Revision of Osborne Books texts - Summer 2011

This information sheet provides an update for tutors and students who are using second editions and revised versions of Osborne Books texts printed in the summer of 2011. It also covers the new tax books.

Second editions

These incorporate major changes brought about by the introduction of the 20% standard rate of VAT which will feature in AAT assessments after 1 September 2011. The new texts are:

- *Basic Accounting 1 Tutorial* and *Basic Accounting 1 Workbook*
- *Basic Accounting 2 Tutorial* and *Basic Accounting 2 Workbook*
- *Computerised Accounting*
- *Value Added Tax*

Revised texts

Some Osborne Books texts (other than the second editions) have had minor amendments made relating to the 20% VAT rate, or reflecting changes in AAT assessments. These titles are listed below and further details can be found on our website on the individual book pages (accessed through www.osbornebooks.co.uk/products)

- *Basic Costing Tutorial* and *Basic Costing Workbook*
- *Cash Management Tutorial* and *Cash Management Workbook*
- *Costs and Revenues Tutorial* and *Costs and Revenues Workbook*
- *Limited Company Accounts Tutorial* and *Limited Company Accounts Workbook*
- *Sole Trader and Partnership Accounts Tutorial* and *Sole Trader and Partnership Accounts Workbook*

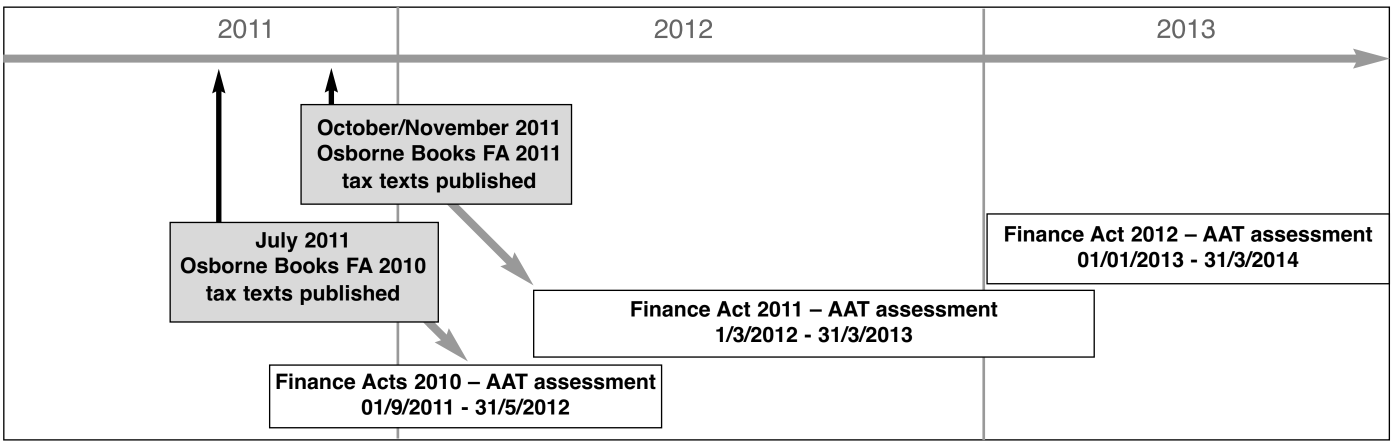
Personal Taxation and Business Taxation

The publishing schedule for Osborne Books personal and business taxation books is designed to meet the demands of the latest AAT schedule for assessment of the Finance Acts:

July 2011 — *Personal Taxation Tutorial* and *Personal Taxation Workbook 2010/2011* (Finance Acts 2010)
Business Taxation Tutorial and *Business Taxation Workbook 2010/2011* (Finance Acts 2010)
– both assessable by AAT from September 2011 to May 2012 (inclusive)

Autumn 2011 — *Personal Taxation Tutorial* and *Personal Taxation Workbook 2011/2012* (Finance Act 2011)
Business Taxation Tutorial and *Business Taxation Workbook 2011/2012* (Finance Act 2011)
– both assessable by AAT from March 2012 to March 2013 (inclusive)

The timeline for the AAT assessment of the tax exams and publication dates of the Osborne Books texts is shown below (AAT information provided as at 1 July 2011).



Basic Costing - changes for 2011 reprint

In the 2011 reprints of *Basic Costing Tutorial* and *Basic Costing Workbook* we have made some very minor modifications. These are designed to reflect the current AAT assessments involving analysis of costs. While the traditional analysis of costs into 'materials, labour and expenses' is entirely valid, the AAT assessments tend to use an analysis of 'materials, labour and <u>overheads</u>'. Since virtually all expenses can also be classified as overheads, this does not present any technical issues. We have therefore adjusted a number of the activities to use the analysis of materials, labour and <u>overheads</u>', so that students can become more familiar with this approach.

The page references are as follows:

Basic Costing Tutorial

page 18	Insertion of new paragraph below Case Study: 'Since expenses are usually also classified as overheads (indirect costs) you could alternatively be asked to analyse costs into 'materials, labour, and overheads'. In this type of task you should assume that 'overheads' excludes materials and labour costs.'
page 22	Activity 1.6 'Expenses' as a heading replaced by 'Overheads' and 'factory supervisor's salary' and 'works canteen assistant's wages' deleted. This is reflected in the answer on page 124.
page 40	Case Study 'Expenses' in text and table replaced by 'Overheads' and reference to 'element' removed.
pages 45 & 51	Activities 2.3, 2.14 & 2.15 'Expenses' in table replaced by 'Overheads' and reference to 'Element' removed. This is reflected in the answers on pages 130 and 131.

Basic Costing Workbook

page 2	Activity 1.2 'Expenses' in activity replaced by 'Overheads' and 'Salary of the office cleaner' with 'Wages of carpenter who assembles shed panels.' This is reflected in the answer on page 20.
page 3	Activity 1.3 'Salary of the office cleaner' replaced with 'Wages of carpenter who assembles shed panels.' This is reflected in the answer on page 20.
page 7	Activity 2.5 'Fixed costs' replaced by 'Fixed overheads' and the word 'Element' removed. This is reflected in the answer on page 23.
page 37	Task 1.11 'Fixed costs' replaced by 'Fixed overheads' and the word 'Element' removed. This is reflected in the answer on page 62.

Cash Management - changes for 2011 reprint

A problem has come to light which impacts on the following tasks in the following Osborne Books texts and electronic resources, which all share the same AAT devised format:

- Tutorial page 112, task 4.5 (c)
- Workbook page 14, task 4.1 (c)
- Workbook page 50, task 2.1 (c)
- Workbook page 73, task 2.1 (c)
- Tutor Zone activity 4.2 (c)
- Tutor Zone practice assessment, task 2.1 (c)

In each of these tasks students are required in part (c) to complete a table using information that they have calculated in parts (a) and (b). This table assumes that a closing bank balance can be calculated by adjusting the opening bank balance of each period by the changes in receipts and payments.

This assumption is incorrect because a calculation of the closing bank balance should also include the original net cash flow for the period, figures for which are not given in the task.

The solution to this problem in the 2011 reprints of both the Tutorial and the Workbook has been to simplify the task by removing the opening and closing bank balances and requiring the student to calculate the net difference to cash flow from the changes in sales receipts and purchase payments.

Costs & Revenues Tutorial - changes for 2011 reprint

We understand from AAT that the assessors have decided to treat fixed overheads in a different way so as to achieve a consistent approach with other Learning and Assessment Areas. Previously the actual figure for fixed overheads was shown in both the 'Flexed budget' and 'Actual' columns – with no variance being revealed. The revised approach for Costs and Revenues shows the budgeted fixed overhead in the 'Flexed budget' column, which now compares with the 'Actual' column to determine the amount (if any) of the overhead variance.

The changes in the *Costs & Revenue Tutorial* text are as follows:

Page 226 The last sentence before the Case Study should read 'When there is an increase in fixed overheads, it is the actual cost that should be compared with the budget figure.'

Page 227 The bullet point at the bottom of the page 'fixed overheads are shown at their actual cost, which is compared with the budget figure.'

Page 230 The last two lines of the solution should now read as follows:

Overheads:	30	35	5	A
Operating profit:	42	25	17	A

Page 231 Working notes at top of page, third bullet, second sentence should read 'The increase from the budget figure of £30,000 shows an adverse variance of £5,000.'; fourth bullet, delete £12,000, insert £17,000.

Page 233 The last two statements about the flexed budget in question 8.4 have been omitted (see answers on page 342 entry below).

Page 342 8.4
The True/False answers are:

Flexed budget	**True**	**False**
Fixed overheads are shown in the flexed budget at a cost of £24,240		✔
Fixed overheads are shown in the flexed budget at a cost of £21,000		✔
Fixed overheads are shown in the flexed budget at a cost of £20,200	✔	
There is a fixed overheads variance of £800 adverse	✔	
There is a fixed overheads variance of £2,040 adverse		✔
There is no fixed overheads variance		✔

Page 343 8.7

The last two lines of the answer now read:

Fixed overheads:	4,100	4,500	400	A
TOTAL:	18,050	18,600	550	A

Page 344 8.8

The last two lines of the answer now read:

Overheads:	650	710	60	A
Operating profit:	351	265	86	A

Page 344 8.9

The last two lines of the answer now read:

Overheads:	420	480	60	A
Operating profit:	330	190	140	A

Costs & Revenues Workbook - changes for 2011 reprint

TREATMENT OF FLEXED BUDGETS

We understand from AAT that the assessors have decided to treat fixed overheads in a different way so as to achieve a consistent approach with other Learning and Assessment Areas. Previously the actual figure for fixed overheads was shown in both the 'Flexed budget' and 'Actual' columns – with no variance being revealed. The revised approach for Costs and Revenues shows the budgeted fixed overhead in the 'Flexed budget' column, which now compares with the 'Actual' column to determine the amount (if any) of the overhead variance. The changes in the *Costs & Revenue Workbook* text are as follows:

Page 132 8.4

The last two lines of the answer now read:

Overheads	7,500	7,300	200	F
TOTAL	19,850	20,150	300	A

The Tutorial Note has been deleted.

Page 132 8.5

The last two lines of the answer now read:

Overheads	350	330	20	F
Operating profit	100	50	50	A

The Tutorial Note has been deleted.

Page 133 8.6

The last two lines of the answer now read:

Overheads	280	300	20	A
Operating profit	193	165	28	A

The Tutorial Note has been deleted.

Page 182 Task 2.4

The last two lines of the answer now read:

Overheads:	6,700	7,100	400	A
Operating profit:	3,776	2,300	1,476	A

Page 186 Task 2.4

The last two lines of the answer now read:

Overheads:	980	1,228	248	A
Operating profit :	820	1,362	542	F

TREATMENT OF SUNDAY PAY ON A PAYROLL TIMESHEET

The sample assessment material provided by AAT for the Costs & Revenues treatment of Payroll calculations for Sunday pay (Task 1.3) states: 'For any hours worked on a Sunday - paid at double-time (basic pay plus an overtime premium equal to basic pay)'. The AAT Solution, however, shows that the total pay for Sunday is allocated in full to overtime premium with no amount shown for basic pay. We have now been provided with the following wording by the AAT to deal with this discrepancy:

' . . . the computer based assessment (CBA) will mark as correct both approaches – i.e. splitting or otherwise the overtime between basic pay and overtime premium on a Sunday.'

The Osborne Books Costs & Revenues Workbook takes the view that the overtime pay should be split equally between basic pay and overtime premium for hours worked on a Sunday. This affects the following tasks:

Activity 3.6 (page 28)

Practice Assessment 1 Task 1.3 (page 152)

Practice Assessment 2 Task 1.3 (page 166)

Limited Company Accounts Tutorial - changes for 2011 reprint

'Conceptual Framework for Financial Reporting' – Assessable from September 2011
The *Framework for the Preparation and Presentation of Financial Statements* has been replaced by the *Conceptual Framework for Financial Reporting*. This new document, which incorporates aspects of its predecessor, is assessable in the AAT Level 4 Learning Area 'Financial Statements' from 1 September 2011.

The text set out below updates the Osborne Books Limited Company Accounts Tutorial book (Chapter 1).

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

The *Conceptual Framework for Financial Reporting* sets out the concepts which underlie the preparation and presentation of financial statements for external users. Whilst not itself an accounting standard, it helps the development of future international accounting standards and the review of existing standards.

It deals with the objective of financial reporting, the qualitative characteristics of useful financial information and the definition, recognition and measurement of the elements of financial statements.

users of financial information

The *Conceptual Framework for Financial Reporting* identifies the primary users of financial information as:

- investors, both existing and potential
- lenders
- other creditors

These users will make use of the financial reports of an entity in order to help in making decisions, eg to buy or sell a company's shares, to make a loan to the company, and to provide other forms of credit.

Other users of financial reports include:

- the management of the reporting entity
- regulators
- members of the public (other than investors, lenders and other creditors)

the objective of financial reporting

The *Conceptual Framework for Financial Reporting* states that the objective of financial reporting is *'to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity'*.

Financial reports provide information about the reporting entity's *financial position* through a statement of financial position. Financial reports also show the *performance* of the entity, usually presented in a statement of comprehensive income, and the *changes in financial position*, shown by a statement of cash flows.

Financial statements do not provide all the information users may need since they only show the financial effects of what has happened in the past and exclude a lot of non-financial information. Users work with financial statements to assess the stewardship of management and to make decisions.

underlying assumptions

When preparing financial statements, it is assumed they are prepared on the basis that the entity is a going concern.

Going concern means that financial statements are prepared on the assumption that the entity will continue in business for the foreseeable future. Thus there is no intention to liquidate or reduce the size of the business – if this was the case, the financial statements would have to be prepared on a different basis.

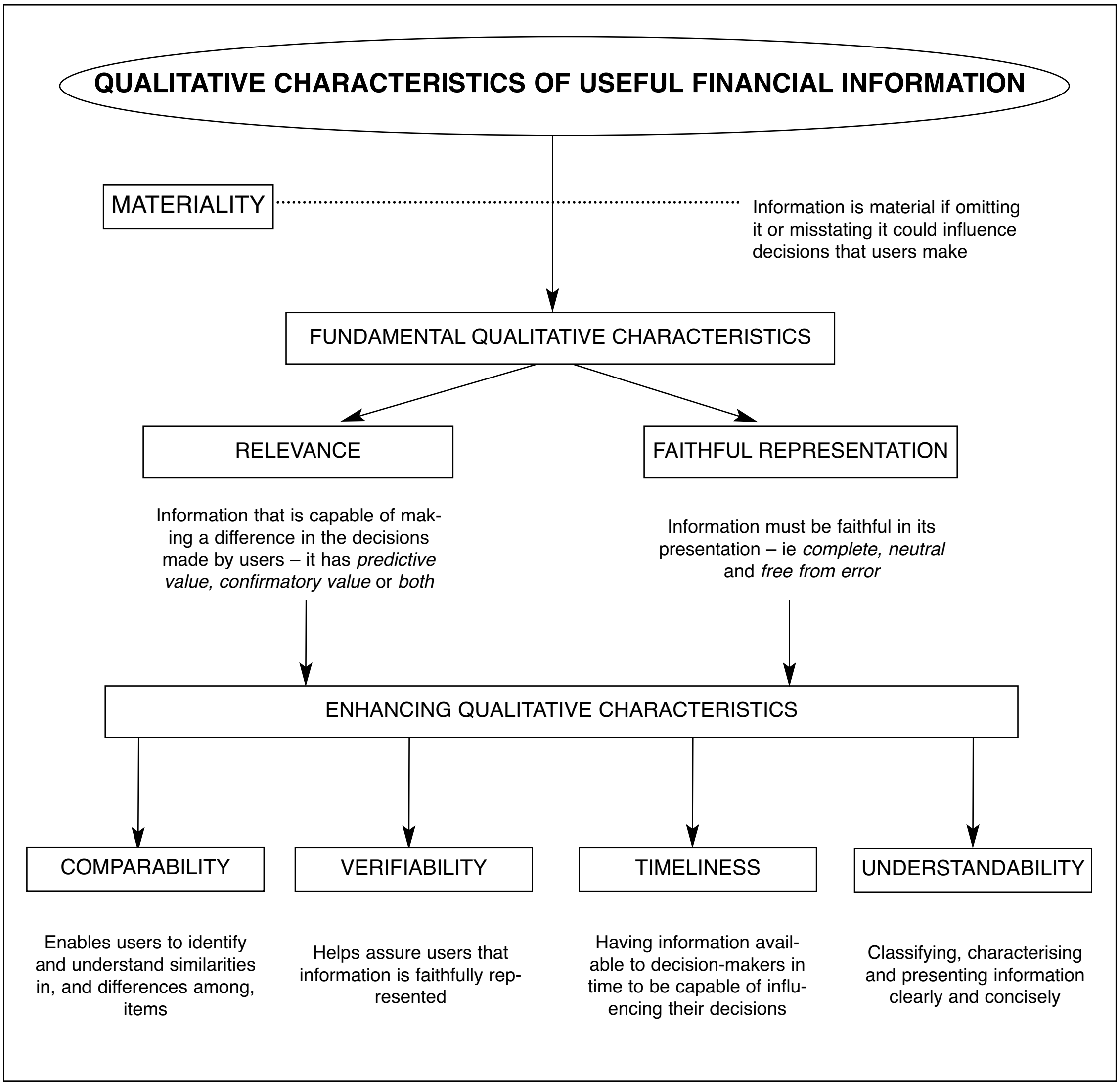
At the same time, it is important that financial performance reflects the principles of *accrual accounting*. Using the accrual basis means that the effects of transactions are recognised when they occur (and not when cash is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

qualitative characteristics of useful financial information

The qualitative characteristics identify the types of information that are likely to be most useful to users of financial statements for making decisions. The *Conceptual Framework for Financial Reporting* identifies:

- fundamental qualitative characteristics
  - relevance
  - faithful representation
- enhancing qualitative characteristics
  - comparability
  - verifiability
  - timeliness
  - understandability

The diagram below shows these characteristics.



relevance

The diagram shows that, for information to be *relevant,* it must:

- be capable of making a difference in the decisions made by users
- have predictive value, which helps users to predict future outcomes
- have confirmatory value, which helps users to confirm previous evaluations

faithful representation

For the faithful representation of information it must:

- correspond to the effect of transactions or events
- as far as possible be *complete* (to include all information necessary for a user), *neutral* (without bias), and *free from error* (no errors in the description or process)

enhancing qualitative characteristics

- *comparability* enables users to identify and understand similarities in, and differences among, items – a comparison relates to at least two items
- *verifiability* helps assure users that information is faithfully represented – can be direct (eg counting cash) or indirect (eg calculating inventory valuations using a method such as first-in, first-out).
- *timeliness* means having information available to decision-makers in time to be capable of influencing their decisions – generally the older the information is the less useful it is
- *understandability* means that information is classified, characterised and presented clearly and concisely – financial reports are prepared on the basis that users and their advisers have a reasonable knowledge of business and economic activities

materiality

Under the heading of qualitative characteristics, the *Conceptual Framework for Financial Reporting* also refers to *materiality*. Although materiality is rarely defined in law or accounting standards, the preparer of financial statements must make judgements as to whether or not an item is material. As the *Conceptual Framework* says: 'Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting entity.' It goes on to say: 'Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.' Thus materiality depends very much on the size of the business: a large company may consider that items of less than £1,000 are not material; a small company will use a much lower figure. What is material, and what is not, becomes a matter of judgement, based on the overall relevance of the financial information.

Note that the definitions of the elements of financial statements – assets, liabilities, equity, income and expenses – are currently unchanged in the *Conceptual Framework for Financial Reporting*.

SOLE TRADER AND PARTNERSHIP ACCOUNTS TUTORIAL AND WORKBOOK

TEXTUAL AMENDMENTS: 2011 REPRINT

The 2011 reprint of these texts contains minor updates and amendments as follows:

1 **Value Added Tax**
Standard rate VAT has been amended to 20% throughout the texts.

2 **Deletion of references to UK Accounting Standards**
The main changes are on page 131 and 139 of the Tutorial text.

3 **Updating of Control account reconcilation tasks (Chapter 10)**
This has been done to bring the reconciliations in line with current accounting practice.

The changes in the **Tutorial** are as follows:
Pages 181 - 184: Worked examples.
Pages 191 - 192: Activities 10.9 and 10.10
Page 362: Answer to 10.9 (10.10 answer unchanged)

The changes in the **Workbook** are as follows:
Pages 47 - 48: Activities 10.3 and 10.4 (answers on page 118)
Page 147: Task 2.4 (answer on page196)

These changes (No 3) to the text are shown in full on the pages that follow.

SOLE TRADER AND PARTNERSHIP ACCOUNTS TUTORIAL

UPDATED TEXT

Page 181

The following shows examples of the adjustments that will be necessary to reconcile **sales ledger control account** to sales ledger.

The sales ledger has been compared with sales ledger control account and the following differences identified:

1. The total column of sales day book has been undercast (underadded) by £100.

2. Settlement (cash) discount of £320 allowed to trade receivables and entered in their sales ledger accounts has not been entered in sales ledger control account.

3. A credit sale of £250 to J Williams has been debited to the account of J Wilson – both are sales ledger accounts.

4. The account of T Basili, £150, has been written off as irrecoverable in sales ledger, but has not been recorded in sales ledger control account.

The total of the account balances in sales ledger is £28,340 debit and the balance of sales ledger control account is £28,710 debit.

Page 182

The following table shows the three adjustments that need to be made to sales ledger control account.

Adjustment number	Amount £	Debit ✓	Credit ✓
1.	100	✓	
2.	320		✓
4.	150		✓

Tutorial notes:

1. As the total column of sales day book has been undercast (underadded) this error will be carried through into sales ledger control account. It is necessary to increase the amount for sales by debiting sales ledger control account with £100.
2. Settlement (cash) discount allowed is credited to sales ledger control account – here it has been omitted, so the adjustment is a credit of £320.
3. Although there is an error – which needs to be corrected – it is an error within sales ledger, so there is no adjustment to make to sales ledger control account.
4. The irrecoverable debt of £150 must be recorded in sales ledger control account as a credit entry.

All of these adjustments will need to be corrected by means of a journal entry (see Chapter 11) which gives the book-keeper the authority to record the transactions in the double-entry accounts.

Page 183

The following shows examples of the adjustments that will be necessary to reconcile **purchases ledger control account** to purchases ledger.

The purchases ledger has been compared with purchases ledger control account and the following differences identified:

1. The total column of purchases day book has been overcast (overadded) by £100.
2. A payment of £200 made to J Smithson has been debited to the account of T Simpson – both are purchases ledger accounts.
3. Settlement (cash) discount of £450 received from trade payables has been entered on the wrong side of purchases ledger control account.
4. A set-off entry for £450 has been entered as £540 in purchases ledger control account.

The total of the account balances in purchases ledger is £44,235 credit and the balance of purchases ledger control account is £45,145 credit.

The table on the next page shows the three adjustments that need to be made to purchases ledger control account.

Page 184

Adjustment number	Amount £	Debit ✓	Credit ✓
1.	100	✓	
3.	900	✓	
4.	90		✓

Tutorial notes:

1. As the total column of purchases day book has been overcast (overadded) this error will be carried through into purchases ledger control account. It is necessary to decrease the amount for purchases by debiting purchases ledger control account with £100.
2. Although there is an error – which needs to be corrected – it is an error within purchases ledger, so there is no adjustment to make to purchases ledger control account.
3. The amount of settlement (cash) discount received should be debited to purchases ledger control account – here it has been credited. To correct this error we need to double the amount of £450 to £900 (if we correct only £450 all that we do is to cancel out the error). £900 is debited to purchases ledger control account. In practice, rather than showing the difference, it is better to correct this error by taking out the wrong amount and recording the correct amount.
4. Set-off entries are debited to purchases ledger control account. Here the amount recorded has been overstated, so we must credit purchases ledger control account with the difference being £540 – £450 = £90. Again, it would be better to correct by taking out the wrong amount and recording the correct amount.

All of these adjustments will need to be corrected by means of a journal entry (see Chapter 11) which gives the book-keeper the authority to record the transactions in the double-entry accounts.

Page 191

10.9 This Activity is about preparing reconciliations.

The sales ledger has been compared with sales ledger control account and the following differences identified:

1. The total column of sales returns day book has been overcast (overadded) by £200.
2. A set-off entry for £150 has been omitted from sales ledger control account.
3. The account of D Clarke, £125, has been written off as irrecoverable in sales ledger, but has not been recorded in sales ledger control account.
4. Settlement (cash) discount of £20 has been credited to the sales ledger account of K Fairbank instead of the sales ledger account of S Fairweather.

The total of the account balances in sales ledger is £32,705 debit and the balance of sales ledger control account is £33,180 debit.

Use the following table to show the three adjustments you need to make to sales ledger control account.

Adjustment number	Amount £	Debit ✓	Credit ✓

Page 192

10.10 This Activity is about preparing reconciliations.

The purchases ledger has been compared with purchases ledger control account and the following differences identified:

1. The total of settlement (cash) discount received from trade payables of £240 has been recorded in purchases ledger control account as £420.
2. A payment of £195 has been debited to the purchases ledger account of M Touoson instead of the purchases ledger account of B Toulson.
3. The total column of purchases returns day book has been undercast (underadded) by £400.
4. A set-off entry for £220 has been entered on the wrong side of purchases ledger control account.

The total of the account balances in purchases ledger is £29,640 credit and the balance of purchases ledger control account is £30,300 credit.

Use the following table to show the three adjustments you need to make to purchases ledger control account.

Adjustment number	Amount £	Debit ✓	Credit ✓

ANSWERS

Page 362

10.9

Adjustment number	Amount £	Debit ✓	Credit ✓
1	200		✓
2	150		✓
3	125		✓

10.10 This answer remains the same as originally published.

SOLE TRADER AND PARTNERSHIP ACCOUNTS WORKBOOK

UPDATED TEXT – QUESTIONS

CHAPTER ACTIVITIES

Page 47

10.3 This Activity is about preparing reconciliations.

The sales ledger has been compared with sales ledger control account and the following differences identified:

1. Settlement (cash) discount of £120 allowed to trade receivables and entered in their sales ledger accounts has not been entered in sales ledger control account.
2. A set-off entry for £220 has been credited to the sales ledger account of Barker Limited instead of to the sales ledger account of Baker Limited.
3. In the cash book, the column for receipts from trade receivables has been undercast (underadded) by £100.
4. The account of D Doherty, £95, has been written off as irrecoverable in sales ledger, but has not been recorded in sales ledger control account.

The total of the account balances in sales ledger is £24,275 debit and the balance of sales ledger control account is £24,590 debit.

Use the following table to show the three adjustments you need to make to sales ledger control account.

Adjustment number	**Amount £**	**Debit ✓**	**Credit ✓**

Page 48

10.4 This Activity is about preparing reconciliations.

The purchases ledger has been compared with purchases ledger control account and the following differences identified:

1. The total column of purchases day book has been undercast (underadded) by £500.
2. A set-off entry for £190 has been omitted from purchases ledger control account.
3. A purchases return of £240 has been debited to the purchases ledger account of Spence Limited instead of the purchases ledger account of Spencer Limited.
4. Settlement (cash) discount of £140 received from trade payables has been entered on the wrong side of purchases ledger control account.

The total of the account balances in purchases ledger is £18,790 credit and the balance of purchases ledger control account is £18,760 credit.

Use the following table to show the three adjustments you need to make to purchases ledger control account.

Adjustment number	**Amount £**	**Debit ✓**	**Credit ✓**

PRACTICE ASSESSMENT 1

Page 147: Task 2.4

This task is about preparing reconciliations.

The sales ledger has been compared with sales ledger control account and the following differences identified:

1. The total column of sales returns day book has been overcast (overadded) by £100.
2. Settlement (cash) discount allowed of £300 has been entered in the sales ledger accounts but has been omitted from sales ledger control account.
3. A credit sale of £550 has been debited to the sales ledger account of H Gaskin Ltd instead of the sales ledger account of Haskins Ltd.
4. The account of Whittle Ltd, £150, has been written off as irrecoverable in sales ledger, but has not been recorded in sales ledger control account.

The total of the account balances in sales ledger is £22,170 debit and the balance of sales ledger control account is £22,520 debit.

Use the following table to show the three adjustments you need to make to sales ledger control account.

Adjustment number	Amount £	Debit ✓	Credit ✓

SOLE TRADER AND PARTNERSHIP ACCOUNTS WORKBOOK

UPDATED TEXT – ANSWERS

CHAPTER ACTIVITIES

Page 118

10.3

Adjustment number	Amount £	Debit ✓	Credit ✓
1	120		✓
3	100		✓
4	95		✓

10.4

Adjustment number	Amount £	Debit ✓	Credit ✓
1	500		✓
2	190	✓	
4	280	✓	

PRACTICE ASSESSMENT 1

Page 196

Task 2.4

Adjustment number	Amount £	Debit ✓	Credit ✓
1	100	✓	
2	300		✓
4	150		✓