund)	£90
Balance	£600		£540

<b><u>Cash &amp; Cash Equivalents Account</u></b>		Dr	Cr	Bal	
1 Oct	Opening Balance	£98		£98	Dr
27 Oct	BRM Ltd — Trade Receivable	£540		£638	Dr

<b><u>VAT Account</u></b>		Dr	Cr	Bal	
1 Oct	Opening Balance	£184		£184	Dr
8 Oct	BRM Ltd — Trade Receivable		£100	£84	Dr
27 Oct	BRM Ltd — Trade Receivable	£10		£94	Dr

<b><u>BRM Ltd — Trade Receivable Account</u></b>		Dr	Cr	Bal	
8 Oct	Sales Revenue & VAT	£600		£600	Dr
27 Oct	Cash & Cash Equivalents		£540	£60	Dr
27 Oct	VAT		£10	£50	Dr
27 Oct	Discount Allowed		£50	-	

<b><u>Sales Revenue Account</u></b>		Dr	Cr	Bal	
8 Oct	BRM Ltd — Trade Receivable		£500	£500	Cr

<b><u>Discount Allowed Account</u></b>		Dr	Cr	Bal	
27 Oct	BRM Ltd — Trade Receivable	£50		£50	Dr

## Solution — exercise 5

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£1,800	← <b>£90</b> (5% Discount)	£1,710
VAT	£360	← <b>£18</b> (VAT Refund)	£342
Balance	£2,160		£2,052

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
1 May	Opening Balance		£417	£417	Cr
19 May	Ace Supplies — Trade Payable		£2,052	£2,469	Cr

<b>VAT Account</b>		Dr	Cr	Bal	
1 May	Opening Balance	£51		£51	Dr
6 May	Ace Supplies — Trade Payable	£360		£411	Dr
19 May	Ace Supplies — Trade Payable		£18	£393	Dr

<b>Ace Supplies — Trade Payable Account</b>		Dr	Cr	Bal	
6 May	Purchases & VAT		£2,160	£2,160	Cr
19 May	Cash & Cash Equivalents	£2,052		£108	Cr
19 May	VAT	£18		£90	Cr
19 May	Discount Received	£90		-	

<b>Purchases Account</b>		Dr	Cr	Bal	
6 May	Ace Supplies — Trade Payable	£1,800		£1,800	Dr

<b>Discount Received Account</b>		Dr	Cr	Bal	
19 May	Ace Supplies — Trade Payable		£90	£90	Cr

## Solution — exercise 6

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£300	← <b>£45</b> (15% Discount)	£255
VAT	£60	← <b>£9</b> (VAT Refund)	£51
Balance	£360		£306

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
1 April	Opening Balance	£629		£629	Dr
14 April	J Pollock — Trade Receivable	£306		£935	Dr

<b>VAT Account</b>		Dr	Cr	Bal	
1 April	Opening Balance		£204	£204	Cr
14 April	J Pollock — Trade Receivable	£9		£195	Cr

<b>J Pollock — Trade Receivable Account</b>		Dr	Cr	Bal	
1 April	Opening Balance	£587		£587	Dr
14 April	Cash & Cash Equivalents		£306	£281	Dr
14 April	VAT		£9	£272	Dr
14 April	Discount Allowed		£45	£227	Dr

<b>Discount Allowed Account</b>		Dr	Cr	Bal	
14 April	J Pollock — Trade Receivable	£45		£45	Dr

## Solution — exercise 7

### Working

<u>Without Cash Discount</u>			<u>With Cash Discount</u>		
NGV (£840-£140)	£700	←	<b>£70</b> (10% Discount)	→	£630
VAT	£140	←	<b>£14</b> (VAT Refund)	→	£126
Balance	£840				£756

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
1 July	Opening Balance	£947		£947	Dr
10 July	Gannon Ltd — Trade Payable		£756	£191	Dr

<b>VAT Account</b>		Dr	Cr	Bal	
1 July	Opening Balance		£466	£466	Cr
10 July	Gannon Ltd — Trade Payable		£14	£480	Cr

<b>Gannon Ltd — Trade Payable Account</b>		Dr	Cr	Bal	
1 July	Opening Balance		£840	£840	Cr
10 July	Cash & Cash Equivalents	£756		£84	Cr
10 July	VAT	£14		£70	Cr
10 July	Discount Received	£70		-	

<b>Discount Received Account</b>		Dr	Cr	Bal	
10 July	Gannon Ltd — Trade Payable		£70	£70	Cr

## Solution — exercise 8

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£125.00	← <b>£12.50</b> (10% Discount)	£112.50
VAT	£25.00	← <b>£2.50</b> (VAT Refund)	£22.50
Balance	£150.00		£135.00

<b>Sales Revenue Account</b>		Dr	Cr	Bal	
5 Dec	Kate's Cafe — Trade Receivable		£125.00	£125.00	Cr

<b>VAT Account</b>		Dr	Cr	Bal	
5 Dec	Kate's Cafe — Trade Receivable		£25.00	£25.00	Cr
22 Dec	Kate's Cafe — Trade Receivable	£2.50		£22.50	Cr

<b>Kate's Cafe — Trade Receivable Account</b>		Dr	Cr	Bal	
5 Dec	Sales Revenue & VAT	£150.00		£150.00	Dr
22 Dec	Cash & Cash Equivalents		£135.00	£15.00	Dr
22 Dec	VAT		£2.50	£12.50	Dr
22 Dec	Discount Allowed		£12.50	-	

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
22 Dec	Kate's Cafe — Trade Receivable	£135.00		£135.00	Dr

<b>Discount Allowed Account</b>		Dr	Cr	Bal	
22 Dec	Kate's Cafe — Trade Receivable	£12.50		£12.50	Dr

## Solution — exercise 9

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£320.00	← <b>£24.00</b> (7.5% Discount)	£296.00
VAT	£64.00	← <b>£4.80</b> (VAT Refund)	£59.20
Balance	£384.00		£355.20

<b>Purchases Account</b>		Dr	Cr	Bal	
9 Aug	A-Z Supplies — Trade Payable	£320.00		£320.00	Dr

<b>VAT Account</b>		Dr	Cr	Bal	
9 Aug	A-Z Supplies — Trade Payable	£64.00		£64.00	Dr
24 Aug	A-Z Supplies — Trade Payable		£4.80	£59.20	Dr

<b>A-Z Supplies — Trade Payable Account</b>		Dr	Cr	Bal	
9 Aug	Purchases & VAT		£384.00	£384.00	Cr
24 Aug	Cash & Cash Equivalents	£355.20		£28.80	Cr
24 Aug	VAT	£4.80		£24.00	Cr
24 Aug	Discount Received	£24.00		-	

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
24 Aug	A-Z Supplies — Trade Payable		£355.20	£355.20	Cr

<b>Discount Received Account</b>		Dr	Cr	Bal	
24 Aug	A-Z Supplies — Trade Payable		£24.00	£24.00	Cr

## Solution — exercise 10

### Working

In this question, there is insufficient information to complete the usual working table. However, as the payment on 7 September is 'in full settlement' of the balance on Joe's Joiners account at 1 September, the remaining balance of £16.50 on 7 September MUST be cleared; this MUST be the Discount Allowed.

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal	
1 Sep	Opening Balance	£491.00		£491.00	Dr
7 Sep	Joe's Joiners — Trade Receivable	£178.20		£669.20	Dr

<b>VAT Account</b>		Dr	Cr	Bal	
1 Sep	Opening Balance		£110.00	£110.00	Cr
7 Sep	Joe's Joiners — Trade Receivable	£3.30		£106.70	Cr

<b>Joe's Joiners — Trade Receivable Account</b>		Dr	Cr	Bal	
1 Sep	Opening Balance	£198.00		£198.00	Dr
7 Sep	Cash & Cash Equivalents		£178.20	£19.80	Dr
7 Sep	VAT		£3.30	£16.50	Dr
7 Sep	Discount Allowed		£16.50	-	

<b>Discount Allowed Account</b>		Dr	Cr	Bal	
7 Sep	Joe's Joiners — Trade Receivable	£16.50		£16.50	Dr

## Solution — exercise 11

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV	£435.00	← ———— <b>£65.25</b> (15% Discount) ———— →	£369.75
VAT	£87.00	← ———— <b>£13.05</b> (VAT Refund) ———— →	£73.95
Balance	£522.00		£443.70

<b>Cash &amp; Cash Equivalents Account</b>		Dr	Cr	Bal
1 June	Opening Balance	£134.00		£134.00
10 June	DCD Publishers — Trade Payable		£443.70	£309.70

Cr

<b>VAT Account</b>		Dr	Cr	Bal
1 June	Opening Balance	£535.00		£535.00
4 June	DCD Publishers — Trade Payable	£18.40		£553.40
10 June	DCD Publishers — Trade Payable		£13.05	£540.35

Dr

Dr

Dr

<b>DCD Publishers — Trade Payable Account</b>		Dr	Cr	Bal
1 June	Opening Balance		£877.00	£877.00
4 June	Purchases & VAT		£110.40	£987.40
10 June	Cash & Cash Equivalents	£443.70		£543.70
10 June	VAT	£13.05		£530.65
10 June	Discount Received	£65.25		£465.40

Cr

Cr

Cr

Cr

Cr

<b>Purchases Account</b>		Dr	Cr	Bal
4 June	DCD Publishers — Trade Payable	£92.00		£92.00

Dr

<b>Discount Received Account</b>		Dr	Cr	Bal
10 June	DCD Publishers — Trade Payable		£65.25	£65.25

Cr

## Solution — exercise 12

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV (£618-£103)	£515.00	← <b>£15.45</b> (3% Discount)	£499.55
VAT	£103.00	← <b>£3.09</b> (VAT Refund)	£99.91
	_____		_____
Balance	£618.00		£599.46

<b>Layla Patel</b>				
<b>Statement of Account</b>				
To: Falkland College				
For the month of July				
		Dr	Cr	Bal
1 July	Opening Balance	£618.00		£618.00
6 July*	Sales & VAT*	£253.92		£871.92
20 July	Cash & Cash Equivalents		£599.46	£272.46
20 July	VAT Refund		£3.09	£269.37
20 July	Discount Allowed		£15.45	£253.92

#### \* Working for 6 July

Goods Value	£230.00
Trade Discount (5%)	<u>£18.40</u>
Net Goods Value	£211.60
VAT	<u>£43.32</u>
Final Total	£253.92

## Solution — exercise 13

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV (£282-£47)	£235.00	←	£211.50
		<b>£23.50</b> (10% Discount)	→
VAT	£47.00	←	£42.30
		<b>£4.70</b> (VAT Refund)	→
Balance	£282.00		£253.80

Dance Supplies Statement of Account				
To: Ballet Tots				
For the month of March				
		Dr	Cr	Bal
1 Mar	Opening Balance	£282.00		£618.00
11 Mar	Cash & Cash Equivalents		£253.80	£28.20
11 Mar	VAT Refund		£4.70	£23.50
11 Mar	Discount Allowed		£23.50	-

## Solution — exercise 14

### Working

	<u>Without Cash Discount</u>		<u>With Cash Discount</u>
NGV (£1,200-£200)	£1,000	← —————	£950
		<b>£50</b> (5% Discount)	————— →
VAT	£200	← —————	£190
	—————	<b>£10</b> (VAT Refund)	—————
Balance	£1,200		£1,140

<b>Roberta Rinaldi</b>				
<b>Statement of Account</b>				
To: The Night Garden				
For the month of May				
		Dr	Cr	Bal
1 May	Opening Balance	£1,200		£1,200
9 May*	Sales & VAT*	£378		£1,578
10 May	Sales Returns & VAT		£46	£1,532
19 May	Cash & Cash Equivalents		£1,140	£392
19 May	VAT Refund		£10	£382
19 May	Discount Allowed		£50	£332

#### \* Working for 9 May

Goods Value	£350.00
Trade Discount (10%)	<u>£35.00</u>
Net Goods Value	£315.00
VAT	<u>£63.00</u>
Final Total	£378.00