

HARROW COLLEGE & UXBRIDGE COLLEGE (HCUC)

AAT ACCOUNTING

STUDY PACK

HCUC

A merger between Uxbridge College and Harrow College

Harrow
COLLEGE



Accounting



Introduction

Before I introduce Accounting to you could you list down points on 'why we need accounting'?

- 1.
- 2.
- 3.



3

Now watch the video below and compare your answers.

VIDEO: [Why Accounting?](#)

Watch the video to know some fun facts on [History of Accounting](#)



Do you know who is recognised as the 'father of Accounting'?

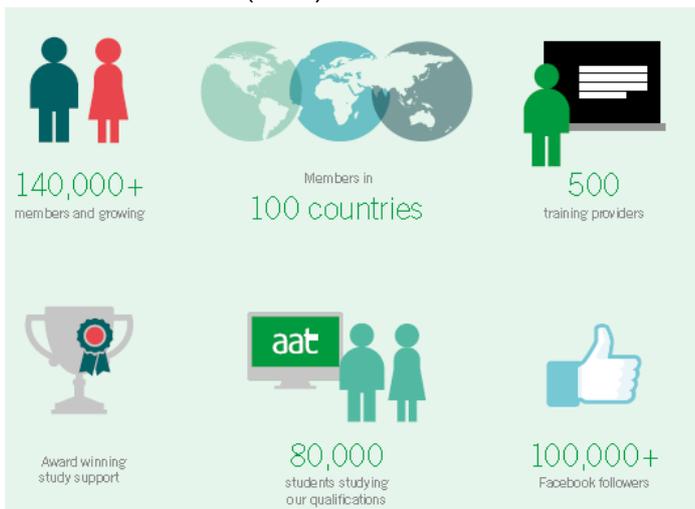


At Uxbridge College one of our popular courses is AAT Level 2 Certificate in Accounting a perfect fit if you're a school leaver and interested to pursue a career within the Finance Industry.



Who is AAT?

- A professional membership body.
- Providing qualifications for those working, and looking to work at all levels of accounting and finance.
- All learning and assessment areas will be assessed by some form of computer-based assessment (CBA).



Who is AAT Level 2 Certificate in Accounting suitable for?

- School-leavers
- Returners to work
- Those who have not studied for a while

Develop your skills in finance administration including:

- Double-entry bookkeeping, purchase, sales and general ledgers
- Basic costing
- Using accounting software

Watch this video for additional information: [Management vs Financial Accounting](#)

Now try the question below.



Decide whether each of the following is a feature of Financial Accounting or Management Accounting.

	Management Accounting	Financial Accounting
Records historic transactions		
There is a legal requirement for this		
Uses accounting information to make estimates for the future		
Analyses financial information in detail to work out the costs of individual products		
Used to control the costs of the business		
Used for decision making		
Mainly for internal users		
Mainly for external users		
Used to assess the past financial performance		

Task 2:

Cost Classification

Costs Classified by Element When we classify a cost 'by element' we are asking whether the costs are:

- Materials, such as plastic, glass or fabric
- Labour, the wages of the workers or
- Overheads, which are other business costs such as rent or electricity.

Try this next question.....



Learnmore Publishing

Learnmore Publishing produces and prints educational textbooks.

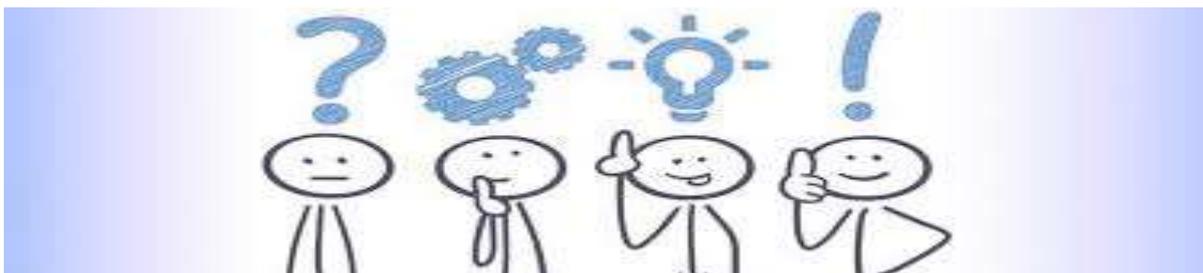
a) Analyse the following costs by element.

	Material	Labour	Overheads
Royalties paid to authors based on a % of sales value			
Paper used for printing the text books			
Paper used in the photocopier in the administration office			
Ink for printing the books			
Marketing manager's salary			
Hot drinks machine in the admin office - rental and cost of coffee/tea etc			
Packaging materials			
Electricity costs in the print process - with a standing charge and a charge per unit of power			
Premises rent			

Costs Classified by Nature The 'nature' of a cost is that it may be:

- Direct - that is, directly involved in the production of the product or
- Indirect - not directly involved in the production of the product.

So materials may be a direct cost or an indirect cost depending on how the materials are used. For example, plastic to use in the production of a computer screen is a direct cost, but oil for the machine that produces the screens is not. The oil does not directly go into the product. Indirect costs, like the oil, are usually classified as overheads. Labour costs can also be direct and indirect. The cost of workers on the production line producing the computer screens are direct, however, the cost of the supervisor is an indirect cost because he is not actually making the product.



b) Now classify the same costs as direct or indirect.

	Direct	Indirect
Royalties paid to authors based on a % of sales value		
Paper used for printing the text books		
Paper used in the photocopier in the administration office		
Ink for printing the books		
Marketing manager's salary		
Hot drinks machine in the admin office - rental and cost of coffee/tea etc		
Packaging materials		
Electricity costs in the print process - with a standing charge and a charge per unit of power		
Premises rent		

Costs Classified by Behaviour

Costs may behave in a way that is:

- Fixed: For example, the rent of the factory is not affected by the amount of product produced and so is fixed (and an overhead).
- Variable: which means that the cost changes depending on the number of units manufactured. Direct material and direct labour costs are normally variable - the more computer screens we make, the more plastic we need and the more labour hours are needed.
- Semi-variable: this is where there is both a fixed part and a variable part to a cost. This may be something like your phone contract where you pay a set amount per month but if you go over your call, text or data allowance then there is a variable cost that depends on your usage.



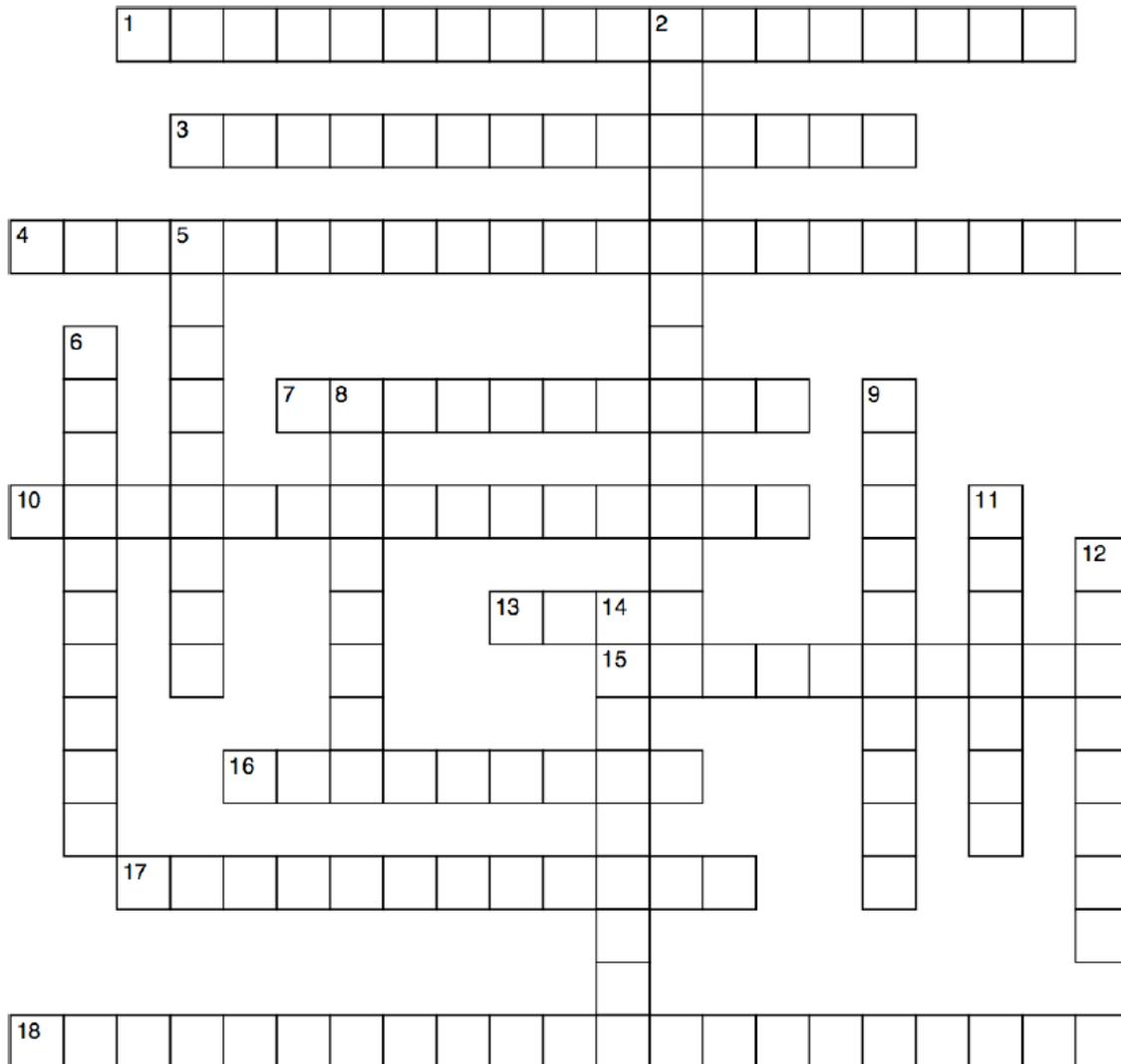
c) You must now classify the costs by behaviour.

	Fixed	Variable	Semi-variable
Royalties paid to authors based on a % of sales value			
Paper used for printing the text books			
Paper used in the photocopier in the administration office			
Ink for printing the books			
Marketing manager's salary			
Hot drinks machine in the admin office - rental and cost of coffee/tea etc			
Packaging materials			
Electricity costs in the print process - with a standing charge and a charge per unit of power			
Premises rent			

Accounting Challenge!

You may need to do some research while attempting the quiz below. Let's see how many you know already?





Across	Down
1. A procedure which enables employees to make a complaint against their employer (9,9)	2. A line of communication between different levels within an organisation (9,4)
3. Funds within a business that are available on a day-to-day basis to repay debts (7,7)	5. The ethical principle of honesty, truthfulness and fair dealing (9)
4. Regulations set down by an	6. Recording, analysing and reporting financial information (10)

organisation for the running of functions within the organisation (8,3,10)

7. Achieving the right result with the minimum of wasted time, effort or expense (10)

10. The complimentary close used for a letter which is addressed to 'Dear Sir' (5,10)

13. An average calculated by adding all the figures and dividing the total by the number of figures (4)

15. A way of expressing a part of a whole by relating the part to the number 100 (10)

16. A forecast figure used to set a target for future sales or costs (9)

17. The section of a report which sets out the reason for the report, what it contains and its deadline (12)

18. The ethical principle of behaving so that you do not bring your profession into disrepute (12,9)

8. A way of expressing a part of a whole using two numbers – the numerator and denominator (8)

9. A planned series of activities stating when they have to be completed and by whom (6,4)

11. Providing and managing funds and resources for an organisation (7)

12. A chart showing a circle divided into sectors showing the proportions of parts of a whole (3,5)

14. The process where a manager interviews an employee to monitor performance and to plan training (9)



Task 3

Simple Accounting Terminology

In accountancy there can be a number of different ways to describe the same thing, accountants use UK terminology as well as international accounting terminology. In your studies, most of the terminology you will come across will be from the International Accounting Standards but in the workplace, you may come across both types so we want to try and clear some of these up. The following table shows some of the different terms that you may come across with explanations.

Balance Sheet Definitions

Asset – something owned by the business, available for use by the business.

Examples: Buildings, Vehicles, Stock (Inventory), Debtors (Trade receivables), Bank, Cash

Fixed asset – an asset which is to be used for the long term and not resold as part of trading activities.

Examples: Buildings, Vehicles, Plant & Machinery

Current asset – a short term asset of the business which is either cash or will soon be converted into cash.

Examples: Stock, Debtors, Bank, Cash

Debtor / Trade Receivables – an example of a current asset. A debtor is someone who owes the business money. A debtor is created when the business sells to a customer on credit.

Liability – an amount owed by the business. It is an obligation to pay money at a future date.

Examples: Loans, Mortgages, Creditors/Trade payables, Bank overdraft



Current Liability – an amount owed and due to be paid by the business in the short term (less than 12 months).

Examples: Trade creditors, Overdraft, VAT owing

Long-term Liability – an amount owed by the business and due to be paid in the longer term (after 12 months).

Examples: Loans and Mortgages

Creditor / Trade Payables – an example of a current liability. A creditor is someone the business owes money to. A creditor is created when the business buys goods on credit from a supplier.

Capital – the amount which the owner has invested in the business; this is owed back to the owner and is therefore considered to be a special liability of the business.

Drawings – amounts withdrawn from the business by the owner for the owner's personal use. Drawings can either be cash or stock.

Profit & Loss Definitions



Sales – income generated from trading activities i.e. selling your goods.

Cost of Sales – this is the cost of buying the goods for resale.

Gross Profit – The profit left in the business after the cost of sales has been deducted

from the sales.

Expenses – the day to day running costs of the business.

Examples: Stationery, rent and rates, entertainment, heat and light

Net Profit or (loss) – the profit or (loss) left in the business after all expenses have been deducted.

Activity

Match the word to the definition

- Asset * an amount owed by the business. It is an obligation to pay money at a future date

- Liability * the amount which the owner has invested in the business

- Expense * something owned by the business, available for use by the business

- Capital * amounts withdrawn from the business by the owner for the owner's personal use

- Drawing * the day to day running costs of the business

Capital v Revenue

Capital Expenditure – Monies spent on purchasing or improving fixed assets.

Examples: buying a piece of machinery/vehicle/building/computer, Building an extension on a building

Capital Income – Income received from the sale of fixed assets.

Examples: Selling a vehicle/piece of machinery

Revenue Expenditure – Monies spent on the day to day running expenses of the business, including the repair and maintenance of fixed assets.

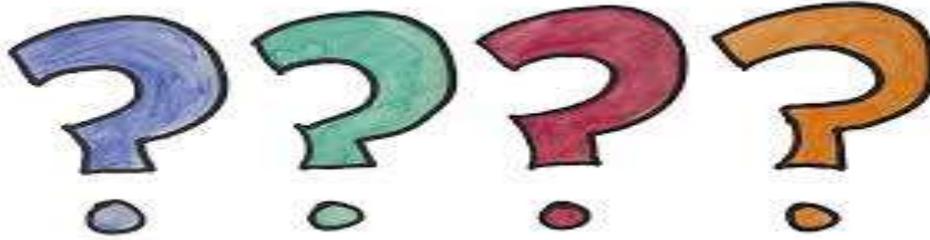
Examples: gas, electricity, water, rent, wages

Revenue Income – Income received from trading activities.

Example: selling the business's stock



Activity



Select **one** option in each instance below to show whether the item will be capital expenditure, revenue expenditure, capital income or revenue income. You can use each classification more than once.

Item	Capital expenditure	Revenue expenditure	Capital income	Revenue income
Purchase of vehicles				
Fuel for vehicles				
Discounts received				
Receipts from sale of office equipment				
Redecoration of property				
Extension to property				
Receipts from sale of goods to credit customers				
Delivery cost of new machine				
Increase in owner's capital				
Repairs to vehicles				

Task 4:

VAT & DISCOUNTS

Value Added Tax (VAT)

VAT is charged on the taxable supply of goods and services in the United Kingdom. VAT is an indirect tax borne (suffered) by the ultimate consumer. It is administered by HM Revenue & Customs (HMRC).

This means businesses who are VAT registered must **charge VAT on top of their sales price** and collect the VAT from their customers on behalf of HMRC.

VAT recovered on sales can be referred to as OUTPUT VAT.
VAT paid on purchases can be referred to as INPUT VAT.

Rates of VAT

In 2010, the Chancellor announced an increase in the standard rate of VAT from 17.5% to 20% which was effective from 4th January 2011.

The AAT exams will assess the standard rate of VAT at 20% from September 2011.

Question: Can your research what are the other rates of VAT
Answer_____



Although the assessment will have the standard rate of VAT at 20%, it is important that we learn how to calculate VAT with different percentage rates as they can differ in different countries, there are different rates of VAT (as seen above) and the current standard rate of 20% may not always remain at this percentage.

We will look at calculations using the following different percentages; 20%, 17.5% and 15% to learn how to apply the principles to any percentage given.

Let's review how the figures work:

Cost Structure:

$$\begin{array}{rcl} \text{Net} & 100\% & \\ + \text{ VAT} & \text{ VAT \%} & \\ = \text{ Gross} & 100\% + \text{ VAT\%} & \end{array}$$

With a VAT rate at 20%, the cost structure is as follows:

$$\begin{array}{rcl} \text{Net} & 100\% & \\ + \text{ VAT} & \underline{20\%} & \\ = \text{ Gross} & 120\% & \end{array}$$

Illustration

VAT from Net

Say we want to find out the VAT (at 20%) from a net amount of £120,000.

Using the equation above, the amount we know is the net amount of £120,000, the percentage of what we want to know is 20% (i.e. the VAT), and the percentage of what we do know is the net percentage which is 100%.

$$£120,000 \quad \times \quad \frac{20\%}{100\%} \quad = \quad £24,000$$

VAT from Gross

Say we want to find out the VAT (at 20%) from a gross amount of £288,000.

Using the same equation, the amount we know is the gross amount of £288,000, the percentage of what we want to know is 20% (i.e. the VAT) and the percentage of what we do know is the gross percentage which is 120% (the net 100% + VAT rate 20%)

$$£288,000 \quad \times \quad \frac{20\%}{120\%} \quad = \quad £48,000$$

There is also a specific rounding rule to remember with VAT.

VAT should always be rounded down to the nearest penny e.g. VAT of £21.5677 will be rounded down to £21.56.

Activity

What is the amount of **VAT at 20%** on each of the following transactions? (Take careful consideration as to whether you are being told the gross or the net amount).

- (a) £250 net of VAT
- (b) £98 net of VAT
- (c) £2,400 inclusive of VAT
- (d) £460 inclusive of VAT
- (e) £1,200 inclusive of VAT
- (f) £940 inclusive of VAT



Employability in Accounting

Accounting courses in general and AAT courses, in particular, require constant interaction with the industry and we in Uxbridge College have embedded 40 hours of work experience into our AAT Level 2 course. This will allow learners to feel and experience the actual working environment outside the classrooms and develop the ability to relate and link the theory to

practice. In order for the learners to secure a workplace for this experience they need to be equipped with some professional and interpersonal skills such as followings:

How does a good CV look like:

Fact: most employers spend just a few seconds scanning each CV before sticking it in the 'Yes' or 'No' pile.



1. Keep it real: Usually, a CV should be no more than two pages – and that's two pages of A4 paper! Employers spend, on average, just 8 seconds looking at any one CV, and a surefire way of landing yourself on the no pile is to send them your entire life story. Keep it punchy, to the point, and save those niggly little details for the interview.
2. Include a personal statement: Do not just assume an employer will see how your experience relates to their job. Instead, use a short personal statement to explain why you are the best person for the job. This should be reflected in your cover letter as well see our tips to the perfect cover letter
3. The error of your ways: Employers DO look for mistakes on CVs and if they find them, it makes you look really bad. David Hipkin, head of recruitment and resourcing at Reed Business Information, warns, 'With most employers experiencing massive volumes of applicants right now, giving them the excuse to dismiss your application because of avoidable errors is not going to help you secure an interview.' If you're unsure then use a spellchecker and ask someone else to double-check what you've written. And don't ignore the most common CV mistakes
4. The maths: This may sound dull but by backing up your achievements with numbers it makes selling yourself much easier. When writing your work history, don't just say that you increased sales; tell them you increased sales by 70% over a six month period. Get it? Big numbers are especially good
5. Make it look good: We live in a world where the image is everything, and that also goes for your CV. Take some time to pretty it up... Use bullet points and keep sentences short. Use the graphic design trick of leaving plenty of white space around text and between categories to make the layout easy on the eye. Alternatively, get creative with your job application!

Task 5:

A Good CV or Bad CV



RICH ANDREWS

12345 MAIN STRET LEEDS LE3 5R

PHONE (76767) 456-7890

RICHANDREWS400065@HOTMAIL.COM

DTE OF BIRTH 12/05/74

EXPERIEECE

2002- 2004 valley Chicken factory Main Road, Leeds

- Killing chickens.
- Managing small team.

2001-2002 Nice Flower Factory Smalltown, Leeds

- Packing Flowers

2000-2001 Quick Cabs Terry Street, leeds

- Driving a taxi around leeds

EDUCATION

1985–1990 Big School, Leeds leeds

- 5 GCSEs including Maths and English

INTRESTS

Playing music, football, pinball, chatting with friends, going to the pub, boxing, sleeping when it's raining outside.

Answer the questions about Rich Andrews.

1. How old is he?
2. Where does he live?
3. What should you do if you want to contact him?
4. What was his first job?
5. What is his job now?
6. What are his duties in his job now?
7. What qualifications does he have?
8. When did he finish school?
9. Write down two of his hobbies.
10. Can you find any mistakes in this CV? Put a circle round any of the mistakes.

The above is an example of a Bad CV. You now know the do's and don'ts of a CV create your perfect CV ready to apply for some accounting positions.

Interview Skills

Now if you have been shortlisted for an interview then you need to act professionally from all angle! This means when you attend an interview you need to dress, behave, talk and communicate in a professional manner and remember to be punctual! This is called interpersonal skills. Here are some tips for conducting a good interview especially in a professional environment such as Accounting and Finance.



(.thebalancecareers.com)

Task 6:

Interview



Now try and answer some of the questions below which are potentially asked in an interview.

What have been your achievements so far?

Where do you see your self in 10 years time?

What skill can you bring in if you got the job

You have now reached the end of this workbook. In order to gain skills to further enhance your Accounting skills

Play Monopoly as much as you can!

and

Prepare holiday or shopping budget in excel whenever there opportunity!



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CONTACT US:

UXBRIDGE COLLEGE

Uxbridge Campus

Park Road,
Uxbridge,
Middlesex
UB8 1NQ

Hayes Campus

College Way,
Coldharbour Lane,
Hayes,
Middlesex
UB3 3BB

T +44 (0)1895 853333
www.uxbridgecollege.ac.uk

HARROW COLLEGE

Harrow-on-the-Hill Campus

Lowlands Road,
Harrow,
Middlesex
HA1 3AQ

Harrow Weald Campus

Brookshill,
Harrow Weald,
Middlesex
HA3 6RR

T +44 (0) 020 8909 6000



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