



## **Level III Advanced Certificate in Bookkeeping**

## **Who should choose to study this qualification?**

The AAT Advanced Certificate in Bookkeeping develops existing skills and knowledge to an advanced level for anyone wishing to pursue a career in bookkeeping.

The AAT Advanced Certificate in Bookkeeping offers progression for those who already have bookkeeping knowledge at Foundation level, either to gain employment in a bookkeeping role or to further study. This qualification is suitable for those who have completed the AAT Foundation Certificate in Bookkeeping and may help students already working in a bookkeeping role to progress by offering them formal recognition of their skills. The AAT Advanced Certificate in Bookkeeping is open to those who are working and those who are not currently in employment.

### **Prerequisites**

There are no prerequisites for the AAT Advanced Diploma in Accounting but we do recommend that students begin their studies with a good understanding of the English language.

### **Why choose this qualification?**

At Advanced level, AAT offers both the AAT Advanced Certificate in Bookkeeping and the AAT Advanced Diploma in Accounting.

Students may wish to choose the AAT Advanced Certificate in Bookkeeping to focus solely on developing their bookkeeping skills in order to progress quickly to employment or to focus on becoming a bookkeeper. Students may also wish to start with the AAT Advanced Certificate in Bookkeeping before progressing to complete the AAT Advanced Diploma in Accounting in order to gain a wider knowledge of accountancy.

This qualification will usually take around six months to complete, but this will depend on the study method and course timetable.

## **What does the qualification cover?**

The purpose of the AAT Advanced Certificate in Bookkeeping is to ensure that students have the advanced bookkeeping skills necessary to work in a bookkeeping role or to progress to higher level accountancy. Students will gain the knowledge and skills needed to carry out advanced bookkeeping transactions and tasks in three mandatory units.

The qualification is composed of three mandatory units, assessed in three end-of-unit assessments:

- Advanced Bookkeeping
- Final Accounts Preparation
- Indirect Tax

A student completing this qualification will understand advanced bookkeeping principles and concepts, preparation of financial statements for sole traders and partnerships, and issues around indirect tax (VAT in the UK) in business. All of this will be learned in the context of the ethical issues that a bookkeeper may encounter in their professional life.

It is good practice for students to work with employers while studying. This could include work experience or placements, working on projects or exercises set or supervised by those working in the industry, or by attending masterclasses or guest lectures by people working in accounting.

Employers also contribute to the development of AAT qualifications. A student who passes an AAT assessment is passing a test of real workplace skills, set in a real workplace context and reviewed by practitioners and industry experts.

## **What could this qualification lead to?**

The bookkeeping skills developed by studying this qualification will enable a student to seek employment with confidence and/or to progress to the next level of learning.

The skills developed in the AAT Advanced Certificate in Bookkeeping can lead to employment as:

- a professional bookkeeper
- a senior bookkeeper
- an accounts manager
- a ledger manager

## **Advanced Bookkeeping**

### **Introduction**

This unit is the first of two Advanced level financial accounting units. It develops Foundation level skills, incorporating Advanced Bookkeeping and managing records for non-current assets, in preparation for producing final accounts for unincorporated organisations.

The purpose of this unit is to build on skills and knowledge learned in the Foundation level accounting units and to develop bookkeeping skills, taken to an initial trial balance. This is valuable progress for the student, both in terms of moving towards preparing final accounts and also in terms of offering employers more technical skills at this stage. The bookkeeping skills that students have acquired at an earlier stage will be reinforced and developed in this unit. While the daybooks and some of the ledger accounts may be familiar, the accruals basis of accounting is introduced to underpin many of the adjustments that are commonly found in the workplace, including accruals, prepayments, accounting for irrecoverable and doubtful debts and the period end valuation of inventory. This takes the student to the position of being able to draw up a trial balance using adjusted figures, and to extend it to identify the profit or loss for the period.

Students will study non-current asset accounting in some depth, including the accurate recording and control of the valuable resource of non-current assets which is vital to all organisations. On completion of this unit, students will understand and know how to use the non-current assets register as an important and independent record of the details of each individual non-current asset. The student will know how to use the various ledger accounts required to record the acquisition and disposal of non-current assets, how to calculate the gain or loss on disposal, and how to choose and apply depreciation methods and rates.

Students are expected to know and explain why they follow certain procedures, rather than just knowing that they have to be followed. While recognising that computerised accounts packages and spreadsheets will normally be used in the workplace, this unit helps the student understand the background processes. On completion of this unit, students will also begin to understand how ethical principles apply in the context of their work in this area. This enables the student to be a more independent member of a team and to work intelligently in their role, requiring increasingly less supervision as their knowledge grows and starting to supervise more junior members of the team.

Advanced Bookkeeping is a mandatory unit in this qualification. It follows on from the Foundation level units, Bookkeeping Transactions and Bookkeeping Controls. It is closely linked with the Advanced level unit, Final Accounts Preparation, which is recommended to be delivered after this unit. It also incorporates appropriate parts of Ethics for Accountants. Skills and knowledge from this unit are essential for the Professional level unit, Financial Statements of Limited Companies.

## Learning outcomes

1. Apply the principles of advanced double-entry bookkeeping
2. Implement procedures for the acquisition and disposal of non-current assets
3. Prepare and record depreciation calculations
4. Record period end adjustments
5. Produce and extend the trial balance

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Students may not be assessed on all content, or on the full depth or breadth of a piece of content in any particular assessment. Content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Apply the principles of advanced double-entry bookkeeping

#### 1.1 Demonstrate the accounting equation

Students need to know:

- the importance of the accounting equation for keeping accounting records
- the effect of accounting transactions on elements of the accounting equation

#### 1.2 Classify assets, liabilities and equity in an accounting context

Students need to know:

- definitions and examples of assets: non-current (tangible, intangible) and current; liabilities: current and non-current; equity and capital; income (revenue); expenses (costs)

Students need to be able to:

- classify general ledger accounts as income (revenue), expense (cost), asset, liability or equity (capital)

#### 1.3 Demonstrate the purpose and use of books of prime entry and ledger accounting

Students need to know:

- the different books and records that make up the accounting system: books of prime entry: sales and purchases daybooks, cash book, journal (including narratives), general ledger accounts, memorandum ledgers, control accounts: sales ledger, purchases ledger, value added tax (VAT, may be known by another name in other countries) and payroll
- what information should be recorded in each record
- how these records relate to each other, including dealing with VAT
- the importance of following organisational policies and procedures
- the importance of the integrity and accuracy of records
- why the records need to be kept secure, and how

Students need to be able to:

- write up general ledger accounts correctly and accurately
- close off accounts to the statement of profit or loss, where appropriate
- carry down balances, where appropriate

## **1.4 Apply ethical principles when recording transactions**

Students need to know:

- the meaning of objectivity and its importance in accounting □ the importance of transparency and fairness
- that only valid transactions for the period must be included, and that all relevant transactions must be included

Students need to be able to:

- apply the ethical principle of confidentiality
- identify whether entries are made with integrity, professional competence and due care
- identify whether transactions are genuine and valid for inclusion in the organisation's records
- identify professional behaviour, including dealing with the pressures of familiarity and authority

## **1.5 Carry out financial period end routines**

Students need to know:

- that income or expense accounts will carry a balance prior to closing off to the statement of profit or loss at the end of the financial period
- which account balances to carry forward and which to close off to the statement of profit or loss at the end of a financial period

Students need to know how to:

- verify general ledger balances by using other sources of information and performing reconciliations where appropriate: physical checks, inventory records, supplier and bank statements, sales and purchases ledgers (memorandum ledger accounts)
- resolve discrepancies or refer them to the appropriate person
- identify and make corrections in the general ledger, including the journal

## **2. Implement procedures for the acquisition and disposal of non-current assets**

### **2.1 Demonstrate the importance of prior authority for capital expenditure**

Students need to know:

- why authorisation is necessary
- the appropriate person in an organisation to give authority

### **2.2 Identify capital expenditure**

Students need to know:

- that International Financial Reporting Standards (IFRS) exist that are relevant to non-current assets
- the definitions of cost, useful life, residual value, depreciable amount, carrying amount
- what can and cannot be included in the cost of non-current assets
- the importance of organisational policy, including applying a given level of materiality
- that revenue expenses should be excluded
- that the depreciable amount of the acquisition should be allocated over its useful life; this is an application of the accrual basis of accounting
- the effect of capitalisation on the statement of profit or loss and statement of financial position.
- Students need to be able to:
- treat VAT according to the registration status of the acquiring organisation

### **2.3 Differentiate between funding methods for acquisition of non-current assets**

Students need to know:

- the following funding methods: cash purchase (including purchase on standard commercial credit terms); borrowing, including loans, hire purchase, finance lease (no detailed knowledge of accounting treatment); part-exchange
- the suitability of each of the above in a tightly defined business context

### **2.4 Record acquisitions and disposals of non-current assets**

Students need to know:

- the purpose and content of the non-current assets register, including assisting physical verification and checking general ledger entries and balances
- the carrying amount of an asset that has been disposed of at the end of the period
- the meaning of the balance on the disposals account
- how gains and losses on disposal are treated at the period end

Students need to be able to:

- update the non-current assets register for acquisitions and disposals
- record acquisitions and disposals in the general ledger
- account for acquisitions and disposals by part-exchange
- treat VAT, according to the registration status of the acquiring organisation
- use the following accounts: non-current asset at cost (for example, motor vehicles at cost), non-current asset accumulated depreciation, bank/cash, loan, disposals

## **3. Prepare and record depreciation calculations**

### **3.1 Calculate depreciation**

Students need to know:

- how charges are treated at the period end

Students need to be able to:

- choose and use appropriate methods of depreciation, taking into account the expected pattern of usage of the asset
- choose and use appropriate rates of depreciation, taking into account the estimated useful life of the acquisition
- use the straight-line method of depreciation, using a percentage, fraction or over a period of time, including cases when a residual value is expected, for a full year or pro rata for part of a year, according to organisational policy
- use the diminishing balance method of depreciation for a full year using a percentage  use the units of production method of depreciation

### **3.2 Record depreciation**

Students need to be able to:

- record depreciation in the non-current assets register  record depreciation in the general ledger, including the journal
- use the following accounts: depreciation charges, non-current asset accumulated depreciation

## **4. Record period end adjustments**

### **4.1 Record accruals and prepayments in income and expense accounts**

Students need to know:

- that adjustments for accruals and prepayments are an application of the accrual basis of accounting
- how opening and closing accruals and prepayments affect income and expense accounts

Students need to be able to:

- explain the difference between the amount paid or received and the amount recognised in the accounts
- account for accruals and prepayments by making a double-entry in the current period and reversing it in the future period
- recognise the reversal of a previous period adjustment in the ledger accounts □ calculate adjustments pro rata
- enter adjustments in the general ledger, including the journal
- calculate the amount transferred to the statement of profit or loss
- use the following accounts: accruals/accrued expenses, accrued income, prepayments/prepaid expenses, prepaid income

### **4.2 Record irrecoverable debts and allowances for doubtful debts**

Students need to know:

- the differences between irrecoverable debts, allowances for specific doubtful debts and general allowances
- that allowances for doubtful debts are an application of the accrual basis of accounting (recognition only)

Students need to be able to:

- calculate new allowances for doubtful debts in accordance with organisational policy
- calculate adjustments for an existing general allowance for doubtful debts
- account for the recovery of an irrecoverable debt previously written off
- use the journal to record irrecoverable debts and allowances for doubtful debts (VAT implications are not required)
- use the following accounts: irrecoverable debts (statement of profit or loss), sales ledger control account, allowance for doubtful debts account (statement of financial position), allowance for doubtful debts adjustment account (statement of profit or loss)

### **4.3 Record inventory**

Students need to know:

- that IFRS exist that are relevant to inventory valuation
- the meaning of net realisable value
- that valuation must be at the lower of cost and net realisable value on an individual item basis
- the principles of different methods of valuation (calculations not required)
- what can and cannot be included in the valuation of inventory
- that accounting for inventory is an application of the accrual basis of accounting

Students need to be able to:

- determine the correct closing inventory figure in accordance with current accounting standards
- calculate the cost of inventory from selling price when VAT or an element of profit is included (calculations involving an understanding of mark-up or sales margin will not be required)
- make entries in the journal
- use the following accounts: closing inventory – statement of profit or loss; closing inventory – statement of financial position

#### **4.4 Record period end adjustments**

Students need to know:

- that, when making period end adjustments, there is scope to significantly affect the reported results of the organisation
- the effects of including misleading or inaccurate period end adjustments (non-compliance with regulations, misinformed decision making by users of the final accounts)

Students need to be able to:

- respond appropriately to period end pressures (time pressure, pressure to report favourable results, pressure from authority)

### **5. Produce and extend the trial balance**

#### **5.1 Prepare a trial balance**

Students need to know:

- that certain accounts can carry either a debit or a credit balance (in particular: VAT, disposals, allowance for doubtful debts adjustment, bank, loan, irrecoverable debts)
- the importance of the trial balance for the preparation of final accounts

Students need to be able to:

- transfer balances from ledger accounts, a list of balances or written data into correct debit or credit columns of the trial balance
- correct any errors that are not shown by the trial balance
- use and clear the suspense account

#### **5.2 Carry out adjustments to the trial balance**

Students need to be able to:

- place the following adjustments correctly in the extended trial balance: closing inventory, accruals, prepayments, corrections of errors/omissions, depreciation, irrecoverable debts, allowances for doubtful debts

#### **5.3 Complete the extended trial balance**

Students need to be able to:

- extend figures in the ledger balances and adjustments columns correctly into the statement of profit or loss and statement of financial position columns
- make the extended columns balance
- correctly label the balancing figure line as profit or loss

## **Final Accounts Preparation**

### **Introduction**

This Advanced level unit is about preparing final accounts for sole traders and partnerships, and helping students to become aware of alternative business organisation structures.

This purpose of this unit is to provide the background knowledge and skills that a student needs in order to be capable of drafting accounts for sole traders and partnerships, and it provides the background knowledge of the regulations governing company accounts. A successful student will be able to complete tasks while being aware of potential ethical issues and know how to report information effectively. The student should become an accomplished member of the accounting team who is able to work with little supervision and who can see a financial picture of the organisation as a whole.

Students will be able to recognise the different types of organisations that need to prepare financial statements and will understand why such statements are important to users in the business environment. The financial accounting techniques and knowledge that they have already acquired will be developed to prepare accounting records when the records are incomplete, and students will become familiar with mark-up and margin.

Students will recognise special accounting requirements for partnerships. They will become aware of legislation and regulations governing financial statements, and will be able to recall and apply ethical knowledge to situations arising during the preparation of accounts. This unit also introduces students to the terminology and formats used by accountants in the financial statements of companies, working with the International Financial Reporting Standards (IFRS) terminology that is utilised across AAT.

Using all of this, the student will be able to prepare final accounts for sole traders and partnerships from an initial trial balance and present these to their line manager. They will then gain awareness of the more detailed requirements for the preparation of company financial statements.

Final Accounts Preparation is a mandatory unit in this qualification.

## Learning outcomes

1. Distinguish between the financial recording and reporting requirements of different types of organisation
2. Explain the need for final accounts and the accounting and ethical principles underlying their preparation
3. Prepare accounting records from incomplete information
4. Produce accounts for sole traders
5. Produce accounts for partnerships
6. Recognise the key differences between preparing accounts for a limited company and a sole trader

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Distinguish between the financial recording and reporting requirements of different types of organisation

#### 1.1 Describe the types of organisation that need to prepare final accounts

Students need to know:

- brief descriptions of business organisations:
  - for profit: sole traders, partnerships, limited companies, limited liability partnerships (LLPs)
  - not for profit: charities
- the basic differences between the structure and financial characteristics of these organisations:
  - who owns the organisation/public benefit requirement
  - who manages the organisation
  - where responsibility lies for debts that the organisation cannot pay, and the amount of exposure
  - whether, and how, any tax is paid
- for commercial organisations, the different terms used to represent ownership in the statement of financial position (capital and equity) and amounts taken by the owners (drawings and dividends)
- for charitable organisations, representation of net assets in the statement of financial position as funds of the charity

Students need to be able to:

- recognise basic advantages and disadvantages of operating as a partnership rather than as a sole trader
- recognise basic advantages and disadvantages of incorporated status

## **1.2 Recognise the regulations applying to different types of organisation**

Students need to know:

- that different regulations apply to different organisations, including awareness of relevant:
  - partnership legislation
  - companies legislation and accounting standards
  - LLP legislation
  - charity legislation, charity regulators and statements of recommended practice
- that the presentation of final accounts for sole traders and partnerships is not governed by statute and accounting regulations to the same extent as those for limited companies; they have no definitive format
- the importance of behaving professionally, being competent and acting with due care at work
- the importance of deadlines in the preparation of final accounts

## **2. Explain the need for final accounts and the accounting and ethical principles underlying their preparation**

### **2.1 Describe the primary users of final accounts and their needs**

Students need to know:

- the primary users of final accounts
- the reasons why final accounts are needed by these users

### **2.2 Describe the accounting principles underlying the preparation of final accounts**

Students need to know:

- the existence of a framework within which accountants work
- the underlying assumptions governing financial statements: accrual basis, going concern basis
- the fundamental qualitative characteristics of useful financial information
- the supporting qualitative characteristics
- why financial statements should be free from material misstatement

Students need to be able to:

- recognise circumstances when a business is no longer a going concern and be aware of the effect on the value of its assets

### **2.3 Apply ethical principles when preparing final accounts**

Students need to know:

- the importance of behaving professionally and being competent
- the importance of objectivity, including an awareness of the potential for conflicts of interest and bias
- why security and confidentiality of information must be maintained at all times

## **3. Prepare accounting records from incomplete information**

### **3.1 Recognise circumstances where there are incomplete records**

Students need to know:

- possible reasons why information may be missing
- possible reasons for inconsistencies within the records themselves
- examples of the types of figures that may be missing □ the importance of acting with integrity

### **3.2 Prepare ledger accounts, using these to estimate missing figures**

Students need to be able to:

- use the content of daybooks, including value added tax (VAT)
- use information from the cash book
- distinguish between relevant and non-relevant data
- reconstruct ledger accounts: sales and purchases ledger control accounts, VAT control account and the bank account
- calculate and correctly label the missing figure of such reconstructed accounts
- calculate opening or closing balances from information given
- adjust data for VAT, using information given

### **3.3 Calculate figures using mark-up and margin**

Students need to know:

- what margin and mark-up are, and the difference between them

Students need to be able to:

- calculate mark-up and margin
- use mark-up and margin to calculate missing figures
- use cost of goods sold to determine a missing figure
- adjust data for VAT from data provided

### **3.4 Assess the reasonableness of given figures within a particular context**

Students need to be able to:

- recognise whether a figure is reasonable in a given context
- explain reasons behind the difference between an actual balance and a calculation
- exercise professional scepticism

## **4. Produce accounts for sole traders**

### **4.1 Calculate opening and/or closing capital for a sole trader**

Students need to be able to:

- account for drawings, capital injections and profits or losses
- record these in ledger accounts
- explain movements in capital balances

### **4.2 Describe the components of a set of final accounts for a sole trader**

Students need to know:

- the purpose of a statement of profit or loss
- the purpose of a statement of financial position
- how the statement of financial position is linked to the accounting equation
- how the statement of profit or loss and the statement of financial position are related

### **4.3 Prepare a statement of profit or loss for a sole trader in the given format**

Students need to be able to:

- itemise income and expenditure in line with given organisational policies
- transfer data from the trial balance to the appropriate line of the statement according to the level of detail given for the organisation

#### **4.4 Prepare a statement of financial position for a sole trader in the given format**

Students need to be able to:

- apply the net assets presentation of the statement of financial position
- transfer data from the trial balance to the appropriate line of the statement according to the level of detail given for the organisation

#### **5. Produce accounts for partnerships**

The following points apply to assessment criteria 5.2, 5.4, 5.5, 5.6 and 5.7:

- the number of partners is limited to a maximum of three
- there are no changes in the partnership during a period
- either a profit or loss may be provided for allocation

#### **5.1 Describe the key components of a partnership agreement**

Students need to know:

- what a partnership agreement typically may or may not contain
- why a formal partnership agreement may not exist for all partnerships

#### **5.2 Describe the accounting procedures for a change in partners**

Students need to know:

- a simple definition of goodwill in accounting terms
- why goodwill will change capital balances on admission or retirement of a partner
- that goodwill may be introduced and subsequently eliminated from the accounting records using the profit sharing ratio

Students need to be able to:

- calculate the goodwill adjustments using the profit sharing ratio
- enter such adjustments in ledger accounts and balance off these accounts as necessary

#### **5.3 Describe the key components of partnership accounts**

Students need to know:

- the purpose of a statement of profit or loss
- the purpose and content of the partnership appropriation account
- how the statement of profit or loss is linked to the partnership appropriation account
- the nature and content of partners' current accounts
- the nature and content of partners' capital accounts
- the purpose of a statement of financial position

#### **5.4 Prepare a statement of profit or loss for a partnership, in the given format**

Students need to know:

- why the statement of profit or loss for a partnership is an adaptation of one for a sole trader

Students need to be able to:

- itemise income and expenditure in line with given organisational policies
- transfer data from the trial balance to the appropriate line of the statement according to the level of detail given for the organisation

### **5.5 Prepare a partnership appropriation account, in compliance with the partnership agreement and in the given format**

Students need to be able to:

- apply the terms of a partnership agreement
- record interest on capital (but not how to calculate it)
- record interest on drawings (but not how to calculate it)
- record salaries or commission paid to partners
- calculate, and appropriate and account for, the residual profit according to the profit sharing ratio
- recognise the status of partners' salaries, commission and interest
- present this account in the format given for the organisation

### **5.6 Prepare the current accounts for each partner**

Students need to be able to:

- enter ledger accounting entries
- account for drawings in the form of cash, goods or services
- link the current account with figures from the appropriation account

### **5.7 Prepare a statement of financial position for a partnership, in compliance with the partnership agreement and in the given format**

Students need to know:

- how the statement of financial position for a partnership differs from one of a sole trader

Students need to be able to:

- apply the net assets presentation of the statement of financial position
- transfer data from the trial balance to the appropriate line of the statement according to the level of detail given for the organisation
- show partners' current and capital accounts on the statement of financial position

## **6. Recognise the key differences between preparing accounts for a limited company and a sole trader**

### **6.1 Describe the main sources of regulation governing company accounts**

Students need to know:

- the particular importance of maintaining an up-to-date knowledge of relevant legislation and accounting standards that apply to companies
- which source provides the required formats for the statement of profit or loss and statement of financial performance for a company adopting IFRS
- which standards provide guidance for property, plant and equipment, and inventories, where IFRS is adopted (recalled as examples of regulation)

## **6.2 Describe the more detailed reporting arising from these regulations**

Students need to know:

- the requirement to prepare financial statements at least annually and file them publicly
- why selection and application of accounting policies is regulated, and the objectives that should be met when developing them
- why limited company financial statements need to follow statutory formats, with prescribed headings and terminology
- why cost of sales and other expenses must be classified according to rules
- why taxation is charged in the statement of profit or loss of a company
- why only the carrying value of non-current assets appears on the statement of financial position of a company
- why notes must be provided as part of the financial statements of a company

## **Indirect Tax**

### **Introduction**

This Advanced level unit is about indirect tax: specifically, the tax that is referred to in the UK and throughout this unit as value added tax (VAT). The unit is designed to develop students' skills in preparing and submitting returns to the relevant tax authority in situations where the transactions that have to be included are relatively routine. However, some non-routine issues are also included in this unit.

This unit provides students with the knowledge and skills that they need to keep their employers and clients compliant with the laws and practices that apply to the indirect taxation of sales and purchases. The content is designed to ensure that students can perform these tasks relatively unsupervised, particularly in terms of routine and some non-routine VAT tasks. However, it is expected that the student will still require some management for more involved and intensive VAT transactions. It is important that the student understands and applies the VAT rules from an ethical point of view. All VAT work must be carried out with integrity, objectivity and a high degree of professional competence. There must be due care with regard to confidentiality about any personal data being processed and, from a business protection aspect, with the correct approach to professional behaviour.

Students will learn about VAT legislation and the importance of maintaining their technical knowledge through monitoring updates. Students must be taught how to complete VAT returns accurately and must understand the implications of failing to do so. Inaccuracy and omission, late submission of returns and late payment or non-payment of VAT need to be understood in terms of the sanctions and penalties that are available to the relevant tax authority.

In particular, students will learn how to calculate the VAT value correctly in different circumstances, verify the calculations of the submitted return and correctly use an accounting system to extract relevant data for the return.

The VAT registration and deregistration rules are important aspects of learning at this level, and this includes the need to monitor sales closely to avoid breaching regulations. The existence and basic terms of special VAT schemes are also important.

Students will learn about how to deal with errors made in previous VAT returns and how and when these errors are corrected. They will also learn about communicating VAT matters to relevant individuals and organisations, including the special rules that apply when goods and services are imported into and exported out of the UK and the European Union (EU).

Indirect Tax is a mandatory unit.

### **Learning outcomes**

- 1. Understand and apply VAT legislation requirements**
- 2. Accurately complete VAT returns and submit them in a timely manner**
- 3. Understand the implications for the business of errors, omissions and late filing and payment**
- 4. Report VAT-related information within the organisation in accordance with regulatory and organisational requirement**

### **Scope of content**

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

#### **1. Understand and apply VAT legislation requirements**

##### **1.1 Identify and analyse relevant information on VAT**

Students need to know:

- relevant sources of VAT information needed by a business
- how to analyse available information and identify relevant items to extract
- how to communicate relevant regulatory information to others within the business
- the ethical and legal implications of failure to identify and apply information and regulations to the business

### **1.2 Explain the necessary interaction with the relevant tax authority**

Students need to know:

- the relevant tax authority for VAT
- the tax authority's powers to require businesses to comply with regulations about registration, record keeping, submissions of VAT returns and payment of VAT due
- that VAT is a tax on consumer spending, including knowing whether the tax falls on registered businesses or the end user
- how and when it is appropriate to obtain guidance from the relevant tax authority about VAT matters, particularly in respect of issues where there is doubt over the correct treatment
- the tax authority's rights in respect of inspection of records and control visits (students should understand what records can be inspected during a control visit, but no further detail of control visits is expected)
- the tax authority's rules about: what constitute VAT records; how long VAT records should be retained; how VAT records should be retained

### **1.3 Describe the VAT registration, scheme choice and deregistration requirements**

Students need to know:

- about registering for VAT
- the registration and deregistration thresholds for the normal VAT scheme, and how to apply them
- the circumstances in which voluntary registration may be beneficial to the business
- the deregistration threshold and circumstances in which deregistration may be appropriate
- what is meant by the past turnover measure and the future turnover method, and how to comply with them in respect of registration
- the special VAT schemes that can be used by some registered businesses: the annual and cash accounting schemes and the flat rate scheme for small businesses
- the thresholds and qualification criteria for the special VAT schemes
- why being in the normal VAT scheme or in one or more special VAT schemes affect the timing and frequency of filing returns and payment of VAT

### **1.4 VAT invoices, required information and deadlines**

Students need to know:

- what the correct contents and form of a VAT invoice are, including:
  - the simplified VAT invoice rule
  - the e-invoicing requirements
  - standard-rated, zero-rated and exempt supplies
- how to determine the tax point of an invoice, both basic and actual, when the invoice is raised after the supply and also when there are: advance payments; deposits; continuous supplies; and goods on sale or return
- the significance of the correct tax point for eligibility for special VAT schemes, applying the correct rate of VAT and determining the correct VAT for reporting
- the time limits for issuing VAT invoices, including understanding the 14-day and 30-day rules

## **1.5 Maintain knowledge of legislation, regulation, guidance and codes of practice**

Students need to know:

- where to find information regarding changes to VAT law and practice
- how to use information to determine relevant changes for the business that must be applied
- the deadline dates by which changes must be applied
- the importance of maintaining up-to-date and relevant VAT knowledge and the impact of this on the ability to act with professional competence

## **2. Accurately complete VAT returns and submit them in a timely manner**

### **2.1 Extract relevant data from the accounting records**

Students need to know:

- how to identify relevant accounting records that cover the required period of each VAT return
- how to identify and extract relevant income, expenditure and VAT figures from the following ledgers and accounts: sales and sales returns; purchases and purchases returns; cash and petty cash accounts; and the VAT account
- how to determine that the figures extracted have come from an original and verified daybook or journal
- how to determine that entries in the ledgers have been made with integrity and due regard to the regulation of VAT administration

### **2.2 Calculate relevant input and output tax**

Students need to know:

- the difference between inputs and outputs, and between input tax and output tax
- the specific calculations needed for standard, reduced-rate, zero-rated and exempt supplies
- how to calculate VAT for imports and acquisitions, exports and despatches
- the place of supply rules for both goods and services within and outside the EU
- how to treat different forms of inputs and outputs when preparing a VAT return, including how to identify valid VAT documents for the purposes of input tax recovery
- how imports, acquisitions, despatches and exports are treated on a VAT return, but not any knowledge of Intrastat returns, EC Sales List or VAT Mini One Stop Shop
- the different implications of exempt supplies and of zero-rated supplies for the VAT return, and the effect on recovery of input tax
- how partial exemption works, the de minimis limit and how this affects the recovery of input tax
- rounding rules on VAT calculations, including for retailers
- rules for VAT when prompt payment discounts (PPD) are offered to customers and how to calculate it □ how to calculate the VAT when given the net or the gross amount of the supply
- how to account for VAT on: expenditure on employee and business contact entertaining, including that of mixed groups; purchases and sales of cars and vans; deposits and advance payments for goods and services
- the VAT rules on fuel scale charges, how to apply them and their effect on VAT payable or reclaimable
- how to apply bad debt relief, when this is available and what time limits apply

### **2.3 Calculate the VAT due to, or from, the relevant tax authority**

Students need to be able to:

- correctly calculate the VAT payable to or reclaimable from the relevant tax authority for a VAT period in respect of: transactions in the current VAT period, including access to and use of sales and purchases invoices, credit notes issued and received, and cash and petty cash transaction receipts, adjustments for bad debt relief, fuel scale charges, entertainment expenses, cars and vans, deposits and advance payments, and correction of errors and omissions made in previous returns
- disallow VAT that is not recoverable
- deal with pressure to allow irrecoverable VAT or other inappropriate amounts to appear on the VAT return, or to remain in the accounts

### **2.4 Make adjustments and declarations for any errors or omissions identified in previous VAT periods**

Students need to be able to:

- determine if a given previous period error or omission can be corrected by an amendment on the current VAT return
- apply the thresholds and deadlines within which previous period errors or omissions must be declared, including the timescales during which corrections can be made
- identify when a given previous period error or omission must be separately reported rather than corrected on the current VAT return
- apply the required treatment
- report a previous period error or omission that cannot be corrected on a current VAT return

### **2.5 Complete and submit a VAT return and make any associated payment within statutory limits**

Students need to know:

- the statutory time limits for submitting VAT returns and making payment for both normal and special VAT schemes
- how these time limits differ depending on the payment method used
- how to complete all relevant boxes of the online return in the manner laid down by the relevant tax authority
- how to calculate the amount of VAT due to or reclaimable from the relevant tax authority as a check on the amounts calculated by the online VAT return
- why the final total on the VAT return should agree with the total on the business' VAT account
- how to identify the reasons why the given final total and the given VAT account differ
- the process for recovery of VAT that is to be reclaimed from the relevant tax authority

## **3. Understand the implications for the business of errors, omissions, and late filing and payment**

### **3.1 Explain the implications for a business of failure to comply with registration requirements**

Students need to know:

- the powers of the tax authority to penalise a business that has failed to register for VAT
- the details of the penalty regime applicable to non-registration or late registration

### **3.2 Explain the implications for a business of failure to comply with the requirement to submit VAT returns**

Students need to know:

- the consequences of late submission and non-submission of VAT returns
- how the surcharge regime applies to late submission or non-submission of VAT returns
- the powers of assessment that the tax authority has in respect of failure to submit VAT returns

### **3.3 Explain the implications for a business of failure to comply with the requirement to make payment of VAT**

Students need to know:

- the consequences of late payment or non-payment of VAT due
- the details of the penalty regime applicable to late or non-payment of VAT due

### **3.4 Explain the implications for a business resulting from a failure to make error corrections in the proper manner or to report errors where required to do so**

Students need to know:

- the consequences of failing to correct errors properly
- the consequences of failing to report an error when required to do so
- the operational, ethical and legal consequences of allowing VAT recovery that is by law disallowed

## **4. Report VAT-related information within the organisation in accordance with regulatory and organisational requirement**

### **4.1 Inform the appropriate person about VAT-related matters**

Students need to be able to:

- identify the appropriate person to whom to report information, given different circumstances
- provide appropriate information regarding: the discovery of current and previous period errors and omissions; determining whether to correct or disclose errors and omissions; the completion of the return; penalties, surcharges and assessments; the effects of a change in VAT rate or other regulatory changes; the effect on VAT of a change in business operations
- communicate the appropriate time limits for submitting VAT returns to appropriate persons
- identify when a query about VAT is beyond current experience or expertise and so should be referred to a line manager

### **4.2 Communicate information about VAT due to or from the tax authority**

Students need to be able to:

- specify relevant information regarding amounts due to or recovery of amounts from the UK's Revenue and Customs authority (HMRC)
- communicate the effects of the special VAT schemes on payment or recovery of VAT

This information has been sourced and adapted from: <https://www.aat.org.uk/find-a-course/aat-bookkeeping-and-computerised-accounting-courses/advanced-certificate-in-bookkeeping>