

Study Guide

# Accounting

**Grade 10**

# Contents

General Introduction .....	1
Introduction to Subject .....	1
Term 1	
Topic 1 Informal or indigenous bookkeeping systems .....	12
Overview .....	12
1 Concepts and management of resources.....	12
2 Determining prices.....	17
Topic 2 Ethics .....	19
Overview .....	19
1 Code of Ethics .....	19
2 Basic principles of ethics.....	19
Topic 3 Accounting principles .....	24
Overview .....	24
1 Accounting policy .....	24
2 Definition and explanation of GAAP principles .....	26
Topic 4 Internal control .....	29
Overview .....	29
1 Definition and explanation of internal control .....	29
2 Internal control processes .....	30
Topic 5 Financial accounting of a sole trader .....	35
Overview .....	35
1 Definitions and explanations of concepts .....	35
2 Bookkeeping of a sole trader .....	42
3 Accounting equation .....	113

## Term 2

<b>Topic 1 Value added tax.....</b>	<b>133</b>
Overview .....	133
1 Introducing Value-added tax .....	133
2 Basic VAT concepts .....	134
<b>Topic 2 Salaries and wages journal.....</b>	<b>138</b>
Overview .....	138
1 Glossary .....	138
2 Salaries.....	139
3 Wages .....	141
4 Deductions .....	142
5 Summary and analysis .....	155
<b>Topic 3 Financial accounting of a sole trader- year-end adjustments.....</b>	<b>157</b>
Overview .....	157
1 Closing transfers .....	157
2 Year – end adjustments.....	160

## Term 3

<b>Topic 1 Financial accounting of a sole trader- preparation of financial statements</b>	<b>186</b>
.....	
Overview .....	186
1 Introduction to Financial statements .....	186
2 Format of Financial statements .....	187
<b>Topic 2 Financial accounting of a sole trader- analysis and interpretation of</b>	
<b>financial statements .....</b>	<b>199</b>
Overview .....	199
1 Introduction to concepts.....	199
2 Ratios.....	200
<b>Topic 3 Cost accounting .....</b>	<b>212</b>
Overview .....	212
1 Introduction to cost accounting concepts.....	212

## Term 4

Topic 1 Budgeting .....	217
Overview .....	217
1 Introduction to budgeting .....	217
2 Budgeting concepts .....	218
3 Cash budget .....	219
Topic 2 Revision.....	227
1 Exam papers (June).....	227
2 Exam papers (November).....	239
Answers to questions.....	257
Answers to exam papers .....	314

# Introduction to Accounting

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Dear Learner

Welcome to Grade 10. On behalf of Via Africa we hope you are going to enjoy the journey with us. You will use some of the basic knowledge that you acquired in the senior phase. Our study guide will continue to guide you through your studies step-by-step. As you build your knowledge and develop the necessary skills, you will grow in confidence and find it easy to analyse and interpret the Accounting information. This study guide is filled with lots of different features and offers you many opportunities to practice what you learn. You will also see that throughout the manual you are encouraged to analyse, interpret and reflect on various aspects of Accounting. The critical outcomes – such as to communicate effectively, to make the right decisions and to behave as a responsible citizen – are woven into the many different activities and assessment opportunities.

## Study skills for grade 10 learners

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You constantly need to remind yourself that every exam you complete successfully takes you a step closer to entering your career of your choice. Good study skills are very important and will assist you in doing well at school.

### 1 What can I do to improve my concentration?

#### In class

- Go sit at the place in the class where you concentrate best. Stay away from the windows and friends.
- Make notes while the teacher teaches the class (especially with new concepts), do the example with the teacher and work out the calculations with the teacher while he/she is explaining. This will force you to concentrate, you won't get bored so easily and you will remember the work much better.
- Get actively involved in the lesson. Ask questions if you don't understand.
- Listen critically what the teacher says.
- Think: "Do I understand what the teacher is saying?"
- Ask yourself the following: "Can it be true?"
- "What does he/she mean?"
- "Is that the only solution?"

- If the teacher gives you homework, start doing it so you can ask questions if you don't understand.
- Make sure what you have to do for homework.

### **At home**

- Work through the example that the teacher did with you in the class.
- Read through your homework to see what is expected from you to do.
- Do your homework. Write down if there are concepts or part of the work that you don't understand that you can ask the teacher to help you with. Don't give up.
- Phone a friend who understands the work if you don't understand something (not to chat, but to help you).

## **2 Studying at home to prepare for a test or exam**

### **Create a study environment**

- Find a quiet place for studying.
- Tool-up the environment with all study needs.
- Create a work atmosphere – avoid relaxing while working.

### **When to study**

- Best when there are the least competing activities in progress.
- Best when rest periods are provided.
- Stop studying when fatigue or lack of concentration occurs.

### **How to study and concentrate**

- Set study goals before you begin for each period of study (number of pages, number of activities, etc.).
- Build a variety of subjects and interest into your study programme to remove boredom.
- Plan the length of your study period by the amount of material you have decided to cover, not by the clock (often the clock is one of the most serious distracters).
- Don't try to mix work and play.

## 3 Accounting study tips

### General tips

- It is important that you do your homework every day – don't copy.
- See every exercise as part of your preparation for the test/exam.
- Do your homework in pen and mark in pencil. After marking the exercise in class, always check your errors. Why did you make the mistake? If you do not understand, ask the teacher to help you.
- Know all the formats! You can't do any exercise if you do not know the formats.
- Internal control (auditing) and ethics must be integrated with all the topics. Know the theory and how to apply it to all the topics.
- Know all the formulas and ratios. Write them on a paper and stick it next to the mirror. Learn a few every day so when the test/exam comes, you will know your formulas and ratios. Know how to apply and interpret the ratios.
- In a calculation in accounting, always start at 100% - you either have to subtract or add.
- In the Financial Statements, if a transaction is recorded during the financial year, work from the end of the financial year. If a transaction is not recorded, work from the beginning of the year.
- Always work from the known to the unknown.

### How do you prepare for a test or exam?

- Drink lots of water while you study. Water provides oxygen for your brain, making it more receptive to concentrate and memorise information.
- Always get a good night's sleep before an exam – 8 hours of sleep.
- Do not start the day before you write the test/exam. You need to go back to your teacher to ask questions. You can also ask a friend to help you.
- Go back to all the exercises that you have done on a specific topic. Work through the mistakes you have made (pencil corrections). Make sure that you do not make the same mistake again.
- Choose an exercise or question from a previous year's paper and work through the exercise/question. If you are not yet confident that you understand the work, do more exercises. If you are confident with a topic, go to the next topic (don't waste time if you understand something).

### When you write an exam

- Have a good breakfast before you go to school.
- Don't let anybody ask you questions about the work just before you are going to write – it might confuse you! Talk to your friends about general things.
- Stick to the time limits for each question.
- Read each question carefully. Just do what is expected – if not, you are wasting time!

Hold on to your dreams/ ambitions/ hopes for the future: Picture yourself in a successful position- but realise that this will never happen if you do not put in the required effort and achieve the best possible marks.

- Dates are very important.
- Start a topic you feel confident with – you don't have to start with question 1.
- Apply your knowledge – the format of the question may be different to what you've been taught.
- Show all your calculations.
- REMEMBER YOUR CALCULATOR!

## 4 Accounting examination concepts

Concept	Explanation
Analyse	Identify parts/elements of a concept + describe one by one.
Calculate	Find the exact, correct answer.
Comment on	To make a written remark; especially giving an opinion.
Compare	Point out similarities AND differences between ideas/points of view.
Complete	Add missing information on the Answer sheet.
Contra account	Opposite account in the General Ledger.
Determine	To find the value/answer to certain givens. Generally by calculation.
Define	Give precise meaning of/word for word.
Demonstrate	Prove your understanding by giving examples/applied to real life situations.
Discuss	Comment on something in your own words (often debating two view points).
Evaluate	Judge something/express an opinion, using certain criteria.
Example	A practical illustration of a concept.
Explain	Clarify or give reasons for something, usually in your own words. You



	must prove that you understand the content. It may be useful to use examples or illustrations.
Extracted	Taken from
Instalment	Amount to be paid every month.
Omissions	Some information or an entry has been left out.
Premium	Amount to be paid every month.
Reversal	A cancellation of the original entry.
Refer to...	Look at additional information in some other part when answering.
Reflected	Something is shown.
Stale cheque	A cheque that is older than six months.
State	Give required information without discussing it.
Your own opinion	Anything relevant/intelligent, within the limits of universal truths will be given credit, but always SUBSTANTIATE, fully.

## Curriculum and assessment policy statement (CAPS)

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The following section is a summary of important information that you need to know about Accounting. Read it carefully before you prepare for tests/examinations. It will help you to see if you cover all the topics that you need to know.

### Introduction

Accounting encompasses accounting knowledge, skills and values that focus on the financial accounting, managerial accounting and auditing fields. These fields cover a broad spectrum of accounting concepts and skills to prepare you for a variety of career opportunities.

The table below indicates the main topics in the Accounting curriculum.

<b>Weighting of Curriculum</b>	<b>Topic</b>
Financial Accounting (weighting 50% to 60%)	Accounting concepts
	GAAP principles
	Bookkeeping
	Accounting equation
	Final accounts and financial statements
	Salaries and wages
	Value-Added Tax
	Reconciliations
Managerial Accounting (weighting 20% to 25%)	Cost accounting
	Budgeting
Managing Resources (weighting 20% to 25%)	Indigenous bookkeeping systems
	Fixed assets
	Inventory
	Ethics
	Internal control

### What does weighting mean?

At the end of the year (final exams), the paper will consist of financial accounting (between 50% to 60%), managerial accounting (between 20% to 25%) and managing resources (between 20% to 25%).

### Annual teaching plan

To prepare for the final examinations, see that you cover all the topics below.

<b>Term</b>	<b>Topic</b>	<b>Content</b>
1	Informal and indigenous bookkeeping systems	<p>Comparison of the bookkeeping systems of the informal and formal sectors:</p> <ul style="list-style-type: none"> <li>● Concepts</li> <li>● Management of resources (capital, fixed assets, stock, etc.)</li> </ul> <p>Process of determining selling prices, cost of sales, labour costs, income and expenses.</p>

	Ethics	<p>Explanation of the code of ethics applicable to all parties in the financial environment:</p> <ul style="list-style-type: none"> <li>● Code of ethics</li> <li>● Basic principles of ethics (leadership, discipline, transparency, accountability, fairness, sustainability, responsible management)</li> </ul> <p><i>Ethics should be integrated with other topics.</i></p>
	GAAP	<p>Definition and explanation of Generally Accepted Accounting Practice (GAAP) principles:</p> <ul style="list-style-type: none"> <li>● Historical cost</li> <li>● Prudence</li> <li>● Materiality</li> <li>● Business entity rule</li> <li>● Going concern</li> <li>● Matching</li> </ul> <p><i>Apply to all the relevant topics and link to topic 1 and 2.</i></p>
	Internal control	<p>Definition and explanation of what is meant by internal control.</p> <p>Identification and explanation of basic internal processes.</p> <p><i>Internal control should be integrated with other topics.</i></p>
	Financial accounting of a sole trader	<p>Definition and explanation of accounting concepts up to financial statements: Sole trader, Debit, Credit, Equity, Capital, Assets, Liabilities, Ledger, Journal, Loss, Value Added Tax, Income/Revenue, Expenses, Final accounts, Financial Statements, Discounts, Accounting cycle, Financial accounting, Managerial accounting, Perpetual Inventory System.</p>
	Bookkeeping of a sole trader	<p>Accounting cycle based on perpetual inventory system:</p> <ul style="list-style-type: none"> <li>● Revision of Grade 9 content</li> <li>● Source documents</li> <li>● Principles of double entry system</li> <li>● Journals</li> </ul> <p>- Cash Receipts Journal &amp; Cash Payments Journal (including loans, fixed deposits, interest income and</p>

		<p>interest expense, dishonoured cheques, discount allowed and discount received)</p> <ul style="list-style-type: none"> <li>- Debtors Journal, Creditors Journal, Debtors Allowances Journal, Creditors Allowances Journal.</li> <li>- Petty cash journal</li> <li>- General Journal (including bad debts, cancellations of discount on dishonoured cheques, interest on overdue accounts, correction of errors)</li> <li>- Posting to General, Debtors' and Creditors' ledgers</li> <li>- Trial Balance</li> <li>- Preparation of debtors' and creditors' lists to reconcile with the debtors' and creditors' control accounts (including correction of errors and omissions)</li> </ul>
	Accounting equation	<p>Analysis and an indication of the effect of transactions on the accounting equation of a sole trader.</p> <p>All transactions affecting a sole trader up to financial statements.</p> <p>This topic needs to be integrated with all the appropriate topics throughout the year.</p>
2	Value Added Tax (VAT)	<p>Explanation of the basic concepts of VAT:</p> <ul style="list-style-type: none"> <li>● Need for VAT</li> <li>● Purpose of VAT</li> <li>● Principles of VAT</li> <li>● Zero-rated items</li> <li>● VAT exempted items</li> <li>● VAT-able items</li> <li>● Current VAT rate</li> </ul>
	Salaries and Wages Journal	<p>Explanation, calculation and recording of salary and/or wage scales and payments in the journals and post to the ledger. This can be done manually or on a computerised spread sheet.</p> <ul style="list-style-type: none"> <li>● Normal time</li> <li>● Overtime</li> <li>● Deductions <ul style="list-style-type: none"> <li>- PAYE</li> <li>- Pension fund</li> <li>- Unemployment Insurance Fund</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>- Medical Aid</li> <li>- Union membership</li> <li>● Employer contributions</li> <li>- Pension Fund</li> <li>- Unemployment Insurance Fund</li> <li>- Medical Aid</li> <li>- Skills Development Levy</li> </ul> <p>Accounting equation</p> <p>Ethical conduct related to Salaries and Wages, e.g. contracts, payment in line with responsibilities, role of unions</p>
	<p>Financial accounting of a sole trader</p>	<p>Preparation of final accounts of a sole trader taking into account year-end adjustments</p> <p>Related concepts</p> <p>Application of GAAP principles</p> <p>Accounting equation</p> <p>Pre-adjustment trial balance</p> <p>Year-end adjustments:</p> <ul style="list-style-type: none"> <li>● Trading stock deficit/surplus</li> <li>● Consumable stores on hand</li> <li>● Depreciation (on cost price/straight line method, on diminishing balance methods)</li> <li>● Bad debts</li> <li>● Correction of errors/omissions</li> <li>● Accrued income (receivable)</li> <li>● Income received in advance (deferred)</li> <li>● Expenses prepaid</li> </ul> <p>Accrued expenses (payable)</p> <p>Post-adjustment trial balance</p> <p>Closing transfers</p> <p>Final accounts:</p> <ul style="list-style-type: none"> <li>● Trading account</li> <li>● Profit and Loss account</li> </ul> <p>Post-closing trial balance</p> <p>Reversal of certain year-end adjustments at beginning of next financial period, i.e. accruals, income received in advance and prepayments.</p>

3	Financial accounting of a sole trader – preparation of financial statements	<p>Preparation of financial statements of a sole trader taking into account year-end adjustments</p> <p>Related concepts</p> <p>Application of GAAP principles</p> <p>Accounting equation</p> <p>Year-end adjustments:</p> <ul style="list-style-type: none"> <li>● Trading stock deficit/surplus</li> <li>● Consumable stores on hand</li> <li>● Depreciation (on cost price/straight line, on diminishing balance methods)</li> <li>● Bad debts</li> <li>● Correction of errors/omissions</li> <li>● Accrued income (receivable)</li> <li>● Income received in advance (deferred)</li> <li>● Expenses prepaid</li> <li>● Accrued expenses (payable)</li> </ul> <p>Financial statements and notes:</p> <ul style="list-style-type: none"> <li>● Income statement</li> <li>● Balance sheet</li> </ul>
	Financial accounting of a sole trader – analysis and interpretation of financial statements	<p>Analysis and interpretation of financial statements and notes:</p> <ul style="list-style-type: none"> <li>● Gross profit on sales</li> <li>● Gross profit on cost of sales</li> <li>● Net profit on sales</li> <li>● Operating expenses on sales</li> <li>● Operating profit on sales</li> <li>● Current ratio</li> <li>● Acid test ratio</li> <li>● Solvency ratio</li> <li>● Return on equity</li> </ul>
4	Cost accounting	<p>Definition and explanation of basic cost concepts:</p> <ul style="list-style-type: none"> <li>● Direct labour</li> <li>● Indirect labour</li> <li>● Direct materials (raw materials)</li> <li>● Indirect materials</li> </ul>

		<ul style="list-style-type: none"> <li>● Factory overhead costs</li> <li>● Prime cost</li> <li>● Variable costs</li> <li>● Fixed costs</li> <li>● Work-in-process</li> </ul> <p>Application of principles of internal control Ethical behaviour related to a manufacturing business</p>
	Budgeting	<p>Define and explain basic budgeting concepts:</p> <ul style="list-style-type: none"> <li>● Cash budget</li> <li>● Zero base budget</li> <li>● Capital budget</li> <li>● Long term budget</li> <li>● Medium term budget</li> </ul>

### 3 Formal Assessment

The Programme of Assessment for Accounting in Grade 10 consists of seven tasks which are internally assessed. Of the seven tasks, the six tasks which are completed during the school year make up 25% of the total mark for Accounting, while the end-of-year examination is the seventh task and makes up the remaining 75%.

Formal assessment must cater for a range of cognitive levels and abilities of learners as shown below:

Cognitive levels	Activity	Percentage of Task
Knowledge and Comprehension Levels 1 and 2	Basic thinking skills (e.g. factual recall, low-level comprehension and low-level application)	30%
Application and Analysis Levels 3 and 4	Moderately high thinking skills (e.g. more advanced application, interpretation and low-level analysis)	40%
Synthesis and Evaluation Levels 5 and 6	Higher-order thinking skills (e.g. advanced analytical skills, evaluation and creative problem-solving)	30%

#### Important:

What does the above mentioned table mean for you?

Let us take the final examination at the end of the year. In each question all the levels must be catered for. These levels are not for the paper as a whole, but apply to each

question.



# Informal or Indigenous Bookkeeping

## Overview

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Topic 1 Page 12		Indigenous Bookkeeping systems
1	Page 12	Concepts and management of resources
2	Page 17	Determining prices

Overview – Indigenous bookkeeping

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## 1 Concepts and management of resources

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### 1.1 Informal accounting

If you walk in the street of a city or in a township you will see a lot of people selling goods or rendering a service. You will see people who sell vegetables, sweets, chips, cutting hair, have a Telkom line where people can phone, selling second-hand clothes, etc.

The capital used by these people is limited. They normally start with money that they put in the business for the first day and use the money that they receive for that day to buy stock for the next day. Their only labour costs will be that they sell enough goods to survive. Their aim is not to make a big profit but to survive every day and to have enough money to buy stock for the next day. All their stock is bought cash and they normally sell for cash. They keep a low inventory, for example, a person who sells vegetables buys just enough stock to sell for one day, they don't have a place to store their stock and will therefore buy vegetables again the next day. An advantage of this is that their stock is always fresh and the buyers don't have to buy a lot of goods but can buy in small amounts.

This type of business normally has little assets. They will maybe have a table that they can sell their goods from and do not have many expenses. The selling price can change often because it depends on the purchase price of the goods and the owner's decisions.

# Informal or Indigenous Bookkeeping

**Activity 1**

Think of any informal business you would like to start. Use the table below to plan and manage your business.

Capital needed	
Income per day	
Expenses per day	
Determine the cost of sales	
Determine the selling price	
Labour cost	
Fixed assets needed	
Stock kept	

# Informal or Indigenous Bookkeeping

Bookkeeping	
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## 1.2 Formal accounting

Accounting is a form of communication that is used to convey a specific message about the finances of a business. It is essential that the receiver of this message (the user of financial information) understands it otherwise the information will have no value.

In our daily lives various things are repetitive in nature (in other words, are always the same, although the results may be different if we react differently in each case). If we do not have guidelines to guide our actions, our actions may be inconsistent. People may perceive us as unreliable.

The same applies to Accounting. Various transactions are repeated every month and businesses should follow a certain (accounting) policy in order to ensure that all transactions are consistent. The Accounting policy is a set of decisions about the way a business deals with the same transactions in order to achieve consistent results. If each person developed his/her own driving rules, there would be chaos. For this reason, there are generally accepted rules.

In Accounting we experience the same problem. If each business were recording financial information in their own way, it would result in chaos in the economic world. Therefore, a system for the measurement and disclosure of the results of financial actions (transactions) was developed. This system is the general framework of accounting concepts, principles, methods and procedures collectively known as **GAAP (Generally Accepted Accounting Practice)**. This will be discussed in 4 in depth.

The Board for Accounting Practice plays an important role in South Africa by developing the GAAP principles and setting accounting standards. The setting of accounting standards is an effort to manage the available accounting practices and to set uniform and rigid rules applicable to all situations and transactions. This is to enhance the application of certain standards in financial reporting in order to eliminate undesirable alternatives.

# Informal or Indigenous Bookkeeping

Everyone working in a business uses financial information. We also have to understand enough financial information and accounting to be able to manage our personal finances (e.g. to draw up a personal budget). A system of accounting or bookkeeping helps a business to organise its financial data properly. The accounting system that businesses use have been developed so that people understand it, no matter what business they run or where they are in the world. Many activities take place in a formal accounting environment. Accounting activities are divided into the following three groups:

Financial accounting	Managerial accounting	Tools in managing resources
Financial accounting includes the logical, systematic, and accurate recording of financial transactions as well as the analysis, interpretation and communication of Financial Statements by understanding the fundamental concepts regarding basic accounting principles and practices.	Managerial accounting includes concepts such as costing and budgeting. It puts emphasis on analysis, interpretation and communication of financial and managerial information for decision- making purposes.	Tools in managing resources include basic internal controls and internal audit processes and code of ethics. It put the emphasis on the knowledge, understanding and adherence to ethics in pursuit of human dignity, acknowledging human rights, values and equity, in financial and managerial activities.

### Activity 2

Compare formal and informal (indigenous) accounting systems under the headings provided below:

INFORMAL	FORMAL
Capital	

# Informal or Indigenous Bookkeeping

Fixed assets	
Inventory	
Selling price	
Cost of sales	
Labour cost	
Income	
Expenses	

# Informal or Indigenous Bookkeeping

Credit transactions	
Bookkeeping	

## 2 Determining prices

### 2.1 Selling price and Cost of sales

- Cost price is the price the trader pays for goods bought for the purpose of resale.
- It is the price that the goods sold cost the trader and is known as the cost of sales.
- In order to make a profit when he sells the goods, the trader has to add an amount to the cost price. This profit is called the mark-up.
- The cost price plus the mark-up is known as the selling price. Every time an item is made (manufactured), costs are added to each step in the process.
- The entrepreneur has to adjust the selling price so that he makes profit.

#### **Cost Price (CP) + Mark Up (MU) = Selling Price (SP)**

To calculate the cost price when a percentage mark-up is given:

Cost price (CP) is always 100% (for calculation purposes)

Selling price (SP) = Cost price (CP) + Mark-up (MU)

#### **To find the CP:**

(CP) 100%

(SP) 100% + MU% × SP amount

#### **To find the SP:**

(SP) 100% + MU%

(CP) 100% × CP amount

# Informal or Indigenous Bookkeeping

## 2.2 Labour costs

The cost of labour can be either direct or indirect.

### 2.2.1 Direct labour

- Labour that is directly involved with the production of the product.
- Example: The cost of the labour for someone who makes the item to be sold.

### 2.2.2 Indirect labour

- Cost of labour not directly linked to the product produced.
- Example: The cost of labour for someone who is not directly involved with the making of the product such as the wages for a person who helps to clean up, or for a person who helps you to sell your beaded jewellery or an accountant.

## 2.3 Income

- Money that the entrepreneur (owner) earns for the business
- Examples: fee income (for selling services) or sales (for goods that the business sells).

## 2.4 Expenses

- Amounts that the entrepreneur has to spend on things like wages, salaries, telephone, water and electricity, stationery, etc. in order to run the business successfully.

All the above concepts will be discussed in depth during the course of the year.

## Overview

Topic 2 Page 19		Ethics
1	Page 19	Code of ethics
2	Page 19	Basic principles of ethics

Overview – Ethics

## 1 Code of Ethics

- A Code of ethics is a statement of norms and beliefs of the business, describing acceptable behaviour in the work place.
- It makes it possible for every person involved in the business to know and understand what is considered right and wrong in specific situations.
- Most codes will value honesty, integrity and diversity.

## 2 Basic principles of ethics

### 2.1 Ethical conduct

- The word *ethics* is defined as a set of moral principles of a profession according to which a person should behave.
- Both employees and employers have a responsibility towards themselves, fellow colleagues, clients and the profession to act morally and ethically.
- In any profession a set of rules should be laid down so that everyone knows what is acceptable.
- This ethical code of conduct should be drawn up in such a way that subordinates don't feel that rules are applicable only to them.
- Both employees and employers should be involved in setting up a code of conduct for a business.



# Ethics

## 2.2 Leadership

- Leadership is a position or state of being in control of a group of people or an organisation.
- A leader has to take control and people have to follow.
- Good leadership is visible when the followers obey the leader because they respect what the leader says and does.

## 2.3 Discipline

- Employees must work and behave in a controlled way and this involves obeying specific rules.
- The Code of ethics describes acceptable behaviour in the work place and consequences for incorrect behaviour.
- Employees who do not follow the Code of ethics will be disciplined.

## 2.4 Transparency

Transparency means that behaviour must be such that it is clear that you have nothing to hide.

## 2.5 Accountability

Being accountable means taking responsibility for what you say and do, and being able to justify your actions.

## 2.6 Fairness

Fairness is the quality of being reasonable and just. It means that you judge a situation objectively and without bias or any preconceived ideas. Customers or clients must feel that they are treated fairly.

## 2.7 Sustainability

All businesses need to act in a way that shows respect towards the environment and the use of resources. Sustainability makes a difference in the long term. Businesses should not waste resources or damage the environment.

# Ethics

## 2.8 Responsible management

Responsible management takes into account three important things, often called the 3 Ps:

**People:** A responsible manager considers all the stakeholders of the business – employees, suppliers and customers – and deals with them in an ethical way.

**Planet:** A responsible manager takes the environment into account and does everything possible to ensure that the environment is looked after and not destroyed.

**Profit:** A responsible manager ensures that the business makes the maximum profit, but only by using ethical practices.

## 2.9 Integrity

Integrity can be defined as honesty, efficiency, sincerity, honesty towards oneself, the upholding of values and norms. Success in a business can only be achieved when employees and clients respect the integrity of the business and the integrity of the business is reflected in the management and leaders. Why is integrity important for managers?

It builds confidence – when people know that managers don't use their position to enrich themselves through the business, confidence, loyalty and support will grow. This influences others – the managers conduct influences amongst others the employees and employers. His/her character determines the character of the business. It creates high standards – the manager's integrity will set a positive example for employees. Remember, people do what people see.

## 2.10 Confidentiality

Most information in a business should be kept confidential. It is important that employees should not leak information that is intended only for the business to people outside the business. For example: the manager has to make decisions about a large contract that the business might obtain. If this information is disclosed to people outside the business, a rival business might use the information to obtain the contract. Employees who are disloyal towards the business will share confidential information with people who should not have access to it.

# Ethics

## 2.11 Objectivity

Objectivity is described as the ability to act in an unbiased way. This means that you should not be influenced by personal feelings and preferences.

An objective person makes decisions based on true facts and not based on his/her personal feelings. An objective person will be fair and unbiased in carrying out his/her duties and will not be influenced by others.

## 2.12 Professional ability and proper care

When offering professional services, one offers one's knowledge, skills, experience, care and diligence. Professional people should not render services for which they are not qualified unless they can obtain advice and assistance. Professional people should maintain a high standard of professional knowledge and skills so that a client and employer have the advantage of qualified professional services in line with the most recent practical, legal and technical developments.

## 2.13 Professional conduct

This concerns the conduct in the workplace of all the people connected to an enterprise. At all times a person should conduct himself in such a way that his/her behaviour doesn't have a negative influence on the enterprise. An employee must be polite and show consideration towards all parties with whom he/she has contact in the enterprise.

## Ethics

### 2.14 Technical standards

Each employee should have all the relevant technical and professional skills that his/her position requires. All tasks assigned to employees by their employer should be carried out with integrity. These should also conform to all the technical and professional standards that are laid down by the enterprise, the authorities concerned and applicable legislation.

#### Important:

- Ethics will be integrated with all the topics and will continuously be assessed as we advance with the Study Guide.
- When you answer ethics questions, pretend that you are working in the business and apply the principles you have studied to the workplace.







#### Activity 1 (Ethics – Matching columns)

Choose a word or term from column B that best suits the definition in column A.

Column A	Column B
1 ... can be defined as honesty, efficiency, sincerity, honesty towards oneself, the upholding of values and norms.	A Accountability B Transparent C Integrity D Objectivity
2 Taking responsibility for what you say and do, and being able to justify your actions.	
3 Behaviour must be such that it is clear that you have nothing to hide.	
4 The ability to act in an unbiased way.	

# Accounting principles (GAAP)

## Overview

Topic 3 Page 24		Accounting principles
1	Page 24	Accounting policy
2	Page 26	Definition and explanation of GAAP principles
		 1 Historical cost
		 2 Prudence
		 3 Materiality
		 4 Business entity rule
		 5 Going concern
		 6 Matching

Overview – Accounting principles

## 1 Accounting policy

In our everyday life we often come across circumstances that are repetitive in nature (always the same) but may in each instance have different results if we were to act differently. If we do not have guidelines to indicate how we should act, our actions may be inconsistent.

If we have guidelines as to how we should act in certain circumstances, we are determining a policy which will result in consistent actions.

The same applies to accounting. We often find repetitive transactions and consistency require that a business should determine an accounting policy according to which they can manage such transactions. Thus, accounting policy is a set of decisions about the way in which a business will manage the same types of transactions in order to achieve consistent results.

### 1.1 Publicising the accounting policy

As the accounting policy represents a business's decisions on factors that could be managed in different ways, it is necessary that the business publicises the accounting policy it will use in its Financial Statements. A business should for example, indicate how depreciation of Vehicles and Equipment will be calculated.

# Accounting principles (GAAP)

## 1.2 Generally accepted accounting practice (GAAP)

If each person were to develop his or her own language or grammar rules, it would cause communication chaos. For this reason we have generally applicable grammar rules.

Accounting, as a special system of communication, has exactly the same problem. If each business were to present Financial Statements according to its own theory and principles, chaos would erupt in the economic and business world.

For this reason a basis has been developed for measuring and presenting the results of financial events (transactions).

This basis is a general framework and includes accounting concepts, principles, methods and actions known as **Generally Accepted Accounting Practice (GAAP)**. From now on we are going to use the abbreviation **GAAP**.

In RSA the Accounting Standards Board plays an important role in the development of GAAP by setting certain accounting standards. By setting these standards for certain events (e.g. presenting tax in the Financial Statements), the objective is to limit the variety of available accounting practices without striving towards strict uniformity or a set of rigid rules. The objective of accounting standards is to promote general application of certain issues in Financial Statements and to eliminate unacceptable alternatives.

After being approved by the Accounting Standards Board the standards are published in a series of publications, called accounting standards. After 1994 we became part of the **International Financial Reporting Standards (IFRS)**. A business will use the IFRS to prepare their Financial Statements. It is important to note that that GAAP/Accounting Standards change constantly in order to keep up with changes in the business world.

These statements are issued by the **South African Institute of Chartered Accountants (SAICA)**. SAICA is a professional body that is responsible for training and developing the accounting profession.

The following factors affect the way in which the Financial Statements are presented. You must ensure that you understand these concepts clearly as they will assist you when you have to draw up the Financial Statements of a sole trader.

# Accounting principles (GAAP)

## 2 GAAP Principles

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### 2.1 Historical cost

The concept historical a cost means that assets purchased by a business must be recorded in the books at cost price (purchased price).

*Example:*

If we bought Land and buildings three years ago at a total cost of R500 000 and entered it into the books at that price and the asset is re-valued today at R650 000, the amount that will be entered in the Financial Statements will still be R500 000 (the price that we originally bought it for).

### 2.2 Prudence

This is also known as the principle of conservatism. When the accountant is uncertain about the value of an element or event (assets/liabilities/income/expenses), the prudence principle must be applied. This means that the accountant who prepares the Financial Statements should be conservative in their approach to these uncertainties. The value that has the least influence on the equity of the business must be used.

*Example:*

If a debtor is in financial difficulty, the accountant may write his account off even though the business will continue to do everything possible to receive the money the debtor owes them.

### 2.3 Materiality

The materiality principle demands that all important (large) transactions and events should be indicated separately in the Financial Statements, as these may influence decision-making. Unimportant amounts need not to be indicated separately, but should be added to other amounts of similar nature or functions.

Here is also another part that is important. The accountant will be conscious of whether an adjustment entry will be important (material) to the financial results of a business. An adjusting entry might be omitted if the amount is regarded as insignificant.

*Example:*

All interest expense items should be shown separate in the Financial Statements as this will be important (material) to a decision on how to raise additional funds.

## Accounting principles (GAAP)

### 2.4 Business entity rule

The objective of accounting is to present information about the financial situation of a specific business or individual. Such a business or individual is known as an entity. The concept entity refers to a unit that exists independently and can be clearly defined.

The financial affairs of the business must be kept separately from the financial affairs of the owners. The business must have a separate bank account and in the Financial Statements of the business no transactions of the personal affairs of the owner will be showed.

*Example:*

If the owner inherited R500 000 from his/her grandfather, the money will be deposited in the owner's personal bank account and not in the business's bank account.

### 2.5 Going concern

The concept going-concern means that an entity (business) will continue to exist for a certain period and that the Financial Statements of a business are prepared as though the business will continue to exist for some time.

*Example:*

Stock, fixed deposit and land and buildings are not valued on the basis of the amount that would be received for them if they were sold immediately.

### 2.6 Matching

All transactions or events that take place during a certain financial period must be recorded in the books during that financial period – irrespectively of when the cash is received or paid. Income and expenses incurred in order to receive such income, need to be brought into account during the same period. This implies that expenses incurred in order to create income, must be 'matched' to that income during the present financial period.

*Example:*

If a building is rent from somebody and we only paid R55 000 (R5 000 per month) for 11 months, the R5 000 will be match with the R55 000 because it is part of this financial year. The amount recorded in the Financial Statements will be R60 000.



## Accounting principles (GAAP)

### Important:

- These GAAP principles will be integrated with all the topics and will continuously be assessed as we advance with the Study Guide.
- Make sure you understand all the GAAP principles because they form the base of all accounting activities.

### Activity 1 (Accounting principles – Matching columns)

Choose a word or term from column B that best suits the definition in column A. A word or term may be chosen more than once.

Column A	Column B
1 All transactions or events that take place during a certain financial period must be recorded in the books during that financial period – irrespectively of when the cash is received or paid.	A Going concern B Historic cost C Business entity rule D Matching principle E Prudence principle F Principle of materiality
2 An entity (business) will continue to exist for a certain period and that the Financial Statements of a business are prepared as though the business will continue to exist for some time.	
3 Assets purchased by a business must be recorded in the books at cost price (purchased price).	
4 The accountant preparing the Financial Statements should be conservative in their approach to uncertainties by using the value that has the least influence on the equity of the business.	
5 The financial affairs of the business must be kept separately from the financial affairs of the owners.	
6 All important (large) transactions and events should be indicated separately in the Financial Statements, as these may influence decision-making.	
7 Bad Debts written off is an example of this principle.	
8 Interest expense has to appear separate to a Bank overdraft account in the Financial Statements.	
9 Vehicles recorded at cost price.	
10 The owner of the business cannot list his Mercedes for personal use as a business asset.	

# Internal Control

## Overview

Topic 4 Page 29	Internal control
1 Page 29	Definition and explanation of Internal control
2 Page 30	Internal control processes
	➤ 1 Stock control
	➤ 2 Control over debtors
	➤ 3 Control over creditors
	➤ 4 Control over fixed assets
	➤ 5 Control over consumable goods
	➤ 6 Control over cash

Overview – Internal control

## 1 Definition and explanation: What is internal control?

Internal means it is within itself, in other words, what can the management do within a business. Control means to have full authority something. Internal control in the business is what management can do to exercise authority over all activities within the business so that maximum profit can be obtained.

It is not only the managers/owners responsibility to have control over the business, but all employees have the responsibility. Everybody in a business must be involved in putting successful control measures in place.

*To apply control, the following processes must be followed:*

- Decide on short-term and long-term objectives.
- Gather information about the strong points and the shortcomings of the business.
- Analyse the strong points and the shortcomings of the business.
- Act against shortcomings.

# Internal Control

## 2 Basic internal control processes

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In order to maintain these processes, control must be kept over the following:

### 2.1 Stock control

- The place where goods are stored must be safe from natural disasters (rain, wind, etc.).
- The goods must be stored in such a way that the risk of burglary is minimised.
- All stock must be insured.
- Stock lists must be kept up-to-date.
- Sufficient stock must be kept, not too much or not too little.
- Documents must be completed for stock purchased.
- Documents must be completed for all stock issued to the sales department.
- Regular stocktaking must be done.
- The sales department must stay in contact with the warehouse to ensure enough stock is on the shelves.
- The sales department must keep track of how much stock is returned by clients, to ensure that the packaging used, is the best packaging. If necessary, alternative packing material must be used.
- It is important that orders placed by clients contain the correct stock and that it is correctly packaged.
- The purchasing department must look at the time of the year in order to keep the correct amount of stock. The time of year will have an effect on stock kept. (The Christmas season would need more stock than at other times of the year).
- If stock is kept too long, a sale may prevent possible losses.
- Separation of duties so that there is only one person involved with each activity. The more people are involved, the easier it is to point fingers. This prevents theft of stock by staff members, fraud and corruption.

# Internal Control

## 2.2 Control over debtors

- Debtors must be selected carefully. Investigate whether they are creditworthy, etc.
- A complete record of transactions must be kept.
- Every debtor must have an individual account and the accounts must be kept up to date.
- Send out regular statements of accounts.
- Give discount to debtors who pay their accounts regularly.
- If a debtor's account is overdue for a certain period, interest on the account must be levied.
- Try to limit bad debts.

## 2.3 Control over creditors

It is important that the purchasing department to look at the following, if and when they decide on a supplier:

- Can the supplier provide goods on a regular basis?
- Does the supplier give trade discount?
- What is the supplier's payment period?
- Does the supplier give discount when accounts are paid on time?

All items that are received from a supplier must be accompanied by necessary documentation. The clerk at the warehouse must do the following:

- See that the goods on the invoice correspond with the items that have been delivered.
- Check whether any goods are damaged.
- If it happens that problems occur frequently with a supplier, an alternative supplier must be found.

## 2.4 Control over fixed assets

Fixed assets are purchased by the business for use in the business. Before any fixed assets are purchased, the purpose of the purchase must be investigated. Fixed assets consist of Land and buildings, vehicles and equipment. The internal control over each asset will be discussed.

# Internal Control

## 2.4.1 Land and Buildings

Before the business is started, it must be decided whether the business will buy or rent a building. This will depend on the type of the business.

The following control must be kept over land and buildings:

- The building must be located in a place where the worth of the building will not decrease.
- The building must be maintained on a regular basis, so that no big expenses occur at a later stage.
- The building must be insured against natural disasters.

## 2.4.2 Vehicles

A proper investigation must be done to see what the needs of the business are and whether a vehicle will satisfy those needs.

The following control must be kept over vehicles:

- Write the depreciation off on vehicles at a rate and method that is suitable for the lifespan of the vehicle.
- Vehicles must be maintained.
- Look at technological changes and adapt accordingly.

## 2.4.3 Equipment

A proper investigation must be done to determine the purpose of the equipment.

The following control must be kept over equipment:

- Look at the lifespan of equipment and determine the method and rate at which depreciation will be written off.
- There are constant technological changes, e.g. computers. The business must remain up-to-date.
- Equipment must be maintained.

## 2.5 Control over consumable goods

Consumable goods consist of stationery, fuel and packing material. Control and management must be kept over these goods. A responsible person must be appointed to manage these items. This person's responsibilities are:

- to keep stock of all items.
- to keep sufficient stock of all items
- to record all purchases and goods issued.

# Internal Control

## 2.6 Control over cash

Money is the means of exchange that is used to do business. Money takes on many forms: notes, coins, credit cards, cheques, etc. All participants must be well informed and they must know the responsibility that goes with handling money. The following journals are relevant to cash:

### 2.6.1 Cash Receipts Journal

The internal control for all cash receipts must make sure that cash being received is received by a responsible person and recorded in the books as soon as possible. It must also be deposited in the bank as soon as possible. The following procedures must be followed:

- a document must be issued for all cash received.
- Cash received must be recorded in the cash receipts journal.
- Cash must be kept in a safe place until it is deposited.
- Monthly bank statements must be checked so that changes in the books can be made – this is also a measure to see that there was no fraud.
- Separation of duties so that there is only one person involved with each activity. The more people are involved, the easier it is to point fingers. This prevents theft of stock by staff members, fraud and corruption.

### 2.6.2 Cash Payments Journal

All cash paid out must be done by cheque (excluding petty cash payments). Usually when a cheque is issued, two signatures are needed for safety reasons. The following are procedures that must be followed:

- All cheques that are issued must be kept in a safe place.
- All cheques issued must be entered in the Cash Payments Journal in consecutive numbers.
- Blank cheques must never be signed.
- At the end of the month, the Cash Payments Journal must be compared with the bank statement and all necessary corrections done - this is also a measure to see that there was no fraud.
- Separation of duties so that there is only one person involved with each activity. The more people are involved, the easier it is to point fingers. This prevents theft of stock by staff members, fraud and corruption.

## Internal Control

### 2.6.3 Petty Cash Journal

A responsible person must be appointed to do the petty cash payments. Petty cash payments are small amounts that are paid. The following procedures must be followed:

- The petty cash must be kept in a locked petty cash box and kept in a safe place.
- Petty cash payments must be recorded in the Petty Cash Journal.
- As far as possible two people has to sign for any petty cash payments.
- As far as possible an external document must be attached to the petty cash voucher.

#### Important:





- These internal control measures will be integrated with all the topics and will continuously be assessed as we advance with the Study Guide.
- Make sure you understand all the internal control measures.
- Don't try to study all the internal control measures all at once. Study two or three and make sure that you can apply it before you attempt to study more.
- When you answer questions on internal control measures, try to pretend that you are working in the business to apply the measures that you have learnt. Think logically.

#### Activity 1 (Internal control)

Moses Mngadi has a delivery service business called MM Deliveries. He has five drivers who deliver orders for businesses to customers. Some drivers also run personal errands with the business transport. This increases fuel cost and risks of theft and damage for Moses' business. Suggest which control measures Moses can put in place to save on expenses and also reduce risk.

# Financial accounting of a sole trader

## Overview

Topic 5	Page 35	Financial accounting of a sole trader
1	Page 35	Definition and explanation of accounting concepts
2	Page 42	Bookkeeping of a sole trader <ul style="list-style-type: none"> <li> 1 Journals</li> <li> 2 Ledgers</li> <li> 3 Trial balance</li> <li> 4 Financial statements</li> </ul>
3	Page 113	Accounting equation

Overview – Financial accounting of a sole trader

## 1 Definition and explanation of accounting concepts

### 1.1 Forms of ownership

When an individual decides to open a business, he/she has to consider the capital available and the capital needed to choose the form of ownership of the business. Other factors such as the control over the business as well as liability of the owner and continuity of the business also need to be considered. Some forms of ownership include:

- Sole proprietor (trader) – this is a one man business which means that the owner has full control over the business. One person cannot contribute a lot of capital on their own. The profit made goes to the owner.
- Partnership – 2 to 20 partners can start a partnership which means that all partners who are involved have a say in the business. The business can have more capital because more partners can put their money together to start a partnership. Profit is shared amongst the partners.
- Companies – People who are the owners of a company buy a part of the company. This is commonly known as buying shares. Many shareholders make up the owners of a company. A company can therefore have a lot more capital because so many people can contribute. Profit is known as dividends and shared amongst the shareholders.

In grade 10 we are going to concentrate on a sole proprietor. One person brings in all the money and share all the profits or losses.



## Financial accounting of a sole trader

A person who wants to start a sole proprietor has to choose between a business that renders a service or a business that sells goods. It all depends on what the main source of income is. In a service business, the main source of income is fee income or commission income (for example, doctors, plumbers, garden services, etc.)

A retailing business buys finished products (products that are manufactured and ready to be sold), adds a profit and sells it to make a profit (for example, a grocery store, clothing business, etc.)

### 1.2 Accounting concepts

In 3, we stipulated that accounting has certain rules to follow. In accounting there are three broad concepts, assets, owners' equity and liabilities. Before we discuss these concepts, you have to have clarity on the concepts accounting period, current financial year, short-term and long-term.

The **accounting (financial) period** is a period of twelve months. The period does not have to coincide with a calendar year, but it may. An accounting period can be from the 1 July one year and ends on the 30 June the following year. The government financial year starts on the 1 March and ends on 28 February. A lot of businesses use this period for tax purposes.

To explain the concepts **current financial year**, **short-term** and **long-term**, we use the following example. Suppose that the accounting period of a business is from 1 January 2011 to 31 December 2011.

- The current financial year = 1 January 2011 to 31 December 2011.
- Short-term = 1 January 2012 to 31 December 2012. (within a financial year of 12 months)
- Long-term = 1 January 2013 onwards. (longer than a financial year of 12 months)

**The concepts Assets, Liabilities and Owners' equity:**

## Financial accounting of a sole trader

### 1.2.1 Assets

Assets are the possessions of a business. There are two types of assets:

Non-current assets = long term

Current assets = short term

#### Non-current assets

Non-current assets consist of **fixed assets/tangible assets** and **financial assets**.

#### *Fixed assets/Tangible assets*

Fixed assets are possessions purchased by the business with the aim of using them for longer than a year. These assets are permanent in nature and are not purchased for the purpose of resale. They are also used in the process of generating an income for the business.

- Land and buildings – factory, store room, house, house, shop, etc.
- Vehicles – motor cycle, motor vehicle, delivery vehicles, etc.
- Equipment – furniture, cash register, computer, shelves, etc.

#### **Important:**

Fixed assets are always entered in the books at cost price (purchased price). This is an important **accounting principle**. If the business purchased Land and Buildings on 1 March 2008 for R500 000 and the Land and Buildings are re-valued on 1 March 2011 at R650 000, the original (historical) amount of R500 000 will still be entered in the books. Installation costs are part of the cost price. Example: If a business purchased computers for R32 000 and there are installation costs of R5 000 involved, the amount entered in the Equipment account will be R37 000 (R32 000 + R5 000).

#### *Financial assets*

If the business is doing well and there are cash to spare, this money can be invested for a certain period at a fixed interest rate. This asset is called a fixed deposit or an investment. The original amount invested at a financial institution will be the financial asset and the interest earned on the fixed deposit will be an income for the business.

# Financial accounting of a sole trader

## Current assets

Current assets are assets that can be converted to cash within one year. These assets are short-term assets and are temporary in nature.

- Trading stock – goods or merchandise acquired at a specific price and sold at a specific price after profits have been added. **Trading stock is always entered in the business books at cost price.**
- Debtors – when the business sells goods on credit, the debtors are the people who owe money to the business.
- Bank – the money in the business's bank account referred to as a favourable/debit bank balance.
- Cash float – this is cash, in small denominations, kept in the cash register and used to give change to the customers.
- Petty cash – cash used to make small payments.

## 1.2.2 Liabilities

Money owed to an enterprise or a financial institution. There are two types of liabilities:

- Non-current liabilities = long term
- Current liabilities = short term

## Non-current liabilities

Should the business need money to buy, for example, a vehicle, it may borrow the money from a financial institution. It usually takes longer than a year to repay this liability and it would be repaid at a certain interest rate per year. A loan is an example of a long-term liability. Interest is payable on a loan. The original loan amount is a liability and the interest on paid on the loan, is an expense.

## Current liabilities

These liabilities are usually paid for within one year. The following are examples of current liabilities:

- Creditors – if the business purchases trading stock on credit, the supplier to which the money is owed is called a creditor.
- Bank overdraft – should the business experience a cash flow problem, an overdraft facility is negotiated with the bank. In this instance, the bank is a liability to the business.

## Financial accounting of a sole trader

### 1.2.3 Owner's Equity

Money/capital invested in the business by the owner. This is the owner's interest in the business. The owner can increase his capital contribution by depositing cash in the business, fixed assets or trading stock. Money, fixed assets or trading stock withdrawn by the owner during the year is called drawings. Drawings decrease the owner's equity.

The aim of the business is to make a profit. In order to make a profit, the business must do business or deliver a service in order to generate a certain income. In order to gain this income, the business should incur certain expenses. The income and expenses will have an influence on the owner's equity in the business.

#### Important:

An important accounting principle is applicable here, namely the **business entity** principle. The owner and the business are two separate entities. Thus, the bookkeeping of the business and that of the owner should be kept strictly separate.

#### *Example:*

The owner wants to take out insurance for his wife's vehicle. He is not allowed to pay this out of the business funds; he has to pay it out of his personal funds.

### Operating expenses

One needs money in order to run a business. Employees should be remunerated. Necessary services also need to be paid for, e.g. water and electricity and telephone bills. If the business does not own a building, a building needs to be rented.

Operating expenses consists of:

- Payments for services delivered to the business, such as rent, wages and salaries.
- Consumables used in the business, such as stationery, packing material and fuel.
- Cost of sales – the cost price of goods sold is an expense and decreases the profits and eventually the equity.

*Operating expenses have an influence on the profit of the business. Operating expenses decreases owner's equity.*

## Financial accounting of a sole trader

### Income

There are two ways in which a business can gain income:

- Current income – by delivering a service, e.g. plumbers, doctors, etc.
- Sales – a trader delivers a service by purchasing goods and selling the same goods at a profit, e.g. a grocery store.

The two ways in which a business can gain an income, will be the main source of income. There can be other ways that a business can gain income. An example is that the business can rent out part of the building to a third party. The income gained will be an operating income.

*The takings received from the income influences the business's profits. Income increases profits, resulting in an increase of owner's equity.*

#### Important:

In the discussion about income and expenses we talked about operating income and operating expenses. What does the word **operating** mean? "Operating" refers to the daily transactions that happen in the business.

#### *Example: Expense*

The water and electricity used in the business is a daily expense and therefore an operating expense. But, if the business took out a loan and the interest paid on the loan is not a daily expense, this expense is not part of the operating expense of the business. This will be discussed in depth when we do the Financial statements.

#### *Example: Income*

If a business renders a service, the income received is a daily income and will be an operating income. But, if the business invests money on a fixed deposit, the interest received from the fixed deposit is not part of the daily activities of a business and interest on fixed deposit is therefore not an operating income. This will be discussed in depth when we do the Financial statements.

## Financial accounting of a sole trader

Activity 1		
Complete the following table. Indicate whether the concept is an income, expense, fixed asset, financial asset, current asset, non-current liability or current liability.		
Nr	Concepts	Answer
1	Vehicles	
2	Capital	
3	Cost of sales	
4	Packing material	
5	Bank overdraft	
6	Fixed deposit	
7	Drawings	
8	Equipment	
9	Stationery	
10	Loan	
11	Favourable bank balance	
12	Sales	
13	Land and buildings	
14	Cash float	
15	Debtors' control	
16	Trading stock	
17	Interest on fixed deposit	
18	Creditors' control	
19	Interest on loan	
20	Services rendered	

### 1.3 Accounting equation

The following equation can be deduced from the accounting concepts:

$$\text{ASSETS} = \text{OWNER'S EQUITY} + \text{LIABILITIES}$$

OR

$$\text{OWNER'S EQUITY} = \text{ASSETS} - \text{LIABILITIES}$$

OR

$$\text{LIABILITIES} = \text{ASSETS} - \text{OWNER'S EQUITY}$$

## Financial accounting of a sole trader

### Activity 2

Use the accounting equation to work out the missing amounts.

Nr.	A	O	L
1	R380 000	R?	R120 000
2	R?	R648 000	R240 000
3	R810 000	R520 000	R?
4	R?	R140 000	R60 000
5	R735 000	R?	R40 000
6	R450 000	R380 000	R?

### Activity 3

Complete the following activity to fill in the missing words.

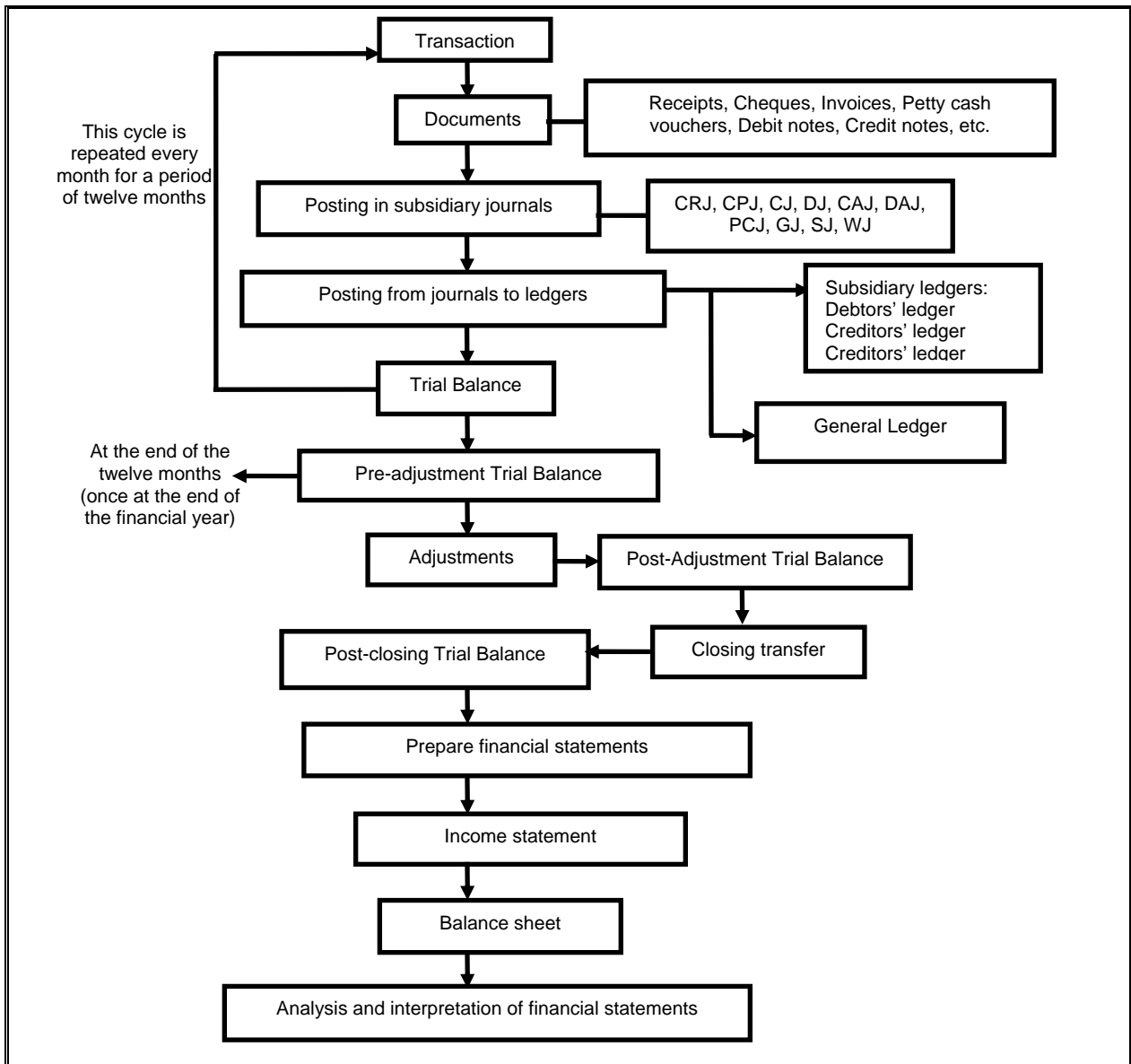
- 1 Trading stock is always entered in the books at .....
- 2 Land and buildings will be shown in the books of a business at the purchased price. Which accounting principle is this based on? .....
- 3 Income and expenses have an influence on the ..... of the business.
- 4 Persons to whom the business owe money are known as .....
- 5 An asset purchased by the business with the aim of changing it into cash within one year, is a ..... asset.
- 6 If bank is overdrawn, it is .....
  
- 7 Which accounting principle does the following statement apply to? “The bookkeeping of the business and that of the owner should be kept strictly separate” .....
- 8 The aim of any business is to make .....
- 9 A ..... buys finished products (products that are manufactured and ready to be sold), adds a profit and sells it to make a profit.
- 10 Non-current assets consist of ..... and .....

# Financial accounting of a sole trader

## 2 Bookkeeping of a sole trader

### 2.1 The Accounting cycle

The accounting cycle starts with entering data in the source documents and ends with the preparation of Financial statements at the end of the relevant financial period.



The accounting cycle should always be taken into account. The first five steps, namely, the transactions that take place up to preparing a Trial balance will be discussed in this unit. These steps take place every month. At the end of the financial period, Financial statements need to be compiled. This will be discussed later this year.

Let us look at the first five steps.



# Financial accounting of a sole trader

## Step 1 Transactions

No matter what type of enterprise is started, everything that happens in a business must be recorded. All activities involving monetary value that take place between the business and other enterprises, must at some point be recorded in the books of the enterprise. These activities are known as transactions.

## Step 2 Documents

Proof must be given that these transactions have already taken place. The evidence of these transactions is known as source documents. Examples of source documents include receipts, cheques, deposit slips, bank statements, invoices, debit notes and credit notes. The information on these documents must be recorded in the books of the business.

## Step 3 Subsidiary books (Journals)

Many recurring transactions take place on a regular basis and therefore businesses use journals to group similar transactions together. A journal is also known as the book of first entry because a journal is the first place a transaction will be recorded in from a source document.

From the different documents, it will be recorded in the following journals:

- Cash Receipts Journal

All the money received will be entered in the Cash Receipts Journal.

Examples: Cash sales of merchandise, rent income, capital contribution by the owner and payments received from debtors.

- Cash Payments Journal

All money paid out by the business per cheque is recorded in the Cash Payments Journal.

Examples: salaries and wages to employees, water and electricity, stationery, payments to creditors, trading licence, bank costs.

- Debtors Journal

To increase your turnover, a business can decide to sell goods on credit. All credit sales will be entered in the Debtors' Journal. An original invoice will be issued to the debtors and the duplicate invoice will be used to enter the transactions in the Debtors Journal.

## Financial accounting of a sole trader

Before credit can be granted to a client, the business must ensure that the client is creditworthy. A client is creditworthy when it is likely that he can pay his debt. The credit limit should be set, in other words, the maximum must be determined for which the client may purchase on credit.

For each person who buys on credit from the business, an account is opened. At the end of the month, after all transactions have been posted, a schedule of debtors should be prepared. A schedule shows all the balances owed to the business by debtors at the end of the month. This total should correspond with the balance of the Debtors' control account at the end of the month in the General Ledger

- Debtors' Allowances Journal

When goods are sold on credit, the buyer can decide to return the goods or demand an Allowances on the amount owed. The business must investigate the reason why the goods were returned or why an Allowance is demanded. When Allowances is demanded, goods are not returned to the business. This means that the cost price of the goods sold is not affected (Leave the Cost of sales column open).

All duplicates of credit notes are used to make entries in the Debtors' Allowances Journal.

- Creditors Journal

There might be a need in the business to keep cash in the bank in order to receive interest, and to make credit purchases. If a business wants to make purchases on credit, it must decide on suppliers who ask the best prices and offer the best credit period.

If the business buys on credit, it will receive the original invoice together with the purchase. As different suppliers are used, the invoices will have different numbers. This implies that the invoices should be re-numbered so that the credit purchases can be numbered in number sequence in the business's books. Re-numbering is done according to the dates of the invoices. The original invoices will be used to enter the transactions in the Creditors' Journal.

For each credit provider where the business buys on credit, an account is opened. At the end of the month, after all transactions have been posted, a schedule of creditors should be prepared. A schedule shows all the balances that the business owed to creditors at the end of the month. This total should correspond with the Creditors' control account at the end of the month in the General Ledger.

## Financial accounting of a sole trader

- Creditors' Allowances Journal

If trading stock, assets and consumable stores are bought on credit, they can be returned to the trader. Reasons may include:

- a The wrong trading stock was delivered.
- b The trader did not give trade discount on the invoice.

Example: When trading stock is returned or discount is demanded, a debit note is issued to the trader. The original debit note is sent to the trader and the duplicate debit note (source document) is used to record the transaction in the Creditors' Allowances Journal. The trader will send a credit note to the business in recognition of reception of the debit note and that the business' account will be altered accordingly.

- Petty Cash Journal

The Petty Cash Journal is used to make small cash payments. Each payment that occurs is written down on a petty cash voucher (source document) and authorised by the petty cash cashier and a senior manager of the business. Where possible, all external source documents should be attached to the petty cash voucher.

- General Journal

All other transactions that are not recorded in the above mentioned journals will be entered in the General Journal.

### Step 4 Ledgers

The summarised information in each journal is entered in the relevant ledger accounts. For each debtor a debtor' ledger account needs to be opened and for each creditor a creditors' ledger account needs to be opened.

### Step 5 Trial balance

A Trial balance is a list of entries made on the debit and credit sides of the ledger accounts. A Trial balance is prepared at the end of each month.

*NOTE: Some of the accounting steps need more discussion.*

# Financial accounting of a sole trader

## 2.2 Inventory systems

There are two ways in which a business can keep record of the inventory in the business, namely the continuous inventory system or the periodic inventory system. Which system should be chosen and which system is the better?

The system used depends on the nature of the business, the type of goods sold and the level of computerisation in the business. A continuous inventory system allows a business to keep record of the stock levels of the various items sold by the business. This method is especially suited for a business that sells goods that are easily identifiable and measurable or of which the value could easily be determined. The use of scanners or bar codes makes it much easier for these businesses to calculate inventory. If a business sells goods that are not easily identifiable or measurable, or of which the value cannot be easily determined (e.g. a cafe), it should use the periodic inventory system. In grade 10 you have to know the continuous inventory system and in grade 11 the periodic inventory system.

## 2.3 Subsidiary books/ journals

### 2.3.1 Cash Receipts Journal

#### Explanation of Cash Receipts Journal:

(This explanation must be studied together with the example on the next page)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Cash Receipts Journal.
- 3 The relevant source document number.
- 4 The specific day of the relevant month (heading May 2010).
- 5 This column shows the source of the relevant receipt.
- 6 For each debtor there needs to be a separate account in the Debtors' Ledger. A folio number will be used to indicate the account the amount will be posted to in the Debtors' Ledger.
- 7 The analysis column shows the breakdown of the individual amounts received as a separate receipt.
- 8 The bank column shows the total amount received for the day. This amount will be deposited into the business's bank account.
- 9 This column contains the selling price of trading stock sold for cash.
- 10 This is a non-cash item but is included in the Cash Receipts Journal to allow for the regular updating of the trading stock account.

## Financial accounting of a sole trader

- 11 Total amount which the debtors account will be credited (decreases). This amount will be the amount received from the debtor plus discount allowed.
- 12 This is a non-cash item but is included in the Cash Receipts Journal to see the discount allowed to debtors.
- 13 If there is no specific column for a transaction the sundry account column is used for the transaction.
- 14 The amount received.
- 15 The folio number will be used to indicate the account the amount will be posted to in the General Ledger.
- 16 The account in the General Ledger

## Financial accounting of a sole trader

### Example of a Cash Receipts Journal

Cash Receipts Journal of Enough Traders (1) – MAY 2010										CRJ (2)		
Doc	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Debtors control	Discount allowed	Sundry accounts (13)		
										Amount	Fol	Details
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(14)	(15)	(16)

*View the explanation of all the points on the previous page*

## Financial accounting of a sole trader

### Calculating selling price and cost of sales

#### Example 1

If a business sells goods for R24 000 and the profit margin is 50%, determine the cost price.

A formula is always used. Always set the cost price equal to 100%.

Cost price + profit margin = selling price

CP + P = SP

100% + 50% = 150%

**Golden rule:** The amount you are looking for is always on top (the numerator of the fraction).

In this example we want to determine the cost price. This price (cost price) is on top – the price that is known goes at the bottom, multiplied by the amount.

CP% X Amount

SP%            1

100% X R24 000

150%            1

= R16 000 is the cost price (purchased price)

#### Example 2

If a business purchases goods for R30 000 and the profit margin is 25%, calculate the selling price.

Use the formula:

CP + P = SP

100 + 25 = 125

**Golden rule:** The amount you are looking for goes on top.

125 X R30 000

100            1

=R37 500 is the selling price

## Financial accounting of a sole trader

If a business sells goods for R60 000 and the cost price is R40 000, calculate the profit margin.

To determine the percentage, the selling price percentage should be determined as we know that the cost price percentage is 100%. To get a percentage, multiply by 100.

$$\frac{R60\ 000}{R40\ 000} \times 100$$

$$= 150\% \text{ (selling price percentage)}$$

To determine the profit margin = 150% - 100% = 50%

### Activity 4 (Calculation of selling price, profit margin and cost price)

Complete the table below by calculating the correct amounts/percentages. Each calculation is independent and does not follow on the previous one.

No.	Selling price	Profit margin	Purchase price (cost)
1	R20 800	100%	R?
2	R80 000	?	R50 000
3	R?	33 <sup>1</sup> / <sub>3</sub> %	R12 000
4	R45 000	60%	R?
5	R9 600	?	R8 000
6	R?	66 <sup>2</sup> / <sub>3</sub> %	R150 000

### Discount allowed to debtors

Bank + Discount allowed = Debtors' control

Debtors' control – Discount allowed = Bank

Debtors' control – Bank = Discount allowed

### Example

Receive R180 from R. Fourie in settlement of their account of R200

Bank	Debtors' control	Discount allowed
R180	R200	R20



## Financial accounting of a sole trader

Receive a cheque from R. Ndlovu after 5% discount is allowed to him. R. Ndlovu owes R2 400.

Bank	Debtors' control	Discount allowed
R2 280	R2 400	R120

### Bad debts recovered

Bad debts will be entered in the General Journal (will be discussed later in the unit) but bad debts recovered will be entered in the CRJ.

### Activity 5 (Cash Receipts Journal)

#### *Required*

Use the following information from Lonely Traders to prepare the Cash Receipts Journal for June 2010.

Note: The business uses a mark-up of  $66\frac{2}{3}\%$  on cost price.

#### *Debtors' list on 31 May 2010*

J. Abrahams	R4 500
N. Rossouw	R3 800
M. Nelson	R2 600

#### *Transactions: May 2011*

- 1 The owner, R. Bosch, increased his capital contribution from R185 400 to R210 000 by depositing the money in the business bank account. Issue receipt 142.
- 4 Receive R12 000 from M. Nkosi (tenant) for the month's rent. Issue receipt 143.  
Cash sales according to cash register roll, R15 400.
- 12 Receive a cheque from M. Nelson for R2 550 in settlement of his account of R2 600.  
Issue receipt 144.
- 15 The fixed deposit by Perm Bank matured today. Receive a cheque for R32 500.  
Included in the amount is interest of R2 500 for the past 6 month's interest.
- 23 Cash sales of merchandise, R5 600.  
Receive a cheque from J. Abrahams to settle his account of the 1 June after 5% discount. Issue receipt 145.
- 27 Cash sales of merchandise, R17 000.
- 30 Receive the bank statement from AB Bank which shows a credit entry for R210 for interest.



## Financial accounting of a sole trader

### 2.3.2 Debtors Journal

#### Example of a Debtors Journal

Debtors Journal of Enough Traders (1) – May					DJ (2)
Doc	Day	Debtors	Fol	Sales	Cost of sales
48 (3)	2 (4)	S. Moila (5)	D1 (6)	2 100 (8)	1 050 (10)
				14 400 (9)	7 200 (11)
				B4/N1 (7)	B3/N2 (7)

#### Explanation of a Debtors Journal

(This explanation must be studied together with the example in 2.3.2 above)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Debtors Journal.
- 3 Numbers of invoices issued to the clients. These should be in numerical order.
- 4 Day in which the transaction took place.
- 5 Name of the debtor (client) to whom the goods were sold on credit.
- 6 Folio numbers of debtors in the Debtors Ledger. Posting to the Debtors Ledger is done on a daily basis.
- 7 Folio references to the General Ledger.
- 8 Total sales to debtor per transaction.
- 9 Total credit sales for the month.
- 10 Cost price of goods sold to debtor on credit per transaction.
- 11 Total cost of sales for credit sales that took place.

#### Activity 6 (Debtors Journal)

##### *Required*

Use the following information from Lonely Traders to prepare the Debtors Journal for June 2010.

Note: The business uses a mark-up of  $66\frac{2}{3}\%$  on cost price.

##### *Transactions: June 2011*

- 5 Sell goods on credit to M. Nelson for R1 800. Issue invoice 51.
- 12 Goods sold to J. Abrahams. The cost price of the goods was R1 200. Issue invoice 52.
- 17 Sell goods on credit to N. Rossouw for R4 800. Issue invoice 53.
- 22 Sell goods on credit to J. Abrahams for R1 500. Issue invoice 54.
- 28 Issue invoice 55 to M. Nelson for goods sold on credit, R480.

## Financial accounting of a sole trader

<i>Answer sheet</i>					
Debtors Journal of Lonely Traders – June 2010					DJ
Doc	Day	Debtors	Fol	Sales	Cost of sales

### 2.3.3 Debtors Allowances Journal

#### Example of a Debtors Allowances Journal

Debtors Allowances Journal of Enough Traders (1) – May 2010					DAJ (2)
Doc	Day	Debtors	Fol	Debtors Allowances	Cost of sales
33 (3)	8 (4)	S. Moila (5)	D1 (6)	500 (8)	250 (10)
				1 800 (9)	900 (11)
				B4/N2 (7)	B3/N3 (7)

#### Explanation of a Debtors Allowances Journal

(This explanation must be studied together with the example in 2.3.3)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Debtors Allowances Journal.
- 3 Numbers of invoices issued to the clients. These should be in numerical order.
- 4 Day on which the transaction took place.
- 5 Name of the debtor (client) to whom the goods were sold on credit.
- 6 Folio numbers of debtors in the Debtors Ledger. Posting to the Debtors Ledger is done on a daily basis.
- 7 Folio references to the General Ledger.
- 8 Total returns from a debtor per transaction.
- 9 Total returns/Allowances for the month.
- 10 Cost price of goods returned by debtor.

## Financial accounting of a sole trader

- 11 Total cost of sales for goods returned that took place.

### Activity 7 (Debtors Allowances Journal)

#### Required

Use the following information from Lonely Traders to prepare the Debtors Allowances Journal for June 2010.

Note: The business uses a mark-up of  $66\frac{2}{3}\%$  on cost price.

#### Transactions : June 2010

- 8 M. Nelson returned R300 stock previously bought from the business. Issue credit note 24.
- 22 N. Rossouw demands a discount of R100 on his account. The reason for this is that goods were delivered late to him. The discount was granted. Issue credit note 25.
- 26 J. Abrahams returned stock to the value of R120. Issue credit note 26.

#### Answer sheet

Debtors Allowances Journal of Lonely Traders – June 2010					DAJ
Doc	Day	Debtors	Fol	Debtors Allowances	Cost of sales

### 2.3.4 Cash Payments Journal

#### Explanation of a Cash Payments Journal

(This explanation must be studied together with the example on the next page)

- Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- Folio reference number of the Cash Payments Journal.
- The relevant source document number is entered here.
- The specific day of the relevant month (heading May 2010) is entered here.
- This column shows the source of the relevant payment, in other words, what is written on the cheque.
- For each creditor there needs to be a separate account in the Creditors' Ledger. A folio number will be used to indicate the account the amount will be posted to in the Creditors' Ledger

## Financial accounting of a sole trader

- 7 The bank column shows the total amount paid out – the amount on the cheque and must be paid out by the bank for this transaction.
- 8 Analysis column for Trading stock purchased for cash.
- 9 Total amount which the creditors account will be debited (decreases). This amount will be the amount paid to creditors plus discount received.
- 10 This is a non-cash item but is included in the Cash Payments Journal to see the discount received from creditors.
- 11 Analysis column for R/D cheques for Debtors.
- 12 Analysis column for wages.
- 13 If there is no specific column for a transaction the sundry account column is used for the transaction.
- 14 The amount paid out.
- 15 The folio number will be used to indicate the account the amount will be posted to in the General Ledger.
- 16 The account in the General Ledger.

## Financial accounting of a sole trader

### Example of a Cash Payments Journal

Cash Payments Journal of Enough Traders (1) – MAY 2010										CPJ (2)		
Doc	Day	Name of payee	Fol	Bank	Trading stock	Creditors control	Discount received	Debtors control	Wages	Sundry accounts (13)		
										Amount	Fol	Details
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(14)	(15)	(16)

*View the explanation of all the numbered points on the previous page*

## Financial accounting of a sole trader

### Discount received from creditors

Bank + Discount received = Creditors' control

Creditors' control – Discount received = Bank

Creditors' control – Bank = Discount received

#### Examples

Pay R3 800 to SNA Distributors in settlement of the business account of R4 000.

Bank	Creditors' control	Discount received
R3 800	R4 000	R200

Pay Small Traders per cheque after 5% discount has been received. The business owes Small Traders R6 800.

Bank	Creditors' control	Discount received
R6 460	R6 800	R340

### Dishonoured cheque

If the business received R380 from M. Naidoo (a debtor) in settlement of his account of R400, this transaction will be entered in the CRJ. If the bank returned the cheque to the business with the remark "R/D – insufficient funds", a reversal of the transaction in the CRJ must be done.

The amount (R380) received from the debtor, will be entered in the CPJ, but the R20 discount cannot be cancelled in the CRJ. A general Journal entry needs to be done (this will be discussed later in the unit).

Name of payee	Bank	Debtors' control
M. Naidoo (R/D)	380	380

The R20 discount allowed will be cancelled in the GJ.



## Financial accounting of a sole trader

### Activity 8 (Cash Payments Journal)

#### *Required*

Use the following information from Lonely Traders to prepare the Cash Payments Journal for June 2010.

#### *Creditors' List on 31 May 2010*

RN Wholesalers	R14 200
Sam Distributors	R8 800
Davido Traders	R5 600

#### *Transactions: May 2011*

- 1 Receive the account statement from RN Wholesalers. Issue cheque 124 to RN Wholesalers in settlement of our account less 5% discount.
- 3 Issue cheque 125 to Telkom for the telephone account, R2 800.
- 6 Buy the following from Red Stores and issue cheque 126:  
A printer and computer, R12 800  
Paper for the printer, R390
- 8 Cash cheque 127 for the following:  
Wages, R1500  
To increase the cash float from R800 to R1 000.
- 9 Issue cheque 128 to Davido Traders as partial payment of the account, R2 000.
- 12 The owner (P. Loveday) took cheque 129 for R300 to buy flowers for his wife. The flowers were bought from Sunshine Florists.
- 15 Pay R5 000 with cheque 130 to Sam Distributors towards the business account. Sam Distributors allow R200 discount.
- 19 Cash cheque 131 for wages, R1 550.
- 21 Receive the cheque of R1 200 from S. Storm (a debtor) back from the bank with the remark: "R/D – insufficient funds".
- 23 Buy stock from SA Traders and pay by cheque 132, R4 100.
- 24 Pay RD Repairers by cheque 133 for repairs done to the office building, R1 400.
- 26 Pay SA Loans R22 000 with cheque 134 for the last instalment of the loan. Included in the amount is 10% interest for the past year.
- 28 Pay the salary of the secretary (R. Rheeder) with cheque 135, R12 000.
- 30 Receive the bank statement from Perm Bank. The following were debited against our bank account:  
Interest, R280  
Bank charges, R320.



## Financial accounting of a sole trader

### 2.3.5 Creditors' Journal

#### Example of a Creditors Journal

Creditors Journal of Enough Traders (1) – May 2010								CJ (2)	
Doc	Day	Creditor	Fol	Credit- ors control	Trading stock	Statio- nery	Sundry account (10)		
							Amount	Fol	Details
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(13)

#### Explanation of a Creditors Journal

(This explanation must be studied together with the example in 2.3.5)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Creditors Journal.
- 3 Re-numbered invoices received from suppliers. These should be in numerical order.
- 4 Day in which the transaction took place.
- 5 Name of the creditor (supplier) from whom the business purchased on credit.
- 6 Folio numbers of creditors in the Creditors Ledger. Posting to the Creditors Ledger is done on a daily basis.
- 7 Total amount of purchases on credit per transaction.
- 8 Analysis column for trading stock purchased on credit.
- 9 Analysis column for stationery bought on credit.
- 10 If there is no analysis for a transaction, the transaction will be entered in the sundry column.
- 11 Total amount of purchases on credit per transaction
- 12 The folio number will be used to indicate the account the amount will be post to in the General Ledger.
- 13 The account in the General Ledger.

#### Trade discount

If a business makes large purchases at regular intervals from the same suppliers on credit, the suppliers often provide the merchandise at lower prices. This reduction is called trade discount. On the invoice, the articles are indicated at the normal price and the total credit purchase is calculated. A percentage discount is calculated on the total purchases. The trade discount is not entered in the business's books, but only the net purchases.

## Financial accounting of a sole trader

*Net purchases = Total purchases – trade discount*

### Example

Buy goods to the value of R6 800 from Tom Suppliers and receive 20% trade discount.

Trade discount =  $20/100 \times R6\ 800 = R1\ 360$

Net purchase =  $6\ 800 - 1\ 360 = 5\ 440$

The net purchases of R5 440 will be entered in the CJ.

### Activity 9 (Creditors Journal)

#### Required

Use the following information from Lonely Traders to prepare the Creditors Journal for June 2010.

Note: Re-number invoices received from 87.

#### Transactions: June 2010

- 4 Receive an invoice from RN Wholesalers for trading stock purchased for R12 400 less 20% trade discount.
- 7 Buy the following on credit from Sam Distributers and receive their invoice:  
Three filing cabinets, at R2 000 each.  
R300 files at R2 each.
- 11 Buy packing material from Davido Traders and receive their invoice for R840.
- 17 Buy trading stock from RN Wholesalers and receive their invoice for R14 000.
- 23 Receive an invoice from MN Motors for R3 900. The owner took his private vehicle for a service.
- 28 Buy stationery on credit from Sam Distributers and receive an invoice for R780.

#### Answer sheet

Creditors Journal of Lonely Traders – May 2010							CJ		
Doc	Day	Creditor	Fol	Creditors control	Trading stock	Stationery	Sundry account (10)		
							Amount	Fol	Details

## Financial accounting of a sole trader

### 2.3.6 Creditors Allowances Journal

#### Example of a Creditors Allowances Journal

Creditors Allowances Journal of Enough Traders (1) – May 2010							CAJ (2)		
Doc	Day	Creditor	Fol	Credit- ors control	Trading stock	Statio- nery	Sundry account (10)		
							Amount	Fol	Details
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(13)

#### Explanation of a Creditors Allowances Journal

(This explanation must be studied together with the example in 2.3.6)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Creditors Allowances Journal.
- 3 Debit notes issued to supplies. These should be in numerical order.
- 4 Day in which the transaction took place.
- 5 Name of the creditor (supplier).
- 6 Folio numbers of creditors in the Creditors Ledger. Posting to the Creditors Ledger is done on a daily basis.
- 7 Total amount of returns/Allowances to creditors per transaction.
- 8 Analysis column for Trading stock returns/Allowances.
- 9 Analysis column for Stationery returns/Allowances.
- 10 If there is no analysis for a transaction, the transaction will be entered in the Sundry column.
- 11 Total amount of returns/Allowances per transaction
- 12 The folio number will be used to indicate the account the amount will be posted to in the General Ledger.
- 13 The account in the General Ledger.

## Financial accounting of a sole trader

### Activity 10 (Creditors Allowances Journal)

#### *Required*

Use the following information from Lonely Traders to prepare the Creditors Allowances Journal for June 2010.

#### *Transactions: June 2010*

- 6 Returned trading stock to RN Wholesalers for R800 less 20% trade discount. Issue debit note 45.
- 14 Send an incorrect order for packing material back to Davido Traders to the value of R80 together with debit note 46.
- 19 RN Wholesalers did not give trade discount of 20% for goods previously bought to the value of R14 000. RN Wholesalers will correct the mistake. Issue debit note 47 for the trade discount.
- 30 Returned damaged stationery to the value of R120 to Sam Distributors. Issue debit note 48.

#### *Answer sheet*

Creditors Allowances Journal of Lonely Traders – May 2010

CAJ

Doc	Day	Creditor	Fol	Creditors control	Trading stock	Stationery	Sundry account (10)		
							Amount	Fol	Details

## Financial accounting of a sole trader

### 2.3.7 Petty Cash Journal

#### Example of a Petty Cash Journal

#### Explanation of a Petty Cash Journal

(This explanation must be studied together with the example in 2.3.7)

- 1 Name of the subsidiary journal, name of the business and the month in which the journal was prepared.
- 2 Folio reference number of the Petty Cash Journal.
- 3 Petty cash vouchers issued for purchases. These should be in numerical order.
- 4 Day in which the transaction took place.
- 5 Write down what is paid for out of the petty cash.
- 6 Folio numbers of debtors in the Debtors Ledger. Posting to the Debtors Ledger is done on a daily basis.
- 7 Total amount paid out of the petty cash per transaction.
- 8 Analysis column for Postage.
- 9 Analysis column for Stationery.
- 10 If there is no analysis for a transaction, the transaction will be entered in the Sundry column.
- 11 Total amount paid out of the petty cash per transaction
- 12 The folio number will be used to indicate the account the amount will be posted to in the General Ledger.
- 13 The account in the General Ledger.

#### More about Petty cash

The Petty Cash Journal is used to make small cash payments. Each payment that occurs is written down on a petty cash voucher (source document) and authorised by the petty cash cashier and senior manager of the business. Where possible, all external source

Petty Cash Journal of Enough Traders (1) – May 2010							PCJ (2)		
Doc	Day	Details	Fol	Petty cash	Postage	Statio- nery	Sundry account (10)		
							Amount	Fol	Details
(3)	(4)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(13)

documents should be attached to the petty cash voucher.

When the petty cash cashier needs money for the petty cash box, the head cashier issues a cheque which is recorded in the CPJ. “Cash” will be written on the cheque, because it will be exchanged for cash. The amount will be posted to the debit side of the petty cash account in the general ledger. The amount is the advance given to the petty cash cashier.

## Financial accounting of a sole trader

Normally, it is said that an imprest system is used. This means that the opening balance should be the same every month. At the end of the month, a cheque is drawn so that the end total is the same as the opening balance. Sometimes it happens that the cheque is only drawn at the beginning of the following month.

If too many payments were made from the petty cash during the month, additional money can be requested from the head cashier. A cash cheque is exchanged and put in petty cash. This cheque is entered in the Cash Payments Journal and posted to the petty cash account in the general ledger.

### Example

The aim of this example is to show how to restore the petty cash balance.

Transactions: June 2011

- 1 The business decides to have a petty cash box for small transactions. The head cashier writes out cheque 210 for R500 and gives the money to the petty cash cashier.
- 15 The petty cash cashier sees that there is not enough money in the kitty and requests a further R200. Write out a cash cheque for R200.
- 30 The total payments from the Petty Cash Journal were R658. Write out cheque 267 to restore the petty cash balance.

### Solution

Dr.		Petty Cash				B8		Cr.	
Jun	1	Bank	CPJ	500	Jun	30	Total payments	PCJ	658
	15	Bank	CPJ	200			Balance	c/d	500
	30	Bank	CPJ	458					
				1 158					1 158
Jul	1	Balance	b/d	500					

### Explanation

- 1 The amount of R658 on the credit side of the petty cash account is the payments made during the month and entered in the Petty Cash Journal.
- 2 It is very important that the R500 that was in the kitty at the beginning of the month must be the same as the balance at the end of the month. To get the amount of R500 at the end of the month, one needs to work backwards.



## Financial accounting of a sole trader

- 3 Write in balance (c/d) and the balance (b/d).
- 4 Add the debit side:  $R500 + R200 = R700$ .
- 5 Subtract the debit side from the credit side:  $R1\ 158 - R700 = R458$ .
- 6 The amount of R458 must be requested from the head cashier to restore the petty cash balance.

### Activity 11 (Petty Cash Journal)

#### Required

Use the following information from Lonely Traders to prepare the Petty Cash Journal for June 2010.

#### Transactions: June 2010

- 4 Buy stationery for R80 from SNA Traders with money from the petty cash. Issue petty cash voucher 76.
- 12 Pay R180 out of the petty cash for carriage fees to TS Transporters. This fee was paid on behalf of a debtor (S, Small) for credit sales. The amount must be debited against the debtor's account. Issue petty cash voucher 77.
- 21 Pay R78 postage to the Post Office and issue petty cash voucher 78.
- 24 Buy trading stock from AB Wholesalers for R200 and issue petty cash voucher 79.
- 27 Buy stationery for R230 from SNA Traders and pay out of the petty cash. Issue petty cash voucher 80.
- 30 Pay R150 out of the petty cash for a cleaner to wash the office windows. Issue petty cash voucher 81.

#### Answer sheet

Petty Cash Journal of Lonely Traders – June 2010

PCJ

Doc	Day	Details	Fol	Petty cash	Postage	Statio- nery	Sundry account		
							Amount	Fol	Details

# Financial accounting of a sole trader

## Activity 12 (Petty Cash account – imprest system)

### Required

You are the petty cash cashier of Peter Suppliers. You are expected to compile a petty cash account in the General Ledger. Do all the entries directly into the ledger account. There has to be R700 at the beginning of each month in the petty cash kitty.

### Transactions: May 2011

- 1 There is R80 left in the petty cash kitty. The head cashier draws a cheque to restore the petty cash balance of R700.
- 14 There is not enough money left in the petty cash kitty. Request a further R300 from the head cashier to add to petty cash.
- 31 The total payments from petty cash for the month are R890. Draw a cheque to restore the petty cash balance.

### Answer sheet

General ledger of Peter Suppliers										
Dr.	Petty cash						B8	Cr.		

### 2.3.8 General Journal

#### Example of a General Journal

Day	Details	Fol	Debit	Credit	Debtors' control		Creditors' control	
					Debit	Credit	Debit	Credit
(1)	(2)							
	(3)							
	(4)							
					(5)	(6)	(7)	(8)

## Financial accounting of a sole trader

### Explanation of a General Journal

- 1 The day the transactions occurred.
- 2 The account that will be debited in the General Ledger and the subsidiary ledger.
- 3 The account that will be credited in the General Ledger and the subsidiary ledger.
- 4 A description of the transaction and the voucher.
- 5 The total of the Debtors' control account that will be debited in the General Ledger.  
Journal debits/Sundry accounts will be written in the details column.
- 6 The total of the Debtors' control account that will be credited in the General Ledger.  
Journal credits/Sundry accounts will be written in the details column.
- 7 The total of the Creditors' control account that will be debited in the General Ledger.  
Journal debits/Sundry accounts will be written in the details column.
- 8 The total of the Creditors' control account that will be credited in the General Ledger.  
Journal credits/Sundry accounts will be written in the details column.

### Summarised General Journal entries

Transaction	Account debited	Account credited
Cancellation of discount on dishonoured cheque	Debtor's name and Debtors' control	Discount allowed
Interest charged on overdue debtors account	Debtor's name and Debtors' control	Interest on overdue debtors
Interest paid on overdue creditors account	Interest on overdue creditors	Creditor's name and Creditors' control
Written a debtors' account off as irrecoverable	Bad debts	Debtor's name and Debtors' control
Donation of stock at cost price	Donations	Trading stock
Drawings of trading stock at cost price	Drawings	Trading stock
Drawings of consumables (example: stationery) at cost price.	Drawings	Stationery
Capitalisation of interest on loan at MB Bank	Interest on loan	Loan: MB Bank
Capitalisation of interest on fixed deposit at XY Bank	Fixed deposit: XY Bank	Interest on fixed deposit

## Financial accounting of a sole trader

### Correction of errors

It may happen that source documents are written into the journals incorrectly or posting errors may be made to the General Ledger, Debtors' ledger and Creditors' ledger. It may happen that the errors are not immediately traced because they have been posted to the correct side of the account. These errors are only traced when the books are checked.

In accounting it is not correct simply to draw a line through the recording. Another recording must be done in order to correct the error. Most errors are corrected in the General Journal.

*If an error has been made in a subsidiary journal, the following should happen:*

- Transaction is omitted = do a recording in the relevant journal.
- If the amount is too small = put the difference between the amounts in the subsidiary journal.
- If the amount is too big = put the difference between the amounts in the subsidiary journal.

### *Posting errors*

- The wrong amount to the correct account = do a single journal recording.
- The correct amount to the wrong side of the account = do a single journal recording.
- If posting to the wrong account = take the amount out of the account and place it in the correct account. This is done in the General Journal.

It is impossible to explain all the errors that may occur. It is important, however, to see where the error has occurred, and do the corrections accordingly. To help you, it would be wise to draw a T-account. Write the error in, and then do the correction.

### Activity 13 (General Journal)

#### *Required*

Record the following transactions in the General Journal of Davido Traders for May 2011.

Note: Don't do any narrations.

#### *Transactions: May 2011*

- 4 Charge G. Patella's (a debtor) overdue account with 6% interest per annum for three months. G. Patella owes R8 200.
- 6 A. Mosterd (a debtor) who owes R1 200 is declared insolvent. Receive a first and final dividend of 30 cents in the rand (this is already recorded in the books). Write his account off as bad debt.



# Financial accounting of a sole trader

## 2.4 Ledger accounts

### 2.4.1 General ledger

#### General hints:

- The General ledger is divided into a debit and a credit side.
- The Accounts need to be divided into Balance sheet accounts and Nominal accounts.
- To help you remember whether the balances of accounts need to be debit or credit, the acronyms DAX and CIL can be used.
- DAX stands for Drawings, Assets and Expenses and have debit balances.
- CIL stands for Capital, Income and Liabilities and have credit balances.

Take note of the following before looking at an account in the General Ledger:

#### Explanation of General Ledger

General ledger of Enough Traders (1)														
Dr (3)					Account name (2)					Cr(4)				
Month	Day	Details	Fol	Amount	Month	Day	Details	Fol	Amount					
(5)	(6)	(7)	(8)	(9)	(5)	(6)	(7)	(8)	(9)					

- 1 The heading of the General Ledger has to include the name of the business.
- 2 The name of the account needs to appear in the centre of the line.
- 3 The debit side of the account is indicated with the abbreviation, 'dr.'
- 4 The credit side of the account is indicated with the abbreviation, 'cr.'
- 5 The month and the year are indicated.
- 6 The day on which the transaction took place is indicated. If a column was created in a journal for the account, the date is always the end of the month when the amount is posted over to the General ledger. If there was no column created for the account, the date needs to reflect the date of the transaction.
- 7 The details column refers to the contra account.
- 8 Fol (folio) refers to the journal from which was posted.
- 9 The amount for the transaction need to be reflected.

## Financial accounting of a sole trader

### Example of a basic General ledger account

Dr.		Stationery (1)					N8	Cr.	
							(2)		
20.. Apr	1	Balance	b/d	(3)	20.. Apr	31	Creditors control	CAJ	(8)
	31	Bank	CPJ	(4)			Drawings	GJ	(9)
		Petty cash	PCJ	(5)			Balance	c/d	(11)
		Creditors control	CJ	(6)					
		Trading stock	GJ	(7)					
				(10)					(10)
20.. May	1	Balance	b/d	(12)					

### Explanation of a basic General Ledger account

- The name of the account.
- The folio number of the account has to show whether the account is a balance sheet account (B) or a nominal account (N).
- The balance at the beginning of the month needs to be brought down. It will depend on the type of account whether the balance will be debit or credit. Stationery is an expense, therefore the balance is debit.
- An increase in stationery (if more was bought) is done on the debit side. The contra account is reflected as Bank which means that this was a cash transaction in the Cash Payments Journal. Bank (the contra account) will be credited with the same amount.
- An increase in stationery (if more was bought) is done on the debit side. The contra account is reflected as Petty cash which means that this was a cash transaction for which money was taken from the Petty cash box. Petty cash (the contra account) will be credited with the same amount.
- An increase in stationery (if more was bought) is done on the debit side. The contra account is reflected as Creditors control which means that this was a credit transaction. Creditors control (the contra account) will be credited with the same amount.
- This was taken from the General Journal. It was probably a correction of an error and whether it is a debit or credit entry depends on the error made. The contra account is Trading stock, which means that Trading stock will be credited with the same amount.

## Financial accounting of a sole trader

- 8 A decrease in stationery (if sent back) is done on the debit side. The contra account is reflected as Creditors control which means that this was stationery bought on credit but for some reason sent back to the supplier. Creditors control (the contra account) will be debited with the same amount.
- 9 A decrease in stationery (owner took for personal use) is done on the debit side. The contra account is reflected as Drawings which means that this was stationery taken for personal use by the owner. Drawings (the contra account) will be debited with the same amount.
- 10 Both the debit and credit side of the account is now totalled. Write the amounts in pencil. The larger amount is then written in the space reflected as (10).
- 11 The fact that the larger amount was written in, will make the account mathematically incorrect. The smaller amount needs to be subtracted from the larger amount. The difference between the amounts is reflected as 'balance'.
- 12 The balance is taken over to the other side of the equation to indicate the start of a new month.

### Classification of General ledger accounts

The table below is a summary of the accounts and their classification:

DAX (Debit accounts)	CIL (Credit accounts)
Drawings (OE – Balance sheet)	Capital (OE –Balance sheet)
Assets (Balance sheet)	Income (Nominal)
Expenses (Nominal)	Liabilities (Balance sheet)

The following table is an expanded version that will give you more information on the various types of accounts under each classification. It is important to know this table so that you can be confident with General ledger accounts and analysis of information according to the accounting equation,  $A=OE + L$ .

All the accounts listed on the debit side, start with a debit balance. An increase in these accounts will also be debited and a decrease will be credited.		All the accounts listed on the credit side, start with a credit balance. An increase in these accounts will also be credited and a decrease will be debited.	
Debit Accounts (DAX)		Credit Accounts (CIL)	
<b>Debit Increase</b>	Debit Decrease	Debit Decrease	<b>Credit Increase</b>
Owner's Equity (Balance Sheet)		Owner's Equity (Balance Sheet)	
<ul style="list-style-type: none"> <li>• Drawings</li> </ul>		<ul style="list-style-type: none"> <li>• Capital</li> </ul>	
Assets (Balance sheet)		Income (Nominal)	
Tangible Assets		<ul style="list-style-type: none"> <li>• Sales</li> <li>• Current Income/ Service Fees/Fee</li> </ul>	
<ul style="list-style-type: none"> <li>• Land and buildings</li> </ul>			



## Financial accounting of a sole trader

<ul style="list-style-type: none"> <li>• Vehicles</li> <li>• Machinery</li> <li>• Equipment</li> <li>• Computers</li> </ul> <p>Financial Assets</p> <ul style="list-style-type: none"> <li>• Fixed Deposits</li> <li>• Investments</li> <li>• Shares</li> <li>• Unit Trusts</li> </ul> <p>Current Assets</p> <ul style="list-style-type: none"> <li>• Trading Stock</li> <li>• Debtors/ Accounts Receivable</li> <li>• Bank</li> <li>• Cash Float</li> <li>• Petty Cash</li> <li>• Savings Account</li> <li>• Accrued Income</li> <li>• Prepaid Expenses</li> <li>• Consumables on hand</li> </ul>	<p>Income</p> <ul style="list-style-type: none"> <li>• Rent Income</li> <li>• Commission Income</li> <li>• Interest on current bank account</li> <li>• Interest on investment/ fixed deposits</li> <li>• Interest on savings account</li> </ul>
<p>Expenses (Nominal)</p>	<p>Liabilities (Balance sheet)</p>
<ul style="list-style-type: none"> <li>• Cost of Sales</li> <li>• Interest on loans</li> <li>• Bank Charges</li> <li>• Interest on Overdraft</li> <li>• Debtors Allowances</li> <li>• Other daily or monthly expenses like salaries and wages, water and electricity, stationery ...</li> </ul>	<p>Current</p> <ul style="list-style-type: none"> <li>• Creditors/ Accounts Payable</li> <li>• Bank Overdraft</li> <li>• Loans</li> <li>• Accrued Expenses</li> <li>• Income</li> </ul> <p>Non- Current (Long Term 12 months +) Loans &gt; 12 months</p>

# Financial accounting of a sole trader

## Explanation of the procedure for posting to the General ledger from journals.

The journals you have done so far, include:

### CRJ (Cash Receipts Journal)

- The Bank will be debited and includes all amounts in the CRJ except the Cost of sales amount.
- This means that all the other accounts (excluding Cost of sales) will be credited.
- Cost of sales is the exception to the rule and will be debited because it is regarded as an expense. The contra account for Cost of sales will be Trading stock which means that the Trading stock account needs to be credited with the Cost of sales amount.

### CPJ (Cash Payments Journal)

- The Bank will be credited and includes all amounts in the CPJ.
- This means that the other accounts will be debited as contra accounts.

### DJ (Debtors Journal)

- Debtors control will be debited with the Sales amount and Sales will be credited.
- Cost of sales will be debited as in the CRJ and Trading stock will be credited.

### DAJ (Debtors Allowances Journal)

- As the DAJ reflects returns or Allowances of debtors, the opposite need to be done in the General ledger as was the case with the Debtors Journal.
- Debtors control will therefore be credited with the Debtors Allowances amount and Debtors Allowances need to be debited.
- Cost of sales need to be credited and Trading stock will be debited.
- Remember that only stock sent back by the debtor will reflect an amount in the Cost of sales column.
- Items debtors received an allowance for but kept in their possession do not have an amount in the Cost of sales column as it was not taken back into stock.

### CJ (Creditors Journal)

- Creditors control will be credited. This amount includes the amounts of all the other columns in the Creditors Journal.
- This means that the other accounts will be debited as contra accounts.

## Financial accounting of a sole trader

CAJ (Creditors Allowances Journal)

- Creditors control will be debited. This amount includes the amounts of all the other columns in the Creditors Allowances Journal.
- This means that the other accounts will be credited as contra accounts.

PCJ (Petty Cash Journal)

- The Petty Cash Journal is similar to the Cash Payments Journal.
- The Petty Cash account will be credited and includes all amounts in the PCJ.
- This means that the other accounts will be debited as contra accounts.

GJ (General Journal)

- Debits or credits will depend on the General Journal entry.
- Whichever account was debited in the General Journal needs to be debited in the General ledger.
- Whichever account was credited in the General Journal needs to be credited in the General ledger.

### 2.4.2 Debtors ledger

#### Explanation of the Debtors ledger

Debtors' ledger of Enough Traders (1)					
M. Samdaan (2)					DL5 (3)
Date	Details	Fol	Debit	Credit	Balance
(4)	(5)	(6)	(7)	(8)	(9)

- 1 The type of ledger and the name of the business have to be reflected.
- 2 The name and surname of the debtor needs to be shown.
- 3 The folio number for the debtor needs to be indicated. This will help when compiling a debtors list.
- 4 The date of the entry needs to be shown.
- 5 In the details column the business can reflect whether the entry was as a result of an invoice, receipt, cheque with the number of the receipt, invoice or cheque next to it. This will help to serve as a cross reference if the original documentation (invoice, cheque, account) is needed. Abbreviations may be used such as INV for invoice, CHQ for cheque.
- 6 In the folio column, reference need to be made to the journal where the entry has been recorded.

## Financial accounting of a sole trader

- 7 If a debtors account increases, it is reflected in the debit column. This is normally the result of entries in the Debtors Journal.
- 8 If a debtors account decreases, it is reflected in the credit column. This is normally the result of entries in the Debtors Allowances Journal and the Cash Receipts Journal.

### Activity 14 (Debtors ledger)

#### Required

Certain transactions of the business Dhlamini Traders are given. Record these transactions in the following debtors' ledger account of the business: M. Motaung (D5).

#### Transactions: February 2011

- 1 The amount owed by M. Motaung, R860
- 4 Receive a cheque from M. Motaung in settlement of his account after 5% discount was allowed to him. Issue receipt 145.
- 6 Sell goods on credit to M. Motaung, R2 100. Issue invoice 143.
- 8 Receive M. Motaung's (see 4<sup>th</sup>) cheque back from the bank together with a bank debit note with the remark "R/D – error on cheque". Issue journal voucher 36.
- 11 M. Motaung returned damaged goods to the value of R280. Issue credit note 40.  
Sell goods on credit to M. Motaung, R3 800. Issue invoice 149.  
Send the sold goods to M. Motaung and pay R200 to SA Transporters from the petty cash. This amount must be debited to M. Motaung's account. Issue petty cash voucher 76.
- 16
- 25 Issue receipt 151 to M. Motaung for R4 500 in partial payment of his debt. Give R120 discount.
- 27 Credit sales of merchandise to M. Motaung, R1 340. Issue invoice 153.

#### Answer sheet

Debtors' ledger of Dhlamini Traders

M. Motaung DL5

Date	Details	Fol	Debit	Credit	Balance

## Financial accounting of a sole trader

### 2.4.3 Creditors ledger

#### Explanation of the Creditors ledger

Creditors' ledger of Enough Traders (1)					
M. Mthuli (2)					CL5 (3)
Date	Details	Fol	Debit	Credit	Balance
(4)	(5)	(6)	(7)	(8)	(9)

- The type of ledger and the name of the business have to be reflected.
- The name and surname of the creditor needs to be shown.
- The folio number for the creditor needs to be indicated. This will help when compiling a creditors list.
- The date of the entry needs to be shown.
- In the details column the business can reflect whether the entry was as a result of an invoice, receipt, cheque with the number of the receipt, invoice or cheque next to it. This will help to serve as a cross reference if the original documentation (invoice, cheque, account) is needed. Abbreviations may be used such as INV for invoice, CHQ for cheque.
- In the folio column, reference need to be made to the journal where the entry has been captured.
- If a creditors account increases, it is reflected in the credit column. This is normally the result of entries in the Creditors Journal.
- If a creditors account decreases, it is reflected in the debit column. This is normally the result of entries in the Creditors Allowances Journal and the Cash Payments Journal.

#### Activity 15 (Creditors ledger)

##### *Required*

Certain transactions of the business Bruto Ltd. are given. Record these transactions directly into the creditor, Solly Wholesalers' (CL5) account, in the creditors' ledger.

##### *Transactions: May 2011*

- Amount owed by Bruto Ltd. to Solly Wholesalers, R16 200.
- Receive an invoice from Solly Wholesalers for goods bought on credit, R4 100 minus 20% trade discount. Re-number the invoice to 136.
- Issue cheque 210 to Solly Wholesalers for the amount owed to them on 1 May 2011 minus 5% discount.
- Buy the following on credit from Solly Wholesalers:
  - Goods, R6 400
  - Paper for the printer, R280



# Financial accounting of a sole trader

## Explanation of a Trading stock account

- 1 Stock on hand at the beginning of the month.
- 2 Purchase of stock for cash = Cheque counterfoil
- 3 Buy goods on credit from supplier = Original invoice
- 4 Buy goods and pay out of the petty cash = Petty cash voucher
- 5 Goods previously bought on credit, returned to the supplier = Duplicate Debit note
- 6 The cost price of the goods as cash sales, is transferred to the Cost of sales account.
- 7 The cost price of the goods sold on credit is transferred to the Cost of sales account.
- 8 The cost price of the goods, previously sold on credit to a debtor, is returned and corrected in the books.
- 9 The owner took goods at cost price for his own use = Journal voucher
- 10 Correction of an error = debit or credit side = Journal voucher
- 11 Stock on hand at the end of the month.

## Control accounts

### Introduction

The purpose of control accounts is to check the balance in the subsidiary ledgers. The balance of the Debtors' control account in the General Ledger is checked and confirmed against the total of the debtors' balances in the Debtors Ledger. In the same way the balance of the Creditors' control account in the General Ledger is checked and confirmed against the total of the creditors' balances in the Creditors' Ledger.

### Reconciliation of control account balances with the totals of balances of accounts in the Debtors and Creditors ledger.

The debit balance of the Debtors' control account in the general ledger has to be reconciled with the totals of debit and credit balance according to the debtors list. The credit balance of the Creditors' control account in the general ledger has to be reconciled each month with the totals of debit and credit balances according to the credit balances according to the creditors list.

If the balances are not the same, an investigation needs to be done to reconcile the balances.

## Financial accounting of a sole trader

### Tips to reconcile the balances:

- No entry was made = correct in the control account and on the list.
- Mistake on source document = correct in the control account and on the list.
- Total of a journal is incorrectly added = correct in the control account.
- Posting mistake to an individual debtor/creditor account = correct on list.
- If an amount is posted to the correct account in an individual debtors/creditors account but on the wrong side, double the amount must be put on the other side.  
Example: M. Visagie (a debtor) bought stock on credit for R240. It was recorded correctly in the DJ but the posting was done to the credit side of the account of M. Visagie. To correct the error, the account of M. Visagie must be debited with R400 (R200 to cancel the credit entry and R200 with the correct recording)

### Debtors' control account

#### Example

Dr.		Debtors' control					B7		Cr.
20..	1	Balance	b/d	(1)	20..	30	Bank and discount allowed	CRJ	(6)
Apr					Apr				
	30	Sales	DJ	(2)			Debtors' Allowances	DAJ	(7)
		Bank (R/D)	CPJ	(3)			Journal credits	GJ	(8)
		Petty cash	PCJ	(4)			Balance	c/d	(9)
		Journal debits	GJ	(5)					
20..	1	Balance	b/d	(9)					
May									

### Explanation

- 1 Amount owed by debtors at the beginning of the month.
- 2 Goods sold on credit to debtors = Duplicate invoice
- 3 Cheques returned by the bank, because the cheques were dishonoured = bank debit note. Included in this amount there may also be money that the business pays back to the debtor with a credit balance = cheque counterfoil.
- 4 Carriage paid for a debtor from the petty cash and is debited against the debtors' account = petty cash voucher



## Financial accounting of a sole trader

- 5 Journal debits:
  - Charge interest on a debtors' overdue account.
  - Discount cancelled on a dishonoured cheque.
  - Transfers between debtors and creditors.
  - Correction of errors.
- 6 Money that was received from debtors during the month and discount allowed to debtors = Duplicate receipt
- 7 Allowances given to debtors = Duplicate Credit note
- 8 Journal credits:
  - Debtors account written off as bad debts
  - Transfers between debtors and creditors
  - Correction of errors
- 9 Amount owed by debtors at the end of the month.

### Creditors' Control Account

#### Example

Dr.		Creditors' control				B6		Cr.	
20..	30	Bank and discount received	CPJ	(5)	20..	1	Balance	b/d	(1)
Apr					Apr				
		Sundry Allowances	CAJ	(6)		30	Sundry purchases	CJ	(2)
		Journal debits	GJ	(7)			Journal credits	GJ	(3)
		Balance	c/d	(8)			Bank	CRJ	(4)
					20..	1	Balance	b/d	(8)
					May				

#### Explanation

- 1 The amount owed to creditors at the beginning of the month
- 2 Credit purchases for the month = Original invoice
- 3 Journal credits:
  - A creditor charges interest on the business' overdue account.
  - Correction of errors
  - Transfers between debtors and creditors
- 4 Money received from a creditor, e.g. a creditor with a debit balance = duplicate receipt.

## Financial accounting of a sole trader

- 5 Money that was paid to a creditor with a cheque and discount was received = Cheque counterfoil.
- 6 Total discount received from creditors for items returned to them during the month = Duplicate debit note.
- 7 Journal debits:
  - Transfers between creditors and debtors
  - Correction of errors
- 8 Amount owed to creditors at the end of the month.

### Activity 16 (Analysis - Trading stock account)

#### Required

Analyse the Trading stock account in the books of Sophie Traders for September 2010 and answer the questions that follow. Sophie Traders trades in the purchases and sale of clothes.

#### Information

General ledger of Sophie Traders									
Dr.		Trading stock				B6		Cr.	
2010 Sep	1	Balance	b/d	32 000	2010 Apr	30	4.5	CAJ	2 800
	30	Bank	CPJ	8 400			Cost of sales	CRJ	28 000
		Creditors control	CJ	24 300			Cost of sales	DJ	22 000
		Petty cash	PCJ	1 200			Drawings	GJ	1 400
		4.4	DAJ	800			Donations	GJ	600
		Stationery	GJ	420			Balance	c/d	?
2010 Oct	1	Balance	b/d	?					

#### Questions

- 16.1 Does the business make use of the perpetual inventory system or periodic inventory system?

## Financial accounting of a sole trader

16.2 Calculate the balance of stock on hand on 30 September 2010.

--

16.3 Give a reason why the stock on hand decreased? (Remember it is a clothing business.)

--

16.4 Give the contra account for the amount of R800 on the debit side.

--

16.5 Give the contra account for the amount of R2 800 on the credit side.

--

16.6 If the business' profit margin is 50% on the cost price, calculate the sales price for the credit recording for the amount of R28 000.

--

16.7 What is the source document for the debit recording for "Bank, CPJ, R8 400"?

--

## Financial accounting of a sole trader

16.8 What is the source document for the credit recording for “Cost of sales, DJ, R22 000”?

--	--

16.9 Give a reason for the debit recording of R420?

--	--

### Activity 17 (Analysis – Debtors control)

#### *Required*

Analyse the Debtors’ control account in the books of Limpopo Traders for March 2011 and answer the questions that follow.

#### *Information*

General ledger of Limpopo Traders									
Dr.		Debtors’ control					B7		Cr.
2011 Mar	1	Balance	b/d	(1)	2011 Mar	30	Bank and discount allowed	CRJ	19 300
	30	Sales	DJ	18 200			(2)	DAJ	3 100
		(3)	CPJ	240			Journal credits	GJ	640
		Petty cash	PCJ	160			Balance	c/d	(6)
		Journal debits	GJ	840					
2011 Apr	1	Balance	b/d						

## Financial accounting of a sole trader

### Questions

#### *Additional information*

The Debtors' list totals on 28 February 2011 are as follows:

Debtors' list

Debit	Credit
R14 300	R620

17.1 What is the amount owed by the debtors on 1 March 2011?

17.2 What is the contra account for the amount of R3 100 on the credit side?

17.3 What is the contra account for the amount of R240 on the debit side?

17.4 Give one possible reason for the amount of R160 on the debit side.

17.5 Give one possible reason for the amount of R840 on the debit side.

17.6 Calculate the amount owed by the debtors on 31 March 2011.

17.7 What is the source document for the debit recording: "Sales, DJ, R18 200"?

## Financial accounting of a sole trader

17.8 What is the source document for the credit recording for: “Journal credits, GJ, R640”?

17.9 Give TWO possible measures that can be taken in order for debtors to pay their debts regularly.

### Activity 18 (Analysis – Creditors control)

*Required*

Analyse the creditors’ control account in the books of Patricia Distributors for March 2011 and answer the questions that follows.

*Information*

General ledger of Patricia Distributors									
Dr.		Creditors’ control					B8		Cr.
2011	31	(3)	CPJ	35 400	2011	1	Balance	b/d	(1)
Mar					Mar				
		Sundry Allowances	CAJ	2 300		31	(2)	CJ	21 800
		Journal debits	GJ	840			Journal credits	GJ	610
		Balance	c/d	(4)			Bank	CRJ	140
					2011	1	Balance	b/d	
					Apr				

## Financial accounting of a sole trader

### Questions

#### *Additional information*

The Creditors' list totals on 1 March 2011 are as follows:

Debtors' list

Debit	Credit
R340	R28 600

18.1 What is the amount owed to the creditors on 1 March 2011?

--

18.2 Show the contra account for the amount of R21 800 on the credit side.

--

18.3 Show the contra account for the amount of R35 400 on the debit side.

--

18.4 What is the amount owed to creditors on 31 March 2011?

--

18.5 Give two possible reasons for the recording "Journal credits, GJ, R610"

--

18.6 What is the source document for the recording on the debit side: Sundry Allowances, CAJ, R2 300"?

--

18.7 What is the source document for the recording on the credit side: Bank, CRJ, R140"?

--

## Financial accounting of a sole trader

### Activity 19 (Analysis of transactions)

On the 30 August 2010, the accountant of Mabunda Stores compared the balances of the debtors control account and the creditors control account in the General Ledger with the total of the debtors' and creditors' lists.

#### *Required*

Use the columns on the answer sheet to indicate how the errors and omissions must be recorded to reconcile the control accounts with debtors' and creditors' lists.

#### *Information*

The following errors and omissions need to be corrected.

- 1 A credit invoice for goods sold to T. Tanli was recorded twice in the subsidiary book, and also posted twice, R200.
- 2 The total of the Debtors Journal was undercast by R240 and the Creditors Journal was overcast by R180.
- 3 A credit note for R544 was recorded in the Creditors Allowances Journal as R54 and posted accordingly.
- 4 The amount received from C. Maduna was posted to the credit side of the account of C. Maduma, R144.
- 5 An amount of R87 in the Debtors Allowances Journal was incorrectly posted to debtor N. Zungu's account as R187.
- 6 The totals of the discount allowed column, R300 and debtors control column, R18 644, in the Cash Receipts Journal have both been posted to the debtors control account.
- 7 A credit invoice for goods purchased from Kubeka Suppliers was treated as a credit note, R99.
- 8 An amount of R180 in the debtors control column in the Cash Receipts Journal was not posted.
- 9 A creditor with a debit balance of R40 was included in the list of debtors.
- 10 A credit balance of R322 on the account of S. Sechele is an amount paid in by him after his account had been written off as irrecoverable. This amount was included in the debtors control column in the Cash Receipts Journal.



## Financial accounting of a sole trader

<i>Answer sheet</i>								
No.	Debtors control		Debtors list		Creditors control		Creditors list	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

### Activity 20 (Debtors)

The Debtors control account and debtors list supplied were taken from the ledgers of Mashoke Traders by an inexperienced accountant. On investigation, errors and omissions were found.

*Required*

- 1 Draw up a corrected Debtors control account for September 2010 after all errors, adjustments and omissions have been considered. Balance the account.
- 2 Prepare the corrected list of debtors at 30 September 2010.

General ledger of Mashoke Traders									
Dr.		Debtor's control				B7			Cr.
2010 Sep	1	Balance	b/d	21 430	2010 Sep	30	Bank and discount allowed	CRJ	28 560
	30	Debtors Allowances	DAJ	960			Bank (R/D)	CPJ	300
		Sales	DJ	32 622			Journal credits	GJ	530
		Journal debits	GJ	840			Balance	c/d	26 852
				55 852					55 852
2010 Oct	1	Balance	b/d	26 462					

## Financial accounting of a sole trader

Note: The bookkeeper made posting errors to the Debtors control account.

Debtors list on 30 September 2010	Debit	Credit
D. Botha	7 202	
L. Uys	5 380	
G. Coetzee	5 890	
J. van der Linde	4 520	
B. de Villiers	1 980	
W. van Jaarsveldt		640
G. Haasbroek	800	
	25 572	640

### *Errors and omissions*

- The list of debtors had the following totals on 1 September 2010:  
Total of debtors with debit balances, R21 370  
Total of debtors with credit balances, R720
- The receipt issued to B. De Villiers for R870 cash received, was recorded correctly in the Cash Receipts Journal, but was posted to his account as R780.
- The total of debtors' allowances column in the Debtors Allowances Journal was under cast by R20.
- An entry in respect of sales returns of R100 by G. Haasbroek was correctly entered in the Debtors' Allowances Journal, but posted to the wrong side of Debtor G. Haasbroek's account by mistake.
- The debit column of the debtors' list was under cast by R200.
- There was no entry made in the General Ledger for the transfer of the account of W. van Jaarsveldt with a credit balance of R640 from his account in the Creditor's Ledger.
- The amounts on the credit side of J. van der Linde's were under cast by R400.
- On 30 September R18 postage was paid on behalf of a debtor, G. Coetzee, from the petty cash. The entry was recorded in the Petty Cash Journal, but not posted to the ledger.
- When L. Uys paid R1 000 on his account he received a 10% discount, which was recorded in the Cash Receipts Journal. However, this discount was not posted to his account.



## Financial accounting of a sole trader

Discuss what is involved in setting up a good system of internal control over creditors.

### Information

- On 1 November 2010 Lucia Traders had a balance of R4 283 in the Creditors control account.
- On 30 November the following amounts were posted to the Creditors control Account:

- Creditors Journal total R42 700
- Creditors Allowances Journal total R7 108
- Cash Payments Journal totals:
  - Payments to creditors R30 200
  - Discount received from creditors R1 681
- General Journal totals:
  - Debits R3 520
  - Credits R1 300

- Creditors list on 30 November 2010

	Debit	Credit
Ducasse Traders		689
Lund Stores		284
Lind Traders		2 065
AB Motors		4 460
Marais Traders	244	
	244	7 507

- The following errors or omissions:

## Financial accounting of a sole trader

- An invoice received from Lund Stores for R1 400 was posted to the account of Lind Traders in the Creditors Ledger.
- Lucia Traders decided to transfer the account of Marais Traders to the Debtors Ledger. No entry has been made in the General Journal.
- An invoice for R2 200 for goods bought on account from Ducasse Traders was incorrectly entered in the Creditors Journal as R2 020.
- Vehicle parts to the value of R740 were returned to AB Motors. This was correctly recorded in the Creditors Allowances Journal, but when posted to the account of AB Motors it was posted to the account of AB Motors as a credit purchase.
- Ducasse Traders both buys from and sells goods to Lucia Traders. The debit balance of R500 on their account in the Debtors ledger is to be transferred to their account in the Creditors Ledger. No entry has been made in the books.



## Financial accounting of a sole trader

### Information

Balances from the Trial Balance of Sunshine Traders on 31 March 20..

Capital	R578 640
Drawings	R4 740
Land and buildings	R280 000
Vehicles	R124 000
Equipment	R80 400
Trading Stock	R27 300
Debtors' Control	R ?
Fixed deposit: Build Bank (10% p.a.)	R30 000
Bank (Dr)	R18 300
Cash float	R400
Petty Cash	R500
Creditors' Control	R25 100
Deposit: Rent Income	R5 000
Sales	R75 000
Cost of sales	R50 000
Debtors' Allowances	R4 200
Stationery	R1 800
Packing Material	R960
Salaries	R24 000
Wages	R21 600
Discount allowed	R240
Discount received	R1 380
Bank charges	R890
Carriage on sales	R435
Interest on current account	R265
Interest on overdue debtors	R180
Interest on overdue creditors	R420
Rent Income	R15 000
Donations	R160
Telephone	R6 300
Water and electricity	R9 300
Bad debts	R1 400
Interest on fixed deposit	R750
Bad debts recovered	R230

## Financial accounting of a sole trader

### Balances in the Debtors' List:

Kromhout Traders R150 (Cr)  
 S. Moaner, R2 000 (Dr)  
 G. Gift, R4 800 (Dr)  
 L. Lona, R5 400 (Dr)  
 R. Madisha, R2 150 (Dr)

### Balances in the Creditors' List:

Kromhout Traders, R3 200 (Cr)  
 Brom Distributors, R8 400 (Cr)  
 Santie Limited, R10 500 (Cr)  
 Mala Manufacturers, R3 000 (Cr)

### Transactions: April 20..

- 1 A statement of Sunshine Traders' account was received from Kromhout Traders. It was decided to transfer the credit balance in the debtors' ledger to the account in the creditors' ledger.
- 3 Issue cheque 312 to Kromhout Traders in payment of Sunshine Traders' account, after they received R150 discount.  
The telephone bill was received from Telkom. Issue cheque 313 to pay the amount of R2 300.
- 4 Receive a cheque from R. Brown, the owner, to increase his capital contribution to R600 000. Issue receipt 151.  
Credit sales of merchandise to:  
L. Lona, R1 200 (invoice 88)  
R. Madisha, R750 (invoice 89).
- 6 Pay Santie Ltd. with cheque 314 in payment of Sunshine Traders' account minus 5% discount.  
Issue cheque 315 to the City Hall for the month's water and electricity of R2 800.
- 8 Buy goods on credit from Mala Manufacturers for R2 300 minus 20% discount (Renumber invoices from 132).  
Brom Distributors charges Sunshine Traders' overdue account with 7% interest p.a. for three months.
- 10 Issue Credit Note 56 to L. Lona for merchandise returned, R300.  
It has been discovered that Stationery bought by Brom Traders for R280 on credit was posted to the Trading stock account. Correct the error.  
Issue cash cheque 316 for:  
Wages, R1 800  
Cash Float increased to R600.
- 11 Issue Debit Note 35 to Mala Manufacturers for goods sent back, R450 minus 20% discount.
- 12 Petty cash payments:  
Stationery, R140 (Petty Cash Voucher 86)  
Donations, R80 (Petty Cash Voucher 87).



## Financial accounting of a sole trader

- 13 Cash sales of merchandise, R9 600.  
L. Lona pays his account and receives 5% discount. Issue receipt 152.  
Receive a cheque from S. Botha for the rent of part of the building, R5 000. Issue receipt 153.
- 15 Buy the following on credit from:  
Kromhout Traders, packing material, R180 and stationery, R260.  
Mala Manufacturers, equipment R6 400.  
Pay R400 from the petty cash for two days' wages to a worker who washed the windows. Issue petty cash voucher 88.
- 16 Issue cheque 317 to the petty cash cashier, R500.  
Issue invoice 90 to R. Madisha for merchandise sold on credit, R360.
- 17 Issue cash cheque 318 for wages, R1 800.
- 18 Issue Debit note 36 to Mala Manufacturers. They have forgotten to give 20% discount for Equipment bought on credit on the 15th.
- 20 Cash sales of merchandise, R5 400.  
Receive a cheque from Build Bank for interest earned monthly on a fixed deposit. Issue receipt 154.
- 21 Sell goods on credit to Kromhout Traders for R780. Issue invoice 91.  
Issue petty cash voucher 89 to SA Deliveries for merchandise delivered to Kromhout Traders, R140. Levy the amount against Kromhout Traders' account.
- 23 Sell goods on credit to S. Moaner for R2 700. Issue invoice 92.  
Receive a cheque from S. Moaner in payment of his account, on 1 April 20.. minus 2½% discount. Issue receipt 155.
- 25 Issue Credit Note 57 to S. Moaner for Allowances given, R270.  
Receive S. Moaner's cheque back from the bank, with a bank Debit Note and the remark 'R/D - insufficient funds'.  
Charge G. Gift's overdue account 2½% interest p.a. for two months.
- 26 The owner takes merchandise for his own use, R390.  
Buy the following on credit:  
Santie Limited, R3 600 minus 20% discount for goods.  
Kromhout Traders R380 for paper for the printer, as well as R150 for packing material.
- 27 Donate merchandise of R200 at cost price to the local children's home.
- 28 Issue Debit Note 37 to Kromhout Traders for packing material of R40 sent back to them.  
Issue cash cheque 319 for wages, R1 800.  
Pay a day's wages R100 from the petty cash to the garden worker. Issue petty cash voucher 90. Buy goods for R50 and pay for them from the petty cash. Issue petty cash voucher 91.

## Financial accounting of a sole trader

- 29 Sell goods on credit to L. Lona for R540. Issue invoice 93.  
Pay SA Deliveries with cheque 320 for delivery of goods bought on credit, R340.  
Receive a cheque from G. Pillay of R400. It is for his account that has already been written off as a bad debt. Issue receipt 156.
- 30 Issue cheque 321 to Brom Distributors in payment of Sunshine Traders' account, R8 214. Receive R200 discount.  
Pay S. Moot's salary with cheque 322 for the month, R8 000.  
Receive the bank statement from Perm Bank, which shows the following:  
Service fees, R210  
Credit card levies, R340  
Interest on credit balance, R110.  
Pay Snow Distributors R940 with cheque 323 for goods bought with cash.  
G. Gift is declared insolvent. Receive a first and final dividend of 50 cents in the Rand. Write the balance off as a bad debt. Issue receipt 157.  
Issue cheque 324 to restore the Petty cash.





## Financial accounting of a sole trader

Petty Cash Journal of Sunshine Traders – April 20..										PCJ
Doc	Day	Details	Fol	Petty cash	Wages	Stationery	Trading stock	Sundry Accounts		
								Amount	Fol	Details

Creditors' Journal of Sunshine Traders – April 20..										CJ
Doc	Day	Creditors	Fol	Creditors control	Trading stock	Stationery	Packing material	Sundry Accounts		
								Amount	Fol	Details

## Financial accounting of a sole trader

Creditors' Allowances Journal of Sunshine Traders – April 20..										CAJ
Doc	Day	Creditors	Fol	Creditors' Control	Trading Stock	Stationery	Packing material	Sundry Accounts		
								Amount	Fol	Details

General Journal of Sunshine Traders – April 20..									GJ
Day	Details	Fol	Debit	Credit	Debtors' Control		Creditors' Control		
					Debit	Credit	Debit	Credit	

# Financial accounting of a sole trader


## Financial accounting of a sole trader

Debtors Journal of Sunshine Traders – April 20..					DJ
Doc	Day	Debtors	Fol	Sales	Cost of sales

Debtors' Allowances Journal of Sunshine Traders – April 20..					DAJ
Doc	Day	Debtors	Fol	Debtors Allowances	Cost of sales



# Financial accounting of a sole trader

<i>Answer sheet</i>									
General ledger of									
Dr.	Capital							B1	Cr.

Dr.	Drawings							B2	Cr

Dr.	Land and buildings							B3	Cr

Dr.	Vehicles							B4	Cr

Dr.	Equipment							B5	Cr

Dr.	Trading stock							B6	Cr

# Financial accounting of a sole trader

Dr.	Debtors control							B7	Cr

Dr.	Fixed deposit: Build Bank							B8	Cr

Dr.	Bank							B9	Cr

Dr.	Cash float							B10	Cr

Dr.	Petty cash							B11	Cr

Dr.	Creditors control							B12	Cr

# Financial accounting of a sole trader

Dr.	Deposit: Rent Income							B13	Cr

Dr.	Sales							N1	Cr

Dr.	Cost of sales							N2	Cr

Dr.	Debtors Allowances							N3	Cr

Dr.	Stationery							N4	Cr

Dr.	Packing material							N5	Cr

Dr.	Salaries							N6	Cr

# Financial accounting of a sole trader

Dr.	Wages							N7	Cr

Dr.	Discount allowed							N8	Cr

Dr.	Discount received							N9	Cr

Dr.	Bank charges							N10	Cr

Dr.	Carriage on sales							N11	Cr

Dr.	Investment on current account							N12	Cr

Dr.	Interest on overdue debtors							N13	Cr

# Financial accounting of a sole trader

Dr.	Interest on overdue creditors							N14	Cr

Dr.	Rent Income							N15	Cr

Dr.	Donations							N16	Cr

Dr.	Telephone							N17	Cr

Dr.	Water and electricity							N18	Cr

Dr.	Bad debts							N19	Cr

Dr.	Interest on Fixed deposit							N20	Cr



# Financial accounting of a sole trader

Debtors' Ledger of Sunshine Traders						
Kromhout Traders						DL1
Date	Day	Details	Fol	Debit	Credit	Balance
S. Moaner						DL2
Date	Day	Details	Fol	Debit	Credit	Balance
G. Gift						DL3
Date	Day	Details	Fol	Debit	Credit	Balance
L. Lona						DL4
Date	Day	Details	Fol	Debit	Credit	Balance

## Financial accounting of a sole trader

R. Madisha						DL5
Date	Day	Details	Fol	Debit	Credit	Balance

Debtors list of Sunshine Traders		
Debtors list	Fol	Debit

Creditors' Ledger of Sunshine Traders						
Kromhout Traders						CL1
Date	Day	Details	Fol	Debit	Credit	Balance

Brom Distributors						CL2
Date	Day	Details	Fol	Debit	Credit	Balance



## Financial accounting of a sole trader

Santie Ltd.						CL3
Date	Day	Details	Fol	Debit	Credit	Balance

Mala Manufacturers						CL4
Date	Day	Details	Fol	Debit	Credit	Balance

Creditors list of Sunshine Traders		
Creditors list	Fol	Credit

### 3 The Accounting equation

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#### 3.1 Introduction

The primary aim of a business is to make a profit through buying and selling merchandise or to gain an income by rendering a service. By means of accounting the businessman can ascertain whether he/she has succeeded in realising that primary aim. The primary aim of accounting is therefore to determine the financial result (net profit or net loss) and the financial position of the enterprise as at a specific date. The financial position of the enterprise is measured by the accounting equation.

# Financial accounting of a sole trader

## 3.2 Accounting equation

The accounting equation basically states that: **ASSETS = EQUITY + LIABILITIES**.

*A feature of this equation is that the equation remains balanced after every transaction entry.*

### Assets

- An entry on the left-hand (debit) side of an asset account creates or increases an asset value.
- An entry on the right-hand (credit) side of an asset account decreases the asset value.

### Liabilities

- An entry on the credit side of a liability account creates or increases the liability.
- An entry on the debit side of a liability account decreases the liability.

### Equity

- An entry on the credit side of an equity account creates or increases the equity.
- An entry on the debit side of an equity account decreases the equity.
- A nominal account indicating a loss or expense decreases equity.
- A nominal account indicating a profit or income increases equity.

## 3.3 Analysis of transactions

### 3.3.1 Cash Receipts Journal

Receipt or capital contribution from owner	
Source document:	Duplicate receipt
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Or Bank overdraft (liability) decreases Capital (equity) is created – increases
Double entry:	Dr. Bank A+ (or L – overdraft) Cr. Capital E+

## Financial accounting of a sole trader

### Sale of merchandise for cash

Source document:	Cash register roll
Journal:	CRJ
Analysis: Selling price	Cash in bank (an asset) increases Or Bank overdraft (liability) decreases Sales (income) increases equity
Cost price	Cost of merchandise sold (expense) decreases equity. Trading stock (an asset) decreases
Double entry:	
Selling price	Dr. Bank A+ (or L – overdraft) Cr. Sales (an income account) E+
Cost price	Dr. Cost of sales (an expense account) E- Cr. Trading stock A-

### Collection of debtor's account: receipt of cash

Source document:	Duplicate receipt
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Or Bank overdraft (a liability) decreases Debtor (an asset) decreases
Double entry:	Dr. Bank A+ (or L – overdraft) Cr. Debtors control A- Cr. Debtor's account in debtors ledger

### Discount allowed to debtor

Source document:	Duplicate receipt
Journal:	CRJ
Analysis:	Discount allowed (an expense) decreases equity Debtor (an asset) decreases
Double entry:	Dr. Discount allowed E- Cr. Debtors control A- Cr. Debtor's account in debtors ledger.

## Financial accounting of a sole trader

<b>Rent received from a tenant</b>	
Source document:	Duplicate receipt/Bank statement (if tenant deposited money directly into bank account)
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Or Bank overdraft (a liability) decreases Rent income (income) increases equity
Double entry:	Dr. Bank A+ (or L- overdraft) Rent income (an income account) E+

<b>Interest earned on a favourable bank balance</b>	
Source document:	Bank statement
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Interest on current account (income) increases equity.
Double entry:	Dr. Bank A+ Cr. Interest on current account (an income account) E+

<b>Fixed deposit at SA Bank matured</b>	
Source document:	Duplicate receipt/Bank statement (if SA Bank deposited money directly into bank account)
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Or Bank overdraft (a liability) decreases Fixed Deposit (an asset) decreases
Double entry:	Dr. Bank A+ (or L- overdraft) Cr. Fixed deposit: SA Bank A-
<b>Earned interest on fixed deposit</b>	
Source document:	Duplicate receipt/Bank statement (if SA Bank deposited money directly into bank account)
Journal:	CRJ
Analysis:	Cash in bank (an asset) increases Or Bank overdraft (a liability) decreases Interest on fixed deposit (income) increases equity.
Double entry:	Dr. Bank A+ (or L- overdraft) Cr. Interest on fixed deposit (an income account) E+

## Financial accounting of a sole trader

### Commission earned/ Services rendered

Source document:	Cash register roll
Journal:	CRJ
Analysis:	Cash in bank (asset) increases Or Bank overdraft (a liability) decreases Current income (income) increases equity
Double entry:	Dr. Bank A+ (or L- overdraft) Cr. Current income (an income account) E+

### 3.3.2 Cash Payments Journal

#### Purchase of a tangible asset by cheque (e.g. vehicles)

Source document:	Cheque counterfoil
Journal:	CPJ
Analysis:	Vehicles (an asset) increases Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Vehicles A+ Cr. Bank A- (or L+ overdraft)

#### Purchase of a current asset by cheque (e.g. trading stock)

Source document:	Cheque counterfoil
Journal:	CPJ
Analysis:	Trading stock (an asset) increases Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Trading stock A+ Cr. Bank A- (or L+ overdraft)

#### Purchase of consumable by cheque (e.g. stationery)

Source document:	Cheque counterfoil
Journal:	CPJ
Analysis:	An expense e.g. stationery decreases equity Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Expense account e.g. stationery E- Cr. Bank A- (or L+ overdraft)

## Financial accounting of a sole trader

### Payment of creditor's account

Source document:	Cheque counterfoil
Journal:	CPJ
Analysis:	Creditor (a liability) decreases Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Creditors' control Dr. Creditor's account in creditors ledger Cr. Bank A- (or L+ overdraft)

### Discount received from a creditor

Source document:	Cheque counterfoil
Journal:	CPJ
Analysis:	Creditor (a liability) decreases Discount received (an income) increases equity
Double entry:	Dr. Creditors' control L- Dr. Creditor's account in creditors ledger Cr. Discount received E+

### Dishonoured cheque received from bank (debtor pay his account previously)

Source document:	Bank debit note/Bank statement
Journal:	CPJ
Analysis:	Debtor (an asset) increases Bank (an asset) decreases Or bank overdraft (liability) increases
Double entry:	Dr. Debtors' control A+ Dr. Debtor's account in debtors ledger Cr. Bank A- (or L+ overdraft)

### Bank charges

Source document:	Bank statement
Journal:	CPJ
Analysis:	An expense bank charges decreases equity Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Bank charges E- Cr. Bank A- (or L+ overdraft)

## Financial accounting of a sole trader

### Interest charged by the bank on an overdraft bank account.

Source document:	Bank statement
Journal:	CPJ
Analysis:	An expense interest on bank overdraft decreases equity Bank overdraft (liability) increases
Double entry:	Dr. Interest on bank overdraft E- Cr. Bank L- (bank is overdrawn)

### Payment on Loan to SA Bank

Source document:	Cheque counterfoil/Bank statement (if paid by debit order)
Journal:	CPJ
Analysis:	Loan (a liability) decreases Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Loan: SA Bank L- Cr. Bank A- (or L+ overdraft)

### Pay interest on loan to SA Bank

Source document:	Cheque counterfoil/Bank statement (if paid by debit order)
Journal:	CPJ
Analysis:	An expense- interest on loan decreases equity Cash in bank (an asset) decreases Or Bank overdraft (liability) increases
Double entry:	Dr. Interest on loan E- Cr. Bank A- (or L+ overdraft)

### 3.3.3 Debtors Journal

#### Sale of merchandise on credit

Source document:	Duplicate credit invoice
Journal:	DJ
Analysis:	
Selling price	Debtor (an asset) increases (owes money to the enterprise) Sales (income) increases equity

## Financial accounting of a sole trader

Cost price	Cost of merchandise sold (expense) decreases equity
	Trading stock (an asset) decreases
Double entry:	Dr. Debtors control A+
Selling price	Dr. Debtor's account in debtors ledger
	Cr. Sales (income account) E+
	Dr. Cost of sales (expense account) E-
Cost price	Cr. Trading stock A-

### 3.3.4 Debtors Allowances Journal

#### Debtors' returns and Allowances: return of goods by a debtor

Source document:	Duplicate credit note
Journal:	DAJ
Analysis:	
Selling price	Debtors Allowances decreases equity
	Debtor (an asset) decreases
Cost price	Trading stock (an asset) increases
	Cost of sales increases equity
Double entry:	Dr. Debtors Allowances E-
Selling price	Cr. Debtors control A-
	Cr. Debtor's account in debtors ledger
Cost price	Dr. Trading stock A+
	Cr. Cost of sales E+

#### An Allowances given to the debtor on the original recorded selling price

Source document:	Duplicate credit note
Journal:	DAJ
Analysis:	Debtors Allowances decreases equity
	Debtor (an asset) decreases
Double entry:	Dr. Debtors Allowances E-
	Cr. Debtors control A-
	Cr. Debtor's account in debtors ledger
	<i>Note: No double entry for cost of sales</i>



## Financial accounting of a sole trader

### 3.3.5 Creditors Journal

<b>Purchase of tangible asset on credit (e.g. equipment)</b>	
Source document:	Original credit invoice
Journal:	CJ
Analysis:	Equipment (an asset) increases Creditor (a liability) increases
Double entry:	Dr. Equipment A+ Cr. Creditors control L+ Cr. Creditor's account in creditors ledger

<b>Purchase of current asset on credit (e.g. trading stock)</b>	
Source document:	Original credit invoice
Journal:	CJ
Analysis:	Trading stock (an asset) increases Creditor (a liability) increases
Double entry:	Dr. Trading stock A+ Cr. Creditors control L+ Cr. Creditor's account in creditors ledger

<b>Purchase a consumable on credit (e.g. stationery)</b>	
Source document:	Original credit invoice
Journal:	CJ
Analysis:	An expense e.g. stationery decreases equity Creditor (a liability) increases
Double entry:	Dr. Expense account e.g. stationery E- Cr. Creditors control L+ Cr. Creditor's account in creditors ledger

### 3.3.6 Creditors Allowances Journal

<b>Creditors' returns and Allowances: Allowances received on purchase of tangible asset (e.g. trade discount omitted)</b>	
Source document:	Duplicate debit note
Journal:	CAJ
Analysis:	Creditor (a liability) decreases Tangible asset (e.g. equipment) decreases
Double entry:	Dr. Creditors control L- Dr. Creditor's account in creditors ledger Cr. Equipment A-

## Financial accounting of a sole trader

### Return of/or an Allowances received on merchandised purchased on credit

Source document:	Duplicate debit note
Journal:	CAJ
Analysis:	Creditor (a liability) decreases Trading stock (an asset) decreases
Double entry:	Dr. Creditors control L- Dr. Creditor's account in creditors ledger Cr. Trading stock A-

### Return of/or an Allowances received on a consumable purchased on credit

Source document:	Duplicate debit note
Journal:	CAJ
Analysis:	Creditor (a liability) decreases An expense account (e.g. stationery) increases equity
Double entry:	Dr. Creditors control L- Dr. Creditor's account in creditors ledger Cr. expense account (e.g. stationery) E+

### 3.3.7 Petty Cash Journal

#### Buy stock and pay out of the petty cash

Source document:	Petty cash voucher
Journal:	PCJ
Analysis:	Trading stock (an asset) increases Petty cash (an asset) decreases
Double entry:	Dr. Trading stock A+ Cr. Petty cash A-

#### Pay for carriage on purchases and pay out of the petty cash on behalf of a debtor

Source document:	Petty cash voucher
Journal:	PCJ
Analysis:	Debtor (an asset) increases Petty cash (an asset) decreases
Double entry:	Dr. Debtors control A+ Dr. Debtor's account in debtors ledger Cr. Petty cash A-

## Financial accounting of a sole trader

### Purchase of consumable and pay out of the petty cash (e.g. stationery)

Source document:	Petty cash voucher
Journal:	PCJ
Analysis:	An expense e.g. stationery decreases equity Petty cash (an asset) decreases
Double entry:	Dr. Expense account e.g. stationery E- Cr. Petty cash A-

### Pay an expense (e.g. wages) out of the petty cash

Source document:	Petty cash voucher
Journal:	PCJ
Analysis:	An expense e.g. wages decreases equity Petty cash (an asset) decreases
Double entry:	Dr. Expense account e.g. wages E- Cr. Petty cash A-

### 3.3.8 General Journal

#### Cancellation of discount allowed on a dishonoured cheque

Source document:	Journal voucher
Journal:	GJ
Analysis:	Debtors control (an asset) increases Discount allowed (an expense) increases equity
Double entry:	Dr. Debtors control A+ Dr. Debtor's account in the debtors ledger Cr. Discount allowed (expense) E+

#### Interest charge on overdue debtors account

Source document:	Journal voucher
Journal:	GJ
Analysis:	Debtors control (an asset) increases Interest on overdue debtors (an income) increases equity Dr. Debtors control A+
Double entry:	Dr. Debtor's account in the debtors ledger Cr. Interest on overdue debtors (income) E+

## Financial accounting of a sole trader

### Interest charged by a creditor on an overdue account

Source document:	Journal voucher
Journal:	GJ
Analysis:	Interest on overdue creditors (an expense) decreases equity Creditors control (liability) increases
Double entry:	Dr. Interest on overdue creditors (expense) E -+ Cr. Creditors control L+ Cr. Creditor's account in the creditors ledger

### Write a debtors account of as irrecoverable

Source document:	Journal voucher
Journal:	GJ
Analysis:	Bad debts (an expense) decreases equity Debtors control (an asset) decreases
Double entry:	Dr. Bad debts (expense) E- Cr. Debtors control A- Cr. Debtor's account in the debtors ledger

### Donation of trading stock at cost price

Source document:	Journal voucher
Journal:	GJ
Analysis:	Donations (an expense) decreases equity Trading stock (an asset) decreases
Double entry:	Dr. Donations (expense) E- Cr. Trading stock A-

### The owner takes trading stock at cost price

Source document:	Journal voucher
Journal:	GJ
Analysis:	Drawings (an expense) decreases equity Trading stock (an asset) decreases
Double entry:	Dr. Drawings (expense) E- Cr. Trading stock A-

### Capitalisation of interest on loan at MB Bank

Source document:	Journal voucher
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## Financial accounting of a sole trader

Journal:	GJ
Analysis:	Interest on loan (an expense) decreases equity Loan at MB Bank (liability) increases
Double entry:	Dr. Interest on loan (expense) E- Cr. Loan: MB Bank L+

### Capitalisation of interest on fixed deposit at XY Bank

Source document:	Journal voucher
Journal:	GJ
Analysis:	Fixed deposit at XY Bank (an asset) increases Interest on fixed deposit (an income) increases equity
Double entry:	Dr. Fixed deposit: XY Bank A+ Cr. Interest on fixed deposit (income) E+

### Activity 23 (AOL)

#### *Required*

Analyse the following transactions under the headings provided. Under account debited and account credited, you must indicate which accounts in the General ledger are debited and credited. In the accounting equation, indicate an increase with a “+”, a decrease with a “-“before the amounts and no change with a “o”. Assume throughout that the bank has a favourable bank balance.

#### Hints:

- Draw up T-accounts.
- Make sure the accounting equation ( $A = E + L$ ) remains balanced after every transaction entry.

#### *Transactions*

- 1 A statement of account was received from Kromhout Traders. It was decided to transfer the credit balance (R150) in the debtors' ledger to the account in the creditors' ledger.
- 2 The telephone bill was received from Telkom. Issue a cheque to pay the amount of R2 300.
- 3 Receive a cheque from R. Brown, the owner, to increase his capital contribution from R578 640 to R600 000.
- 4 Pay Santie Ltd. in payment of our account of R10 500 minus 5% discount.
- 5 Buy goods on credit from Mala Manufacturers for R2 300 minus 20% trade discount.
- 6 Brom Distributers charges our overdue account of R8 400 with 7% interest per annum for three months.

## Financial accounting of a sole trader

- 7 Credit sales of merchandise to L. Lona, R4 200. The cost price of the goods sold was R2 100.
- 8 L. Lona returned R300 worth of trading stock back. The cost price of the goods was R150.
- 9 Sent goods back to Mala Distributors (creditor) worth R450 minus 20% trade discount.
- 10 It was discovered that stationery bought on credit for R280 from Morne Traders was posted to the trading stock account. Correct the error.
- 11 Buy stationery from SNA Distributors for R80 and pay with petty cash.
- 12 Cash sales of merchandise, R9 600. The cost price of the goods sold was R4 800.
- 13 The owner took merchandise with a selling price of R600 for his own use. The cost price of the goods was R300.
- 14 R. Radebe (a debtor) is declared insolvent. Receive a first and final dividend of 20 cent in the Rand. R. Radebe owes the business R1 100.
- 15 Pay R400 taken from the petty cash for two days' wages to a worker who washed the windows.
- 16 Receive a cheque from S. Moaner on payment of his account of R2 000 minus 2½% discount.
- 17 Receive S. Moaner's cheque back from the bank with the remark "R/D insufficient funds". (Look at nr. 16)
- 18 Donate merchandise of R200 at cost price to the local children's home.
- 19 Charge G. Gifts (a debtor) overdue account of R4 800 with 2½% interest for two months.
- 20 Receive a cheque from G. Pillay for R400. It is for his account that has already been written off as bad debts.
- 21 Pay SA Deliveries with a cheque for delivery of goods bought on credit, R340.
- 22 The fixed deposit by AB Bank of R30 000 matured today. Received a cheque of R32 500. Included in the amount received is interest on fixed deposit.
- 23 Pay S. Moot's salary for the month, R8 000.
- 24 Pay SA Deliveries R140 with petty cash for delivering goods to L. Prinsloo (debtor). The amount must be levied against the debtors' account.
- 25 Receive the bank statement from Perm Bank, reflecting the following:
  - Service fees, R210
  - Credit card levies, R340
  - Interest on credit balance, R110



## Financial accounting of a sole trader

### Activity 24 (Transaction analysis)

#### *Required*

Analyse the following transactions under the headings provided. Under account debited and account credited, you must indicate which accounts in the General ledger are debited and credited. In the accounting equation, indicate an increase with a “+”, a decrease with a “-“ before the amounts and no change with a “o”. Assume throughout that the bank has a credit balance.

Note: The business profit margin is 150% on cost price.

#### *Transactions*

- 1 Cash sales of merchandise. The cost price of the goods were R2 000.
- 2 Receive a cheque from S. Abrahams on payment of his account of R4 000 minus 5% discount.
- 3 Receive S. Abrahams' cheque back from the bank with the remark “R/D insufficient funds”. (Look at nr. 2)
- 4 Pay Limpopo Traders in payment of the account of R8 500 minus 10% discount.
- 5 Buy goods per cheque from Roland Manufacturers for R12 300 minus 20% trade discount.
- 6 Pay SA Deliveries with a cheque for delivery of goods bought on credit, R840.
- 7 R. Rossouw (a debtor) is declared insolvent. Receive a first and final dividend of 30 cent in the Rand. R. Rossouw owes the business R500.
- 8 The owner increased his capital contribution by depositing R20 000 in the business bank account.
- 9 Receive the bank statement from Willow Bank, which reflects the following:
  - Bank charges, R610
  - Interest on bank overdraft, R180
- 10 Receive R5 000 rent from the tenant, M. Botha.





# Financial accounting of a sole trader

## Overview

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Topic 1 Page 133	Value Added Tax
1 Page 133	Introducing Value-added Tax
2 Page 134	Basic VAT concepts

Overview – Value added tax

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## 1 Introducing Value-added Tax

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The Value-added Tax Act 89 of 1991 was promulgated in June 1991. This Act provides for value-added tax (VAT) as from 30 September 1991.

VAT is levied at each point in the production and distribution chain. VAT is based on a tax credit system which provides for each producer or distributor in the chain to recover the tax paid by him. The tax charged by each producer or distributor in the chain of services or goods before it reaches the end user, is in effect the tax on the value added by him.

The tax payable to the South African Revenue Service (SARS), is tax on the delivery of goods and services by a business (output tax) less the tax on the delivery of goods and services to the business (input tax).

Output tax is the tax levied on the delivery of goods and services.

Input tax is the tax levied on the delivery to the business or imports made by the business. No deductions for input tax can be claimed, unless a proper tax invoice is presented.

The basic calculation is:

$$\text{Output tax less input tax} = \text{amount payable/refundable}$$

# Value Added Tax

## 2 Basic VAT concepts

---

### 2.1 VAT rate

The law provides for two types of delivery:

- Taxable delivery at a standard rate (14% at present) or 0% (zero rate delivery)
- Exempted delivery

A business with zero rate delivery can claim all its input tax as a deduction in its VAT calculation.

### 2.2 Zero rate delivery includes the following:

- Fuel and oil
- Brown bread
- Graded maize meal for human consumption
- Goods used for agriculture
- Transport of passengers on international flights

A business that provides exempted deliveries may not claim its input tax as a deduction.

### 2.3 Exempted deliveries include the following:

- The delivery of financial services
- The delivery of housing in a house
- The transport of passengers by road or rail
- The delivery of educational services
- Trade union member contributions

# Value Added Tax

## 2.4 VAT returns

VAT returns must be handed in every second month. VAT is entered into the different journals and posted to the following ledger accounts:

- VAT-input (purchases)
- VAT-output (sales)

At the end of the first month, above-mentioned accounts are only balanced. At the end of the second month, above-mentioned accounts are closed off to a VAT-control account to determine whether the amount is payable or refundable.

When the difference between the debit and credit balance of VAT-control:

*is a credit, the difference is payable to SARS (current liability);*

*is a debit, the difference is refundable by SARS (current asset).*

## 2.5 Accounting basis

Two accounting bases are allowed for the calculation of VAT liability, namely the:

- invoice basis; and
- payment basis.

According to the invoice basis, tax is accounted for at the:

- issuing of the invoice;
- receipt of the payment, whichever happens first.

According to the payments basis, tax is accounted for when payments are made (purchases) and payments received (sales).

## 2.6 VAT and bad debts

When goods are sold to debtors on credit, the selling price will include VAT. In the debtors' account the VAT will be included and the VAT amount should be paid over to SARS.

If a business is registered with SARS on a payments basis, VAT will be paid over to SARS when the money is received from the debtor. If a person's account is written off, neither the debt nor the VAT will be recovered from the debtor and no amount will be paid over to SARS.

# Value Added Tax

If a business is registered with SARS on an invoice basis, VAT will be paid to SARS as soon as the invoice is issued. If a debtors' account is written off as irrecoverable, the amount previously paid over to SARS must be recovered from SARS in the following month.

## Activity 1

Mr Khumalo is a mathematics teacher who makes a lot of money in charging fees for extra maths lessons. He accepts only cash, not cheques, and he does not issue receipts. He brags that he does not pay taxes and SARS cannot catch him for tax evasion. He charges VAT on his fees, but he is not a registered vendor.

### Questions

1.1 What is the difference between tax evasion and tax avoidance?

1.2 Mention any three types of taxes levied in South Africa.

1.3 Why are some goods zero-rated?

1.4 Why do you think Mr Khumalo is not registered as a VAT Vendor?

# Value Added Tax

1.5 What is the standard rate for VAT in South Africa?

1.6 What does the abbreviation VAT stand for?

## Activity 2

Ross works at Tricky General Dealers. Ross does not know how to calculate the VAT on the sales to the customers and he also heard that some of the items they sell are Zero rated. He does not know what that means. Please assist Ross in calculating the VAT by answering the questions below:

Questions

2.1 Explain to Ross why some items are Zero rated and give two examples.

2.2 Calculate the VAT that will be charged on the list of items below.

A customer had the following items in her trolley (All prices exclude VAT):

Lamb chops	R56	
Brown bread	R5	
Tomatoes	R12	
Coke	R11	
Charcoal	R30	
Cheese	R24	
Chips	R13	

# Salaries and Wages

## Overview

Topic 2 Page 138		Salaries and wages Journal
1	Page 138	Glossary
2	Page 139	Salaries
3	Page 141	Wages
4	Page 142	Deductions
5	Page 155	Summary and analysis

Overview – Internal control

## 1 Glossary

Term	Definition
Employee	A person who works for a business. Someone who is employed by an employer.
Employer	A person or an institution that provides employment to others, usually the owners of a business.
Gross salary	Basic salary per month, prior to deductions.
Gross wage	Basic wage plus overtime, prior to deductions.
Medical aid fund contributions	Employer's contribution to medical aid fund.
Net salary	Gross salary – deductions = net salary.
Net wage	Gross wage – deductions = net wage.
Ordinary time	System according to which employees are paid a set fee per hour. Usually 40 hours per week.
Overtime remuneration	Remuneration paid to workers who work longer hours than ordinary time – usually at a set fee.
PAYE	Pay-as-you-earn system.
Pension fund contribution	Employee's contribution to pension fund.
Salary	An employee receives a basic monthly salary.
Salary advice	Slip given to each employee that provides information about gross salary, deductions and net salary.
SDL	Skills Development Levy.

# Salaries and Wages

SETA	Sector Education and Training Authority.
SITE	Standard Income Tax on Employees.
Unemployment Insurance fund contribution	Employer's contribution to Unemployment Insurance fund.
Wage envelopes	Envelopes containing cash that indicate the wages to be paid to workers. On the envelope information is provided as to how the amount was calculated.
Wages	Workers receive a basic wage on a weekly basis.

## 2 Salaries

### 2.1 Introduction

Up to now you have studied businesses that only have one employee who receives a salary at the end of the month. Most businesses have more than one employee and at the end of the month a Salary Journal must be prepared – this journal indicates the amount each employee will receive. It also happens that some employees work part-time and receive their wages on a weekly basis – a Wages Journal will be set up.

An employer is a person who provides employment to others and an employee is a person who works for a business.

### 2.2 Salaries

An employee who receives a salary is usually a permanent employee and receives a salary at the end of the month. When salaried people are employed, the employer and employee agree on the annual salary and the amount is divided by 12 to determine the monthly salary. An employee can also receive a thirteenth cheque or bonus. A thirteenth cheque is equivalent to one month's salary. The employer determines the bonus and it is usually calculated at a percentage. A salaried employee is appointed at a certain notch/scale.

*Example:*

R. Smit was employed on 1 January 2005. What does R. Smit receive annually and per month before deductions? The salary scale is as follows:

96 000 x 6 000 – 108 000 x 9 000 – 126 000



## Salaries and Wages

Year 1:  $R96\ 000 \div 12 = R8\ 000$  monthly

Year 2:  $R96\ 000 + R6\ 000 = R102\ 000 \div 12 = R8\ 500$

Year 3:  $R102\ 000 + R6\ 000 = R108\ 000 \div 12 = R9\ 000$

Year 4:  $R108\ 000 + R9\ 000 = R117\ 000 \div 12 = R9\ 750$

Year 5:  $R117\ 000 + R9\ 000 = R126\ 000 \div 12 = R10\ 500$

### Activity 1

Showstar Traders employed M. Botha on 1 January 2002. The following annual scale was agreed upon:

180 000 x 12 000 – 204 000 x 18 000 – 240 000

### Questions

1.1 Complete the following table:

Year	Annual increase	Annual salary	Monthly salary
2002			
2003			
2004			
2005			
2006			

1.2 If he should receive a bonus of 60% of his monthly salary on 30 June 2004, what will his salary, prior to deductions, be on 30 June 2004?

--

1.3 If he should receive a thirteenth cheque on 31 December 2006 equal to his monthly salary, what will his salary, prior to deductions, be on 31 December 2006?

--

# Salaries and Wages

## 3 Wages

A person can be employed to receive a weekly wage, usually paid in cash. The worker is usually paid a fixed hourly wage. To determine the basic wage, the fixed hourly wage is multiplied by the number of hours worked per week. Workers who receive wages may also be paid overtime. All workers are expected to work 40 hours per week. (This is called ordinary time) All hours exceeding 40 hours per week are regarded as overtime.

*Important:*

Basic wage + overtime = Gross wage

Gross wage – deductions = net wage

*Example*

S. Radebe receives the following:

- R30 per hour for ordinary time.
- R45 per hour for overtime.

What would his gross wage be if S. Radebe works 45 hours per week?

*Solution*

40 hours x R30 per hour = R1 200

(45 – 40) 5 hours x R45 per hour = R 225

Gross wage = R1 425

### Activity 2

M. Fourie receives the following:

- R50 per hour for ordinary time.
- R75 per hour for overtime.

**Question**

Monday is a public holiday. M. Fourie worked 43 hours during the week. Calculate his gross wage for the week.

# Salaries and Wages

## 4 Deductions

---

Certain deductions need to be made before workers can receive their net salaries or net wages. Some of the deductions are compulsory while others are not. The employee may also request certain deductions from his or her salary, like bond repayments.

The following deductions are explained:

### 4.1 Pension fund contributions

In most cases pension fund contributions are compulsory for all employees. Employees contribute to the pension funds in order to save money for when they go on pension. This is done by deducting a percentage of their gross salary. The employer may also make a contribution – the employer contribution. Both employer and employee contributions are paid to the pension fund on a monthly basis.

### 4.2 Income tax

Each citizen is expected to pay income tax. The amount is calculated according to the employee's taxable income.

$$\text{Taxable income} = \text{Gross salary} - \text{Pension fund contribution}$$

The amount is calculated according to tables provided by the South African Revenue Service (SARS). These tables change constantly as they are determined by the Minister of Finance in his annual budget speech.

The determined amount is paid to SARS. An account is created, namely SARS (PAYE) = SARS (Pay-as-you-earn system).

At the end of the month the business must complete an EMP 201 that is forwarded to SARS together with the income tax payment.

At the end of the financial year (28 February) all employees receive an IRP 5 form that indicates each employee's gross salary for the year as well as the amounts deducted for PAYE and SITE. Each employee must complete an income tax return in order to determine whether he or she has paid enough income tax during the year. In case of an overpayment, SARS repays the taxpayer, but in case where too little PAYE was paid, the taxpayer must pay the outstanding amount to SARS.

# Salaries and Wages

## *What is SITE?*

On 1 March 1988 a Standard Income Tax on Employees system was introduced. According to this system income tax is deducted on all income received by employees. SITE is not a different tax, but the calculations are done at the end of the financial year rather than monthly.

## **4.3 Medical aid fund contributions**

In most businesses it is compulsory for all employees to be members of a medical aid fund – for their own benefit. The employer may also contribute towards the medical aid fund. The deduction, as well as the employer contribution, is paid to the medical aid fund at the end of each month.

Many businesses are negatively influenced by the HIV/AIDS pandemic in South Africa as a result of absenteeism due to long periods of illness and death of staff members. Productivity, profitability, health and safety as well as morale in the workplace are all negatively influenced by the pandemic.

Due to AIDS medical aid funds become depleted. Although medical aid funds only pay a small amount for a person suffering from AIDS, the problem is that the immune system of someone who suffers from AIDS is so weakened that this person is admitted to hospital for other diseases such as pneumonia, and not for AIDS. Medical aid funds then have to pay out large amounts for the treatment of these illnesses.

On 15 August 2004 an article appeared in Rapport in which the following questions were asked:

### **How can HIV/AIDS influence the business?**

Persons who are HIV-positive become ill and their work is eventually influenced because they work at a slower pace due to a lack of energy and is absent from work often. Medical and pension fund costs become astronomical and the employee's sick leave are soon depleted. Other people need to be trained to do the work. This results in additional costs for the employer. As a result productivity and profitability decrease.

### **May a worker with HIV/AIDS be dismissed?**

An employee may not be dismissed because he or she is HIV-positive or has AIDS. An employer may dismiss a worker if her or his health has deteriorated to such an extent that he or she is no longer able to do the work, but then the reason for dismissal is disability due to ill health or injury (incapacity).

## Salaries and Wages

The Good Practice Code: Dismissal according to the Labour Relations Act 66 of 1995 (LRA) determines that the extent and seriousness of the disability must first be investigated.

In the first instance the employer must request a medical certificate from the employee. The employer must request an investigation by an independent doctor of his/her choice in order to confirm the diagnosis. The employer must request the employee's doctor to suggest that his/her client have an HIV test done. Therapy before and after an HIV test is important.

The employer may not force the employee to have the test done. This must be done voluntarily and the result must be kept confidential. If the employee is absent for a long period, a temporary worker may be considered. The employee must also be given alternative or lighter work to do. The employee may only be discharged at that point where he or she can no longer do the work.

After a hearing has been conducted and after enough time has elapsed, counselling provided and serious attempts have been made to adapt the work to the employee's abilities, the employee may be discharged if he or she is no longer able to do the work.

You must remember that HIV-positive workers must be allowed to work under normal circumstances as long as they are medically fit to do the work. They may under no circumstances be discriminated against.

Employers should take all reasonable steps in order to refer employees to available and suitable health, welfare and psycho-social services.

### 4.4 Unemployment Insurance Fund

All employees must pay unemployment insurance. The employer must also contribute to the Unemployment Insurance Fund. The contributions by the employer and the employee are paid to SARS at the end of the month. Just as in the case of income tax, the business must complete an EMP 201 and pay the UIF contributions (employer and employee contributions) to the SARS on a monthly basis.

## Salaries and Wages

### 4.5 Skills Development Levy (SDL)

The government has decided to finance skills development through a national development fund. The objective is to improve skills development by forcing employers to pay a skills development levy and encourage employers to claim a part of the levy in order to develop their employees' skills.

An employer who is not registered for PAYE and whose salary expenses do not exceed R5 000 000 per year, is not eligible for payment – but must still register for the levy with SARS.

The employers have to pay 1% of their gross salaries/wages over to SARS.

#### Activity 3

##### *Required*

You have to do the following in the books of TAT Stores for October 2009:

- 3.1 Complete the Wage Journal on 28 October 2009, the last week of the month. Close off the journal and post to the General Ledger.
- 3.2 Complete the Salary Journal on 31 October 2009. Close off the journal and post to the General Ledger.
- 3.3 Make payments from the Cash Payments Journal and post to the General Ledger.

Note:

- The last cheque issued from the Cash Payments Journal was 946.
- TAT Stores is a member of the New Pension Fund and Health Medical Aid Fund.

##### *Information*

- 1 Totals of the Cash Payments Journal on 27 October 2009:
  - Bank, R38 290
  - Creditors for wages, R6 690
  - Trading stock, R10 310
  - Sundry accounts, R21 290
- 2 Some balances in the General Ledger :
  - Creditors for wages, R6 690
  - SARS – PAYE, R1 848
  - SARS – SDL, R92,40
  - Medical aid fund, R1 125
  - SARS – UIF, R504
  - Wages, R9 240
  - Medical aid fund contribution, R675
  - Unemployment Insurance Fund contributions, R252
  - Skills Development Levy, R92,40

## Salaries and Wages

### 3 Wage drawers

#### Remuneration

Employees	Ordinary time		Overtime	
	Hours	Amount per hour	Hours	Amount per hour
G. Brutus	40	R25	6	R37,50
R. Johnson	40	R27	4	R40,50
M. le Roux	40	R18	8	R27,00

#### Deductions

Employees	PAYE	Medical	UIF
G. Brutus	20%	R50	1% of ordinary time
R. Johnson	20%	R50	1% of ordinary time
M. le Roux	20%	R50	1% of ordinary time

### 4 Salaried employees

#### Remuneration

Employees	Per year
M. Groenewaldt	R129 600
R. Fouche	R99 600
M. Rossouw	R150 000

#### Deductions

Employees	PAYE	Medical	Pension
M. Groenewaldt	R2 700	R200	7%
R. Fouche	R1 494	R240	7%
M. Rossouw	R3 500	R280	7%

#### Note:

- TAT Stores must pay 1% Skills Development Levy.
- TAT Stores' contribution to the medical aid fund is R1,50 for each R1 contributed by the employee.
- TAT Stores' contribution to the Unemployment Insurance Fund is 1% of ordinary time.
- TAT Stores' contribution to the pension fund is on a rand-to-rand basis.

# Salaries and Wages

Answer sheet

Wage Journal of TAT Stores for the week ending 28 October 2009													WJ
Employees	Ordinary time		Overtime		Gross wages	Deductions			Total deductions	Net wages	Employer contributions		
	Hours	Amount	Hours	Amount		PAYE	UIF	Medical			SDL	UIF	Medical

Salary Journal of TAT Stores for the month ending 31 October 2009											SJ	
Employees	Gross salary	Deductions			Total Deductions	Net salary	Employers contributions				Cheques issued	
		PAYE	Pension	Medical			SDL	Pension	Medical	Total		



# Salaries and Wages

Cash Payments Journal of TAT Stores – October 2009							CPJ		
Doc	Day	Name of payee	Fol	Bank	Creditors for wages	Trading stock	Sundry accounts		

## General Ledger of TAT Stores

Dr.	Creditors for salaries						B1	Cr

Dr	Creditors for wages						B2	Cr

Dr	SARS - PAYE						B3	Cr

# Salaries and Wages

Dr.					SARS - SDL			B4		Cr.

Dr					Pension fund			B5		Cr

Dr					Medical aid fund			B6		Cr

Dr					SARS - UIF			B7		Cr

Dr					Salaries			N1		Cr

# Salaries and Wages

Dr	Wages							N2	Cr

Dr.	Skills Development Levy							N3	Cr

Dr	Pension fund contribution							N4	Cr

Dr	Medical aids contribution							N5	Cr

Dr	UIF contribution							N6	Cr

# Salaries and Wages

## Activity 4

Maria Maseko was appointed manager of PP Traders on 1 March 2008 at a basic salary of R180 000 per annum.

The conditions of her appointment included the following:

- Medical aid contributions by PP Traders equal to R2 for every R1 contributed by Maria.
- Pension fund contributions by PP Traders equal R1,50 for every R1 contributed by Maria.
- UIF Contributions by PP Traders equal to 1% of basic salaries.
- An annual bonus of 80% of one month's salary payable in each February.

Her monthly deductions from her salary are:

- PAYE (as per SARS scales)
- Pension Fund – 8% of gross salary
- Medical aid – the total premium is to be paid is R960 per month
- UIF – 1% of basic salary

Income Tax salary scales for 2008/2009

ANNUAL SALARY	RATES OF TAX
0 – R80 000	18% of each R1
R80 001 – R130 000	R14 400 plus 25% of the amount above R80 000
R130 001 – R180 000	R26 900 plus 30% of the amount above R130 000
R180 001 – R230 000	R41 900 plus 35% of the amount above R180 000
R230 001 – R300 000	R59 400 plus 38% of the amount above R230 000
R300 001 and above	R86 000 plus 40% of the amount above R300 000

*Required:*

- 4.1 The Salary Journal for March 2008 reflects the totals brought down on your answer sheet. Maria's details were left out in error. Complete the Salary Journal for March 2008 by entering Maria's details.
- 4.2 It actually costs PP Traders more than only her salary to employ Maria. Calculate the total "cost to company" remuneration per month for Maria.
- 4.3 Post the information in the Salary Journal to the following accounts in the General Ledger:
  - Creditors for salaries
  - XYZ Pension fund
  - Salaries
- 4.4 What will the amount of the total remuneration of Maria be in February 2009?

# Salaries and Wages

**4.5 Internal control**

As the manager, Maria wants to introduce internal control procedures in the company. Name FIVE internal control procedures Maria can introduce to control cash received.

*Answer sheet*

4.1

Salary Journal for March 2008									SJ
			Employee Deductions						
Employee	Basic salary	Bonus	Gross salary	Pension fund	Medical Aid	PAYE	UIF	Total Deductions	Net Salary
<b>Totals</b>	19 000		19 000	1 520	480	4801,04	190	6991,04	12008,96
	a	b	c	d	e	f	g	h	I

Employer contributions			
Medical aid	Pension fund	UIF	SDL
960	2 280	190	190
J	k	l	M

**4.2 Calculate the total “cost to company” remuneration per month for Maria.**

4.3

General ledger of PP Traders										
Dr.					Creditors for salaries					Cr

# Salaries and Wages

Dr. <span style="float: right;">XYS Pension Fund</span> <span style="float: right;">Cr</span>									

Dr. <span style="float: right;">Salaries</span> <span style="float: right;">Cr</span>									

4.4

What will the amount of gross remuneration for Maria be in February 2009?

4.5

Name FIVE internal control processes for cash received.

## Salaries and Wages

**Activity 5**

The following information was extracted from the salary records of OPEC STORES for the month ended 31 January 2009.

*Information:*

Employee	Basic salary	Pension deduction	Medical Aid deduction	PAYE
G. Zulu	R36 000 p.a.	8% p.m.	R250 p.m.	R720 p.m.

**Note:**

Opec Stores contribute on a rand for rand basis to the Pension fund and R2 for every R1 contributed to the Medical Aid Fund.

*Questions (Show all your calculations)*

5.1 Calculate the net salary of G.Zulu for January 2009.

5.2 Calculate the cheque amount to be issued to the Medical Aid Society.

5.3 From the entries given in Column A, determine the missing ledger account in Columns B or C.

COLUMN A	COLUMN B Account debited	COLUMN C Account credited
Total of the pension deduction in the Wages Journal	Wages	
Total of the cheques in the CPJ for net wages		Bank
Issued a cheque to settle PAYE		Bank
Total of the net salaries in the Salaries Journal	Salaries	

# Salaries and Wages

## 5 Summary and analysis

### 5.1 Wages Journal (Assume the bank balance is favourable)

	General Ledger		Accounting equation		
	Account debited	Account credited	A	E	L
Gross wages	Wages	Pension fund	o	-	+
	Wages	Medical aid fund	o	-	+
	Wages	SARS - PAYE	o	-	+
	Wages	SARS - UIF	o	-	+
	Wages	Creditors for wages	o	-	+
Employers contributions	Pension fund contribution or wages	Pension fund	o	-	+
	Medical aid fund contribution or wages	Medical aid fund	o	-	+
	UIF contribution or wages	SARS - UIF	o	-	+
Payments	Creditors for wages	Bank	-	o	-
	Pension fund	Bank	-	o	-
	Medical aid fund	Bank	-	o	-
	SARS - UIF	Bank	-	o	-
	SARS - PAYE	bank	-	o	-

### 5.2 Salaries Journal (Assume the bank balance is favourable)

	General Ledger		Accounting equation		
	Account debited	Account credited	A	E	L
Gross salary	Salaries	Pension fund	o	-	+
	Salaries	Medical aid fund	o	-	+
	Salaries	SARS - PAYE	o	-	+
	Salaries	SARS - UIF	o	-	+
	Salaries	Creditors for salaries	o	-	+



## Salaries and Wages

Employers contributions	Pension fund contribution or salaries	Pension fund	0	-	+
	Medical aid fund contribution or salaries	Medical aid fund	0	-	+
	UIF contribution or salaries	SARS - UIF	0	-	+
	Skills Development Levy	SARS - SDL	0	-	+
Payments	Creditors for salaries	Bank	-	0	-
	Pension fund	Bank	-	0	-
	Medical aid fund	Bank	-	0	-
	SARS - UIF	Bank	-	0	-
	SARS - PAYE	Bank	-	0	-
	SARS - SDL	Bank	-	0	-

# Financial accounts and Adjustments

## Overview

Topic 3 Page 157	Final accounts and adjustments
1	Page 157 Closing transfers
2	Page 160 Year - end adjustments

Overview – Final accounts and adjustments

## 1 Closing transfers

### 1.1 Introduction

We have already done all the steps in the accounting cycle up to the Trial balance. After twelve months the business has to draw up Financial Statements to determine the profit/loss for the year. An Income statement and Balance Sheet will be drawn up and together forms the Financial Statements of the business. Financial Statements are prepared for a financial period. A financial period is a pre-determined 12-month period used for accounting purposes.

### 1.2 The closing transfer process

Income and expenses are temporary accounts and need to be closed off at the end of the financial year.

#### 1.2.1 Steps in the closing transfer process:

- 1 Transfer debtors' Allowances account to sales account to get the net sales.
- 2 Transfer sales account and cost of sales account to Trading account.
- 3 Balance the trading account to determine the gross profit. Transfer the balance of the trading account to the profit and loss account.
- 4 Transfer all income and expenses to the profit and loss account.
- 5 Balance the profit and loss account to determine the net profit.
- 6 Transfer the balance of the profit and loss account to the Capital account.
- 7 Close off the drawings account to the capital account.
- 8 Balance the capital account.
- 9 Prepare a Post-closing trial balance.

## Financial accounts and Adjustments

### Example

Note: The amounts used are only for demonstration purposes.

Dr.					Capital			B1	Cr.
2010	31	Drawings	GJ	23 800	2010	31	Balance	b/d	234 500
Dec					Dec				
		Balance	c/d	295 300			Profit and loss	GJ	84 600
				319 100					319 100
					2011Jan	1	Balance	b/d	295 300

Dr					Drawings			B2	Cr.
2010	31	Balance	b/d	23 800	2010	31	Capital	GJ	23 800
Dec					Dec				

Dr					Sales			N1	Cr.
2010	31	Debtors Allowances	GJ	12 000	2010	31	Balance	b/d	842 000
Dec					Dec				
		Trading account	GJ	830 000					
				842 000					842 000

Dr					Debtor's Allowances			N2	Cr.
2010	31	Balance	b/d	12 000	2010	31	Sales	GJ	12 000
Dec					Dec				

Dr					Cost of sales			N3	Cr.
2010	31	Balance	b/d	415 000	2010	31	Trading account	GJ	415 000
Dec					Dec				

Dr					All Income accounts			N	Cr.
2010	31	Profit and loss	GJ	xxx	2010	31	Balance	b/d	xxx
Dec					Dec				

Dr					All Expense accounts			N	Cr.
2010	31	Balance	b/d	xxx	2010	31	Profit and loss	GJ	xxx
Dec					Dec				

## Financial accounts and Adjustments

Dr				Trading account				F1		Cr.
2010 Dec	31	Cost of sales	GJ	415 000	2010 Dec	31	Sales	GJ	830 000	
		Profit and loss (gross profit)	GJ	415 000						
				830 000					830 000	

Dr				Profit and loss account				F2		Cr.
2010 Dec	31	Expense accounts	GJ	425 000	2010 Dec	31	Trading account	b/d	415 000	
		Capital (net profit)	GJ	84 600			Income accounts	GJ	94 600	
				509 600					509 600	

General Journal			GJ
Details	Fol	Debit	Credit
Sales	N1	12 000	
Debtors Allowances	N2		12 000
<i>Closing transfer</i>			
Sales	N1	830 000	
Trading account	F1		830 000
<i>Closing transfer</i>			
Trading account	N3	415 000	
Cost of sales	F1		415 000
<i>Closing transfer</i>			
Trading account	F1	415 000	
Profit and loss	F2		415 000
<i>Closing transfer of gross profit</i>			
Income accounts	N	94 600	
Profit and loss	F2		94 600
<i>Closing transfer</i>			
Profit and loss	F2	425 000	
Expense accounts	N		425 000
<i>Closing transfer</i>			
Profit and loss	F2	84 600	
Capital	B1		84 600

## Financial accounts and Adjustments

<i>Closing transfer of net profit</i>			
Capital	B1	23 800	
Drawings	B2		23 800
<i>Closing transfer</i>			

Post-closing trial balance			
<i>Balance sheet section</i>	Fol	Debit	Credit
Capital	B1		xxx
Land and buildings	B2	xxx	
Vehicles	B3	xxx	
Equipment	B4	xxx	
Trading stock	B5	xxx	
Debtors control	B6	xxx	
Bank	B7	xxx	
Petty cash	B8	xxx	
Cash float	B9	xxx	
Creditors control	B10		xxx
Loan: SA Bank	B11		xxx
Fixed deposit: Perm Bank	B12	xxx	
		xxx	xxx

## 2 Year – end adjustments

Adjustments are normally done at the end of the financial year to adjust the amounts. Adjustments are done to limit those amounts which can be brought into account in determining the profit for a particular period to only that income realised during that period and to those expenses incurred during the same period.

Adjustments are journalised in the General Journal. A business makes year-end adjustments to comply with the **Generally Accepted Accounting Practice**.

### Steps in doing year-end adjustments

- Prepare journal entries for the adjustments
- Journalise all closing transfers
- Post to the ledger
- Final accounts
- Financial statements

## Financial accounts and Adjustments

### 2.1 Additional bad debts written off

#### *Example*

Write a debtors' account (D. Davids) of R200 write off as irrecoverable.

Double entry:

Dr. Bad debts (expense) E-

Cr. Debtors control A-

Cr. Debtors' account in the debtors ledger.

### 2.2 Depreciation

Fixed assets are acquired in order to use in the business. The value of land and buildings increases if these are kept up well. Land and buildings are re-valued from time to time. It is important that the value of Land and buildings is always indicated at the purchase price. **According to the Historical cost principle of GAAP, land and buildings must be entered at the cost price in the financial statements and not the re-valued amount.**

Vehicles and equipment depreciate annually. Depreciation of vehicles and equipment should be written off each year. The amount depends on the business. Depreciation is calculated at a certain percentage and certain factors need to be taken into account when the percentage is calculated:

- what the fixed assets are used for;
- technological changes; and
- wear and tear (ageing).

The concept “*depreciation*” is used to describe the periodical costs related to the use of vehicles and equipment. Depreciation is an imputed expense, as part of the cost assigned to a specific accounting period. **The reason why an asset should be depreciated is based on the accounting concept (GAAP) called matching.**

The following double entry is made for writing off depreciation:

Dr. Depreciation (expense)

Cr. Accumulated depreciation on vehicles/equipment (negative asset)

What is the difference between depreciation and accumulated depreciation?

Depreciation is the amount that has been written off for the current year and accumulated depreciation is the amount written off for the current year and for the previous years.

## Financial accounts and Adjustments

### Example

The balance for accumulated depreciation on equipment on 1 January 2008 is R23 400.

The depreciation written off on the equipment on 31 December 2008 is R3 100.

The depreciation for the current year at 31 December 2008 is R3 100.

The accumulated depreciation on equipment on the 31 December 2008 will be R26 500  
(R23 400 + R3 100)

Depreciation can be written off in two ways:

- Fixed amount method/Percentage on cost price/straight line method  
A fixed amount of depreciation is written off annually. The amount of depreciation will be the same every year.
- Diminished balance method/book value/Carrying value/Declining method  
The amount of depreciation will decrease from year to year, as depreciation is calculated on the carrying value of the asset.

$$\text{Carrying value} = \text{Cost price} - \text{accumulated depreciation}$$

To decide which method is the best to use in a business, depends on what you are going to use the fixed asset for as well as the lifespan of the fixed asset. It is important to know that you cannot change the method every year.

### Remember:

The value of an asset can never be reflected as R0 (zero) in the financial statements of an enterprise. The final value of an asset is shown as R1 in the Balance sheet.

If an asset is purchased during a financial period, depreciation is not indicated for twelve months, but only for the number of months that the tangible asset is in the possession of the business.

Installation costs, e.g. the cost for installation of computers, forms part of the purchased price of the equipment.

### Asset register

An asset register is kept by the business for all tangible assets. An asset register also indicates all details regarding an asset. Should a business have four vehicles, an asset register is kept for each vehicle. Only one account for vehicles is created in the General ledger in which details of all vehicles are indicated. The amount in the vehicles account should always be recorded at cost in the General ledger.

## Financial accounts and Adjustments

### Activity 1

You are provided with information from Maxi Traders. The financial year ends on 31 December each year.

#### *Required*

Draw up an asset register for the vehicle and computer for the period 1 January 2002 to the 31 December 2006.

#### *Information*

Maxi Traders purchased a computer for R10 000 on the 1 January 2002 and purchased a vehicle on 30 June 2002 for R100 000.

#### *Adjustments*

Write depreciation off as follows on 31 December each year:

- On vehicles at 15% on diminishing balance method (round off to the nearest rand)
- On equipment at 20% at cost price.

### *Answer sheet*

Asset register for computer

#### Details of depreciation

Date	Annual depreciation	Accumulated depreciation	Carrying value
31/12/2002			
31/12/2003			
31/12/2004			
31/12/2005			
31/12/2006			

Asset register for computer

#### Details of depreciation

Date	Annual depreciation	Accumulated depreciation	Carrying value
31/12/2002			
31/12/2003			
31/12/2004			
31/12/2005			
31/12/2006			



## Financial accounts and Adjustments

### Activity 2

Note: this activity consists of two financial years.

You are provided with information from Fista Wholesalers. The financial year ends on 28 February each year.

#### 2.1 Required

Do the following in the books for the period 1 March 2007 to 29 February 2008:

- Enter the transactions during the financial year directly in the general ledger.
- Journalise the adjustments and post to the general ledger.
- Do the note "Tangible assets" as part of the notes to the Balance sheet.

*Transactions from the 1 March 2007 to 29 February 2008:*

1 March 2007

Buy a vehicle from AB Motors for cash, R80 000.

Buy equipment from XYZ Furnishers on credit, R24 000

31 August 2007

Buy a delivery vehicle from AB Motors on credit, R120 000.

29 February 2008

Write depreciation off on vehicles at 20% on the straight line method and on equipment on 10% on book value.

#### Answer sheet

General Journal of Fista Wholesalers GJ

Details	Fol	Debit	Credit

#### General ledger of Fista Wholesalers

Dr.	Vehicles				B4				Cr.

## Financial accounts and Adjustments

Dr	Equipment							B5	Cr

Dr	Accumulated depreciation on vehicles							B6	Cr

Dr.	Accumulated depreciation on equipment							B7	Cr.

Dr	Depreciation							N20	Cr

**Activity 2.2***Information:*

Some balances on 1 March 2008

Vehicles	200 000	
Equipment	24 000	
Accumulated depreciation on vehicles		28 000
Accumulated depreciation on equipment		2 400

*Transactions from 1 March 2008 to 28 February 2008*

1 December 2008

Purchase a computer and printer from SA Computer Services and receive invoice for R11 000.

Pay R1 000 by cheque 94 to SA Installers for the installation of the computer and printer.

28 February 2009

Write off depreciation on vehicles on 20% per annum on the straight line method and on equipment on 10% per annum on book value.

## Financial accounts and Adjustments

<i>Answer sheet</i>			
General Journal of Fista Wholesalers			GJ
Details	Fol	Debit	Credit

General ledger of Fista Wholesalers										
Dr.		Vehicles						B4		Cr.

Dr.		Equipment						B5		Cr.

Dr.		Accumulated depreciation on vehicles						B6		Cr.

Dr.		Accumulated depreciation on equipment						B7		Cr.

Dr.		Depreciation						N20		Cr.

## Financial accounts and Adjustments

### 2.3 Accrued income (income receivable)

Income that should be received but has not yet received at the end of the accounting period.

**GAAP principle = matching.**

**Accrued income has two elements:**

- Asset element (Balance sheet section)
- Income element

**Important information:**

- Date of financial year
- Balance of income account in pre-adjustment trial balance

*Example: Rent income*

On 28 February 2011 the accumulated period footings in the general ledger of MN Traders of the rent income account totaled to R55 000.

Adjustment:

Rent has been received from the tenant for eleven months only.

**The two elements are:**

- An asset account (accrued income)
- An income account (Rent income)
- Effect on accounting equation (Asset increases, equity decreases)

**Analysis of information**

$55\ 000/11 = R5\ 000$  per month

Rental for the last month of the year, R5 000 is still outstanding. This rental, which is in fact **rent receivable** must be brought into account for the current financial year as **accrued income**.

*Solution:*

General ledger of MN Traders										
Dr.		Accrued income						B17		Cr.
2011	28	Rent	GJ	5 000						
Feb		income								

## Financial accounts and Adjustments

Dr				Rent income				N7		Cr.
2011	28	Profit and loss	GJ	60 000	2011	28	Balance	b/d	55 000	
Feb					Feb		Accrued income	GJ	5 000	
				60 000					60 000	

Dr				Profit and loss				F2		Cr.
					2011	28	Rent income	GJ	60 000	
					Feb					

*The reversal:*

On the first day of the next accounting period, the rent income must be reversed to the accounts in the nominal accounts section.

Dr.				Accrued income				B17		Cr.
2011	1	Balance	b/d	5 000	2011	1	Rent income	GJ	5 000	
Mar					Mar					

Dr.				Rent income				N7		Cr.
2011	1	Accrued income	GJ	5 000						
Mar										

### 2.4 Accrued expenses

Expenses incurred during the accounting period which have not been paid.

**GAAP principle = matching.**

**Accrued expenses has two elements:**

Liability element (Balance sheet section)

Expense element (Nominal section)

**Important information:**

Date of financial year-end

Balance of expense account in pre-adjustment trial balance

*Example: Telephone*

On the 28 February 2011 the accumulated period footings in the General Ledger of MN Traders' telephone account totaled R34 800.

Adjustment:

## Financial accounts and Adjustments

The February telephone account of R1 240 has still not been paid.

**The two elements are:**

- A liability account (Accrued expenses)
- Expense account (Telephone)
- Effect on accounting equation (Liability increases, equity decreases)

**Analysis of information:**

11 months R34 800

1 month (February) R 1 240

R36 040

*Solution:*

General ledger of MN Traders										
Dr.					Accrued expenses			B18		Cr.
					2011	28	Telephone	GJ	1 240	
					Feb					

Dr					Telephone			N14		Cr
2011	28	Balance	b/d	34 800	2011	28	Profit and loss	GJ	36 040	
Feb					Feb					
		Accrued expenses	GJ	1 240						
				36 040					36 040	

Dr					Profit and loss			F2		Cr
2011	28	Telephone	GJ	36 040						
Feb										

*The reversal:*

General ledger of MN Traders										
Dr.					Accrued expenses			B18		Cr.
2011	1	Telephone	GJ	1 240	2011	1	Balance	b/d	1 240	
Mar					Mar					

Dr					Telephone			N14		Cr
					2011	1	Accrued expenses	GJ	1 240	
					Mar					

## Financial accounts and Adjustments

### 2.5 Prepaid expenses

Expenses paid for in the present accounting period, for the next accounting period.

**GAAP principle = matching.**

#### Prepaid expenses has two elements

- An asset element (Balance sheet section)
- An expense element (Nominal section)

#### Important information

- Date of financial year-end
- Balance of expense account in pre-adjustment trial balance

#### *Example: Insurance*

On 28 February 2011 the accumulated period footings in the general ledger of MN Traders of the insurance account totaled R16 800.

This included an amount of R2 400, which was paid 1 September 2010 for one year (1 September 2010 to 31 August 2011).

#### The two elements are

- An asset account (Prepaid expenses)
- An expense account (Insurance)
- Effect on accounting equation (Asset increases, equity increases)

#### Analysis of information

$R2\ 400/12 = R200$  per month

March 2011 to 31 August 2011 = 6 months

6 months X R200 = R1 200 (prepaid)

#### *Solution:*

General ledger of MN Traders										
Dr.		Prepaid expenses						B19		Cr.
2011Feb	28	Insurance	GJ	1 200						

## Financial accounts and Adjustments

Dr.		Insurance					N12		Cr.
2011	28	Balance	b/d	16 800	2011	28	Prepaid expenses	GJ	1 200
Feb					Feb				
							Profit and loss	GJ	15 600
				16 800					16 800

Dr.		Profit and loss					F2		Cr.
2011	28	Insurance	GJ	15 600					
Feb									

*The reversal:*

General ledger of MN Traders									
Dr.		Prepaid expenses					B18		Cr.
2011	1	Balance	b/d	1 200	2011	1	Insurance	GJ	1 200
Mar					Mar				

Dr.		Telephone					N		Cr.
2011	1	Prepaid expenses	GJ	1 200					
Mar									

### 2.6 Income received in advance (Deferred income)

Income relating to the next accounting period is already received in the current accounting year.

**Income received in advance has two elements:**

- Liability element (Balance sheet section)
- Income element (Nominal section)

**Important information**

- Date of financial year-end
- Balance of income account in the pre-adjustment trial balance.

**Example: Rent income**

On the 28 February 2011 the accumulated period footings in the general ledger of MN Traders of the rent income account totaled R65 000.



## Financial accounts and Adjustments

### Adjustment

Rent was received for 13 months.

#### The two elements are:

- A liability account (Income received in advance)
- Income account (Rent income)
- Effect on accounting equation (Liability increases, equity decreases)

#### Analysis of information

$R65\ 000/13 = R5\ 000$

One month in advance

#### Solution

General ledger of MN Traders										
Dr.		Income received in advance						B20		Cr.
					2011Feb	28	Rent income	GJ	5 000	

Dr.		Rent income						N14		Cr.
2011 Feb	28	Income received in advance	GJ	5 000	2011 Feb	28	Balance	b/d	65 000	
		Profit and loss	GJ	60 000						
				65 000					65 000	

Dr.		Profit and loss						F2		Cr.
					2011 Feb	28	Insurance	GJ	60 000	

#### The reversal

General ledger of MN Traders										
Dr.		Income received in advance						B20		Cr.
2011 Mar	1	Rent income	GJ	5 000	2011 Mar	1	Balance	b/d	5 000	

Dr.		Rent income						N14		Cr.
					2011 Mar	1	Income received in advance	GJ	5 000	

## Financial accounts and Adjustments

### 2.7 Consumable stores on hand

A business purchases a number of consumable items, which is used in conducting its operations for example:

- Stationery
- Cleaning material
- Fuel
- Packing material

These items are expenses at the time of purchase. However, at the end of the financial year, there may be some items that are unused, and cannot be regarded as an expense, but as a temporary asset.

#### Consumable stores on hand has two elements

- An asset account (Balance sheet section)
- An expense account (Nominal section)

#### Example: Stationery and packing material

On the 28 February 2011 the accounted period footings (totals) appeared in the General Ledger of MN Traders.

Packing material	R12 400
Stationery	R15 100

#### Adjustment

On 28 February 2011 a physical count revealed that that the following were on hand:

Packing material	R1 400
Stationery	R2 300

#### The two elements are

- Asset account (Consumable stores on hand)
- Expenses account (Packing material and stationery)
- Effect on accounting equation (Asset increases, equity increases)

## Financial accounts and Adjustments

*Solution*

General ledger of MN Traders										
Dr.		Consumable stores on hand						B21		Cr
2011 Feb	28	Packing material	GJ	1 400						
		Stationery	GJ	2 300						
				3 700						

Dr.		Packing material						N15		Cr.
2011 Feb	28	Balance	b/d	12 400	2011 Feb	28	Consumable stores on hand	GJ	1 400	
							Profit and loss	GJ	11 000	
				12 400					12 400	

Dr.		Stationery						N16		Cr.
2011 Feb	28	Balance	b/d	15 100	2011 Feb	28	Consumable stores on hand	GJ	2 300	
							Profit and loss	GJ	12 800	
				15 100					15 100	

Dr.		Profit and loss						F2		Cr.
2011 Feb	28	Packing material	GJ	11 000						
		Stationery	GJ	12 800						

*The reversal*

General ledger of MN Traders										
Dr.		Consumable stores on hand						B20		Cr
2011 Mar	1	Balance	b/d	3 700	2011 Mar	1	Packing material	GJ	1 400	
							Stationery	GJ	2 300	
				3 700					3 700	

## Financial accounts and Adjustments

Dr.		Packing material					N15		Cr.
2011 Mar	1	Consumable stores on hand	GJ	1 400					

Dr.		Stationery					N16		Cr.
2011 Mar	1	Consumable stores on hand	GJ	2 300					

### 2.8 Trading stock deficit

#### (The continuous / perpetual inventory system)

A stock count may reveal that there is less stock than reflected in the trading stock account (deficit) or more than the disclosed figure (surplus).

A journal adjustment entry is necessary to ensure that the trading stock account reflects the correct value of stock on hand.

#### The two elements are:

- An expense account (Trading stock deficit)
- An asset account (Trading stock)

Effect on accounting equation (Equity decreases, asset decreases)

#### Example: Trading stock deficit

On 28 February 2011 the trading stock account in the general ledger of MN traders reflected a balance of R34 500. The physical stock count revealed the value of goods on hand to be R32 200.

#### Solution

General ledger of MN Traders									
Dr.		Trading stock					B8		Cr.
2011Feb	28	Balance	b/d	34 500	2011 Feb	28	Trading stock deficit	GJ	2 300
							Balance	c/d	32 200
				34 500					34 500
2011 Mar	1	Balance	b/d	32 200					

## Financial accounts and Adjustments

Dr.		Trading stock deficit						N23		Cr.
2011 Feb	28	Trading stock	GJ	2 300	2011 Feb	28	Profit and loss	GJ	2 300	

Dr.		Profit and loss						F2		Cr.
2011 Feb	28	Trading stock deficit	GJ	2 300						

## Activity 3

Complete the following table. The first adjustment has been done for you.

Nr	Adjustment	General ledger		Effect			Reversal required
		Account debited	Account credited				
Ex	Additional bad debts written off	Bad debts	Debtors control	-	-	o	No
1	Rent received for 13 months from a tenant						
2	Depreciation on equipment at cost price						
3	Insurance paid in advance						
4	A trading stock deficit is identified						
5	Interest on loan owed at the end of the year						
6	Interest on overdraft has been incorrectly classified as bank charges						
7	Commission income not yet received at the end of the year						

## Financial accounts and Adjustments

8	Fuel on hand at the year-end as per physical count						
9	An amount received from a debtor whose account was previously written off as bad debt. The Bad debt account was credited.						
10	A trading stock surplus is identified.						

### Activity 4

The financial year for Samantha Traders ends on the 31 December. The following must be recorded in the books of Samantha Traders for the financial year ending 31 December 2010:

- 4.1 Journalise adjustments. Do not do any narrations.
- 4.2 Do the following ledger accounts:
- 4.2.1 Capital
  - 4.2.2 Drawings
  - 4.2.3 Trading account
  - 4.2.4 Profit and loss account
- Prepare a Post-closing trial balance on 31 December 2010.
- 4.3

#### *Information*

Pre-adjustment Trial balance of Samantha Traders on 31 December 2010

<b><i>Balance sheet section</i></b>	<b>Fol</b>	<b>Debit</b>	<b>Credit</b>
Capital	B1		315 260
Drawings	B2	18 400	
Land and buildings	B3	238 000	
Vehicles	B4	160 000	
Equipment	B5	90 500	
Accumulated depreciation: Vehicles	B6		32 000
Accumulated depreciation: Equipment	B7		8 500
Trading stock	B8	24 300	
Debtors control	B9	14 600	

## Financial accounts and Adjustments

Bank	B10	18 400	
Petty cash	B11	600	
Cash float	B12	500	
Creditors control	B13		28 830
Fixed deposit: AB Investors (10% p.a.)	B14	20 000	
Loan: SA Bank (12% p.a.)	B15		100 000
<b>Nominal accounts section</b>			
Sales	N1		380 900
Cost of sales	N2	200 000	
Debtors Allowances	N3	3 900	
Discount allowed	N4	480	
Discount received	N5		640
Bank charges	N6	1 340	
Interest on fixed deposit	N7		1 500
Interest on loan	N8	7 200	
Bad debts	N9	840	
Bad debts recovered	N10		180
Telephone	N11	11 480	
Water and electricity	N12	14 600	
Stationery	N13	8 140	
Packing material	N14	4 380	
Advertising	N15	3 710	
Insurance	N16	8 340	
Rent income	N17		65 000
Salaries	N18	60 800	
Wages	N19	22 300	
		<b>932 810</b>	<b>932 810</b>

*Adjustments*

- Closing inventories show stock on hand on 31 December 2010:
  - Trading stock, R23 800
  - Stationery, R2 180
  - Packing material, R890
- Included in the amount for advertising is a contract of 18 months with the local newspaper for R1 800 as from 1 October 2010.
- The telephone account was received on 28 December 2010 but not paid, R1 200.

## Financial accounts and Adjustments

- 4 The fixed deposit with AB Investors was invested on 1 January 2010 at an interest rate of 10% per year. Interest is received every three months. Provide for the outstanding amount.
- 5 The account of S. Molly (debtor) to the value of R300 must be written off as irrecoverable.
- 6 The loan account with SA Bank is as follows:

Dr.		Loan: SA Bank					B15		Cr.
2010	30	Bank	CPJ	20 000	2010	1	Balance	b/d	120 000
Jun					Jan				

- Interest needs to be paid every six months and has only been paid for the first six months.
- 7 Rent received for 13 months.
  - 8 Included in the amount of insurance is an amount of R900 for a three months period from 1 December 2010 to 28 February 2011.
  - 9 Depreciation should be calculated as follows:
    - On vehicles at 20% per year on cost price and on equipment at 10% per year on the diminishing balance method.
    - Included in the amount for equipment is additional equipment purchased on 1 July 2010 for R10 000.









## Financial accounts and Adjustments

### Activity 5

The financial year of Pompey Stores ends on 30 June. The Pre-adjustment trial balance is given. Do the adjustments in the columns provided on the answer sheet and then prepare a Post-adjustment trial balance.

#### *Adjustments*

- 1 Before the stocktaking was done, the owner took the following for personal use:
  - Goods, R140
  - Consumable stores, R80
- 2 The following inventory was on hand according to the closing inventories:
  - Trading stock, R22 280
  - Consumable stores, R640
- 3 A debit note for R2 000 was issued to Super Suppliers for equipment returned. Although the equipment was returned, the transaction has not been recorded.
- 4 A part of the building has been leased since 1 October 2008 at R28 800 per year. The rental was increased on 1 October 2009 to R32 400 per year.
- 5 Included in the amount for insurance is an amount of R2 400 for an annual premium paid on 1 February 2010.
- 6 The water and electricity account for June 2010 has been received, but not paid, R580.
- 7 The account of M. Clause (debtor), R300 must be written off as irrecoverable.
- 8 The loan was made on 1 January 2008. Interest is paid half-yearly and R10 000 is repaid annually on 1 January. The initial interest rate was 14% per year but was increased to 15% as from 1 January 2010.
- 9 The fixed deposit was invested on 1 January 2010 – interest receivable every three months. Provide for outstanding interest.
- 10 Write off depreciation on vehicles at 15% per year at cost price and on equipment at 10% per year on carrying value.

#### **Note:**

No vehicles have been purchased during the financial year.

A printer to the value of R2 000 was purchased on 15 June 2010 but was damaged. It was returned to the supplier and a new one will be purchased on 1 July 2010. (See adjustment 3)

## Financial accounts and Adjustments

<i>Answer sheet</i>						
	Pre-adjustment trial balance		Adjustments		Post-adjustment trial balance	
	Debit	Credit	Debit	Credit	Debit	Credit
<b>Balance sheet accounts section</b>						
Capital		323 136				
Drawings	?					
Land and buildings	240 800					
Vehicles	184 000					
Equipment	72 000					
Accumulated depreciation: vehicles		36 800				
Accumulated depreciation: equipment		13 680				
Bank	23 900					
Petty cash	900					
Cash float	200					
Trading stock	23 800					
Debtors control	21 600					
Fixed deposit: KL Bank (12% p.a.)	10 000					
Loan: Build Bank (15% p.a.)		170 000				
Creditors control		25 980				
SARS - PAYE		1 800				
Pension fund		480				
SARS - UIF		42				

## Financial accounts and Adjustments

<b>Nominal accounts section</b>						
Sales		184 000				
Cost of sales	121 906					
Debtors Allowances	1 140					
Discount allowed	610					
Discount received		1 230				
Consumable stock	2 310					
Telephone	3 900					
Water and electricity	6 840					
Bank charges	910					
Interest on fixed deposit		300				
Interest on loan	12 600					
Pension fund contributions	3 031					
UIF contribution	866					
Bad debts	635					
Rent income		34 200				
Interest on current account		1 280				
Interest on overdraft	124					
Interest on overdue creditors	84					
Wages	14 300					
Salaries	29 000					
Insurance	4 380					

# Financial statements of a sole trader

## Overview

Topic 1 Page 186	Financial statements of a sole trader	
1	Page 186	Introduction to Financial statements
2	Page 187	Format of Financial statements

Overview – Financial statements of a sole trader

## 1 Introduction to Financial statements

The main objective of any business is to provide financial information on the results of the economic activities of a business.

The following people/stakeholders will be interested in the financial statements of a business:

- SARS
- Employees
- Unions
- Creditors
- Financial institutions

Financial Statements consists of an Income Statement and a Balance Sheet.

Income Statement = financial results of a business or income and expenses during a specific period.

Balance Sheet = statement in which the financial position of a business for a certain period is shown.

### 1.1 Income Statement

The Income Statement is the same as the Trading account and the Profit and loss account. The Income Statement is prepared to determine the net profit of the business for a specific period.

The net profit is determined if the income for a specific period is greater than the expenses. The net loss is determined when the expenses for a certain period are greater than the income.

# Financial statements of a sole trader

## 1.2 Balance Sheet

A Balance sheet is a report of the financial situation of a business on a specific day. The Balance sheet is set up from the accounting equation ( $A = OE + L$ ).

## 2 Format of Financial Statements

### 2.1 Income Statement of a services business

Name of owner			
Name of business			
Income statement for the year ended .....			
	Note	R	R
Income from services rendered			xxx
Other operating income			xxx
Rent income		xxx	
Discount received		xxx	
Bad debts recovered		xxx	
Gross operating income			xxx
Operating expenses			(xxx)
Discount allowed		xxx	
Salaries		xxx	
Wages		xxx	
Bad debts		xxx	
Depreciation		xxx	
Trading stock deficit		xxx	
Any other expenses		xxx	
Operating profit (loss)			xxx
Interest income	1		xxx
Profit (loss) before interest expense			xxx
Interest expense	2		(xxx)
Net profit (loss) for the year	7		xxx



# Financial statements of a sole trader

## 2.2 Income statement of a retail business

Name of owner			
Name of business			
Income statement for the year ended .....			
	Note	R	R
Sales			xxx
Cost of sales			(xxx)
Gross profit			xxx
Other operating income			xxx
Rent income		xxx	
Discount received		xxx	
Bad debts recovered		xxx	
Gross operating income			xxx
Operating expenses			(xxx)
Discount allowed		xxx	
Salaries		xxx	
Wages		xxx	
Bad debts		xxx	
Depreciation		xxx	
Trading stock deficit		xxx	
Any other expenses		xxx	
Operating profit (loss)			xxx
Interest income	1		xxx
Profit (loss) before interest expense			xxx
Interest expense	2		(xxx)
Net profit (loss) for the year	7		xxx

### Notes:

- All interests, whether income or expenses, should be shown at the end of the Income Statement in order to determine how much interest was received and paid.
- Net sales = Sales – Debtors Allowances
- Gross profit = Sales – Cost of sales
- Gross operating income – operating expenses = operating profit
- Operating profit = interest income = profit before interest expense
- Net profit = profit before interest expense – interest expense
- The net profit should be carried over to note 7.

## Financial statements of a sole trader

### 2.3 Balance sheet of a retail business

<b>Name of owner</b>			
<b>Name of business</b>			
<b>Balance sheet on .....</b>			
	<b>Note</b>	<b>R</b>	<b>R</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			<b>xxx</b>
Fixed assets	3	xxx	
Financial assets: Fixed deposit (i)		xxx	
<b>Current assets</b>			<b>xxx</b>
Inventories	4	xxx	
Trade and other receivables	5	xxx	
Cash and cash equivalents	6	xxx	
<b>TOTAL ASSETS</b>			<b>xxx</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	7		<b>xxx</b>
<b>Non-current liabilities</b>			<b>xxx</b>
Mortgage bond (ii)		xxx	
<b>Current liabilities</b>			<b>xxx</b>
Trade and other payables	8	xxx	
Bank overdraft		xxx	
Short term loan (iii)		xxx	
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>xxx</b>

- i. The part of the fixed deposit that does not mature in the following year. The part of the fixed deposit that matures in the following year forms part of note 6, namely Cash and cash equivalents.
- ii. Part of the loan owing for longer than twelve months, in other words the loan that will not be repaid in the following financial year.
- iii. The part of the loan that will be repaid in the following financial year (the following twelve months) on the loan.

## Financial statements of a sole trader

### Note:

- Non-current assets = Fixed assets + Fixed deposit
- Total assets = Non-current assets + Current assets.
- Total equity and liabilities = Equity + Non-current liabilities + current liabilities
- Current assets = Inventories + Trade and other receivables + cash and cash equivalents
- Current liabilities = Trade and other payables + Bank overdraft + Short-term loan.

### 2.4 Notes to the Financial Statements:

1. Interest income	R
on fixed deposit	xxx
on savings account	xxx
on current bank account	xxx
on overdue debtors	xxx
	xxx

2. Interest expense	R
on loan from	xxx
on overdraft	xxx
on overdue creditors	xxx
	xxx

3. Fixed assets	Land and buildings	Equipment	Vehicles	Total
Cost price	xxx	xxx	xxx	xxx
Accumulated depreciation		(xxx)	(xxx)	(xxx)
Carrying value (end of previous year)	xxx	xxx	xxx	xxx
Movements				
Additions at cost	xxx	xxx	xxx	xxx
Asset disposal at carrying value		(xxx)	(xxx)	(xxx)
Depreciation for the year		(xxx)	(xxx)	(xxx)
Carrying value (end of current year)*	xxx	xxx	xxx	xxx
Cost price	xxx	xxx	xxx	xxx
Accumulated depreciation		(xxx)	(xxx)	(xxx)
Carrying value (end of current year)*	xxx	xxx	xxx	xxx

\* The two amounts must be the same.

## Financial statements of a sole trader

4. Inventories	R
Trading stock	xxx
Consumable stores on hand	xxx
	xxx

5. Trade and other receivables	R
Trade debtors	xxx
Accrued income	xxx
Prepaid expenses	xxx
	xxx

6. Cash and cash equivalents	R
Fixed deposit (maturing in six months)	xxx
Savings account	xxx
Bank (debit balance)	xxx
Cash float	xxx
Petty cash	xxx
	xxx

7. Equity	R
Balance at beginning of year	xxx
Additional capital contributed	xxx
Net profit (loss) for the year	xxx
	xxx
Drawings	xxx
Balance at end of year	xxx

8. Trade and other payables	R
Trade creditors	xxx
Accrued expenses	xxx
Income received in advance	xxx
SARS – PAYE	xxx
SARS - UIF	xxx
SARS - SDL	xxx
Creditors for salaries/wages	xxx
Pension fund	xxx
Medical Aid fund	xxx
	xxx

## Financial statements of a sole trader

### Activity 1

Rumo Traders buys and sells lawn mowers as well as spare parts. They also provide garden services. The financial year of Rumo Traders ends on 31 December.

#### *Required*

Prepare the Financial Statements in the books of Rumo Traders on 31 December 2005.

Complete notes to the Financial Statements.

#### **Note:**

The business's profit margin on sales of lawn mowers is 100% on cost price.

Show all workings in brackets.

#### *Information*

The accountant at Rumo Traders is inexperienced. He did not prepare a Pre-adjustment Trial Balance. The following amounts have been received:

Capital	305 103
Drawings	28 100
Vehicles	240 000
Equipment	104 000
Accumulated depreciation: vehicles	56 000
Accumulated depreciation: equipment	23 800
Trading stock	60 800
Debtors' control	32 600
Bank (Dr)	12 800
Petty cash	400
Cash float	200
Fixed deposit: Elmar Bank (12% p.a.)	35 000
Creditors' control	63 840
Deposit on water and electricity	1 000
Sales	648 000
Debtors' Allowances	8 000
Cost of sales	320 000
Fee income	122 000
Interest on fixed deposit	2 400
Skills development levy	2 285
Pension fund contribution	16 002
Unemployment insurance fund	4 570
Insurance	23 800
Advertising	2 600
Donations	2 800

## Financial statements of a sole trader

Interest on current account	268
Interest on overdraft	64
Stationery	1 480
Bad debts	1 400
Material costs	34 100
Telephone	18 900
Water and electricity	9 400
Wages	68 300
Salaries	160 200
Bad debts recovered	200
Rent expense	31 970
Bank charges	840

### *Adjustments and additional information*

- A debit note was issued to PA Stationery Traders for stationery returned to the value of R120. No entries have been made.
- The owner, P. Rumo, donated a lawn mower to the local old age home. The accountant debited the amount of R3 200 (Cost price) to the Drawings account. Correct the error.
- According to a physical stocktaking the inventory on hand was:
  - Trading stock, R60 500
  - Stationery, R203
- The insurance account is as follow:

Dr.		Insurance							Cr.
05 Jan	1	Prepaid expenses		1 800					
05 Jun	30	Bank (1/7/2005 – 30/6/2006)		14 200					
05 Oct	1	Bank (1/10/2005 – 30/9/2006)		7 800					

- During December 2005 R200 was received from a debtor whose account was previously written off as irrecoverable. The amount was correctly recorded in the subsidiary journal but was credited to the Bad debts account during posting.
- Write off the account of S. Smit (debtor) as irrecoverable, R340.
- The Fixed deposit account is as follows:

## Financial statements of a sole trader

Dr.		Fixed deposit: Elmar Bank						Cr.	
05 Jan	1	Balance		20 000					
05 Nov	1	Bank		15 000					

The additional fixed deposit was invested for one year at 12% interest per year. The fixed deposit of R20 000 was invested on 30 June 2003 for 5 years at 12% interest per year.

- 8 One of the garden services clients went overseas on 15 December 2005. He will be away for three months. On 15 December he paid his fees for 1 January 2006 to 31 March 2006, R600.
- 9 The business has been conducted from the owner's home. Due to expansion, an additional building has been rented from 1 May 2004. The owner did not pay a deposit. The rent will increase annually by 10% as from 1 May 2005. Rent was paid for 13 months.
- 10 The telephone account for December 2005 has been received but not yet paid, R1 600.
- 11 Included in the amount for Advertising is an amount of R456 in respect of the following year.
- 12 Depreciation must be written off as follows:
  - Vehicles at 15% per year using the diminishing balance method.
  - Equipment at 10% per year on cost price.

The Vehicles and Equipment accounts are as follows:

Dr.		Vehicles						Cr.	
05 Jan	1	Balance		20 000					
05 Dec	1	Bank		40 000					

Dr.		Equipment						Cr.	
05 Jan	1	Balance		88 000					
05 Dec	31	Bank		16 000					





## Financial statements of a sole trader

<b>Balance sheet of Rumo Traders on 31 December 2005</b>			
	Note	R	R
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets / Tangible assets	3		
Financial assets			
Fixed deposits (maturation period longer than 12 months)			
<b>CURRENT ASSETS</b>			
Inventories	4		
Trade and other debtors	5		
Cash and cash equivalents	6		
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
Owner's equity	7		
<b>NON-CURRENT LIABILITIES</b>			
Mortgage loan			
<b>CURRENT LIABILITIES</b>			
Trade and other creditors	8		
Bank overdraft			
<b>TOTAL EQUITY AND LIABILITIES</b>			

## Financial statements of a sole trader

### Notes to the Financial Statements:

1. Interest income / Investment income	
From investments	
From overdue debtors	
From current account	

2. Interest expense / Finance costs	
On mortgage bond	
On overdraft	
On overdue creditors	

3. Tangible assets	Land and Buildings	Vehicles	Equipment	Total

4. Inventories	
Trading stock	
Consumable stores on hand	

5. Trade and other receivables (debtors)	
Trade debtors	
Prepaid expenses	
Accrued income	
Deposit for water and electricity	

## Financial statements of a sole trader

6. Cash and cash equivalents	
Fixed deposits (maturing in 12 months)	
Savings account	
Bank (Debit balance)	
Cash float	
Petty cash	

7. Owner's equity	
Balance at the beginning of the year	
Net profit (loss) for the year	
Additional capital contributed	
Drawings	
Balance at the end of the current year	

8. Trade and other payables (creditors)	
Trade creditors	
Accrued expenses	
Income received in advance	
Creditors for salaries/wages	
Pension fund	
Medical fund	
SARS (PAYE)	
Skills Development Levy	

# Analysis of Financial Statements

## Overview

Topic 2 Page 199		Analysis of Financial Statements
1	Page 199	Introduction to concepts
2	Page 200	Ratios
3	Page 101	Ratios in depth

Overview – Analysis of Financial Statements

## 1 Introduction to concepts

The analysis and interpretation of Financial Statements is an evaluation process aimed at evaluating current and previous financial positions and results of an enterprise. A ratio is the relationship between two different figures expressed in simple terms. In order to be useful, the ratios should express meaningful relationships and be compared to measures of comparative figures.

The aim of analysis and interpreting the Financial Statements of a business is thus to determine the following:

### 1.1 Profitability

A measure of the business success through comparing profit made with the amount sold or invested. It is also a way to assess whether there may be a cost control problem.

### 1.2 Return

Determines if the investors (owners) in the business are receiving a reasonable return on the money they have invested.

### 1.3 Solvency

The ability to meet financial obligations on time, or to pay long-term debts.

# Analysis of Financial Statements

## 1.4 Liquidity

The ease and speed at which an investment can be converted into cash. Also referred to as the ability to pay short-term debts using short-term assets.

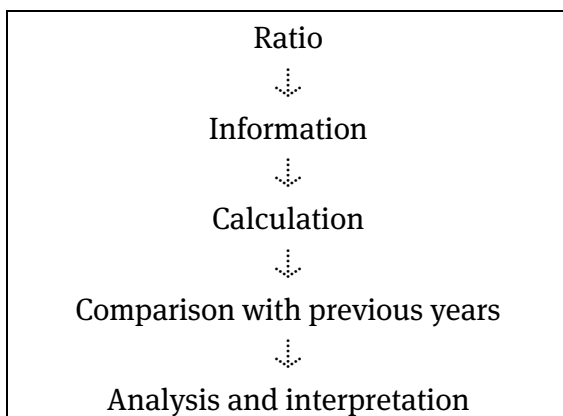
## 1.5 Risk

What is the financial risk of the business (i.e. to what extent is the company financed on borrowed funds).

## 2 Ratios

---

### Steps in the analysis process:



### 2.1 Profitability of the business

- Percentage gross profit on turnover
- Percentage gross profit on cost of sales
- Percentage net profit on turnover
- Percentage total expenses on turnover
- Percentage operating profit on turnover

# Analysis of Financial Statements

## 2.2 Liquidity of the business

- Current ratio
- Acid test ratio
- Rate of inventory turnover (Grade 11)
- Number of months' inventory on hand (Grade 11)
- Average debtors' collection period (Grade11)
- Average creditors' payment period (Grade11)

## 2.3 Solvency of the business

- Solvency ratio

## 2.4 The financial risk associated with the business

- Debt/Equity ratio (gearing ratio)

## 2.5 The return on investment for the owners of the business

- Percentage return on average owners' equity
- Let us discuss each ratio in depth.

## 3 Ratios in depth

---

### 3.1 Profitability

#### (a) + (b) Gross profit on sales and gross profit on cost of sales

The gross profit of a business is the amount by which the sales exceed the cost of sales for a specific accounting period.

The gross profit a business aims to achieve can be deduced from the kind of business activity and the policy that is being followed with regard to the profit mark-up. For example, a business can follow a policy of fixed mark-up of 25% on the cost price of each article.

Cost price of an article	R3 000
25% on cost price	R750
Sales price	R3 750

## Analysis of Financial Statements

If the gross profit of R750 is calculated as a percentage of sales (turnover), the percentage is:

$$\frac{750}{3\,750} \times \frac{100}{1} = 20\%$$

If the gross profit of R750 is calculated as a percentage of the cost of sales, the percentage is:

$$\frac{750}{3\,000} \times \frac{100}{1} = 25\%$$

A profit mark-up of 20% on sales is thus the same as a profit mark-up of 25% on cost of sales.

If this profit mark-up is strictly maintained by the business on all sales, the same percentages will be obtained from the final results reflected in the Income Statement, for example:

Sales for the year (240 articles)	R900 000
Less: Cost of sales	<u>R720 000</u>
Gross profit	<u>R180 000</u>

**Gross profit expressed as a percentage of sales is:**

$$\frac{180\,000}{900\,000} \times \frac{100}{1} = 20\%$$

**Gross profit expressed as a percentage of Cost of sales is:**

$$\frac{180\,000}{720\,000} \times \frac{100}{1} = 25\%$$

## Analysis of Financial Statements

There is thus no variation of the profit mark-up in this example. The mark-up is maintained according to the policy.

### a) Percentage gross profit on turnover

$$\frac{\text{Gross profit}}{\text{Turnover}} \times \frac{100}{1}$$

*Turnover = sales – Debtors' Allowances*

*Gross profit = Turnover – Cost of sales*

This ratio presents the gross profit of a certain financial year as a percentage of the net sales/turnover for a particular year. If the business adds a constant percentage of profit to the cost price, it should be shown in the percentage of the gross profit. Should the two numbers differ, it may be due to the following reasons:

- Theft
- Sales calculations could have been incorrect.
- Trade discount could have been allowed.

### b) Percentage gross profit on cost of sales

$$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$$

This ratio presents the gross profit of a certain percentage of cost of sales. The ratio determines whether the purchasing policy and storage of inventory is applied successfully. If this percentage decreases from the previous year, it is possibly due to theft in the warehouse.

### c) Percentage operating profit on turnover

$$\frac{\text{Operating profit}}{\text{Turnover}} \times \frac{100}{1}$$

This percentage represents the operating profit as a percentage of turnover. This ratio is done to take the income and expenses into account in order to manage the business before any interest. The ratio is used in order to determine how expenses can be managed. The lower the percentage, the better the expenses in the business is managed.



# Analysis of Financial Statements

## d) Net profit on turnover

$$\frac{\text{Net profit}}{\text{Turnover}} \times \frac{100}{1}$$

The net profit for a certain financial period is represented as a percentage of the sales. This percentage should be  $\frac{1}{3}$  of the percentage gross profit on turnover. If the percentage differs greatly from the gross profit on turnover, the expenses are too high. The percentage net profit on turnover must be compared to the previous year's percentage in order to determine whether the expenses are managed. The higher the percentage, the better the expenses are being managed.

## e) Total expenses as a percentage of turnover

$$\frac{\text{Operating expenses}}{\text{Turnover}} \times \frac{100}{1}$$

This is the percentage of total expenses on turnover. This percentage shows the part of the sales used for operating expenses. This relates to cost control. This number is compared to the previous year and should remain the same or decrease. The lower the percentage, the better expenses are managed.

## 3.2 Liquidity

Liquidity refers to whether the business is able to meet its short-term obligations with the funds available – whether the business can pay its current liabilities. These current liabilities can be paid only from current assets that can be converted to cash.

### a) Current ratio

$$\text{Current assets} : \text{Current liabilities}$$

The current ratio measures the extent to which the current assets of the business cover the current liabilities. The ratio is always presented as  $x : 1$ . The current assets are divided by the current liabilities. The greater the ratio of current assets to current liabilities, the greater the business' ability to meet its short term obligations. If the ratio is  $2 : 1$  there are current assets of R2 for each R1 of current liabilities.

# Analysis of Financial Statements

## b) Acid test ratio

Current assets – Inventories : Current liabilities

A disadvantage of operating capital is that the liquidity of the current assets cannot be taken into account. Trading stock must be converted to cash, could be dated, could be stolen or could break. To calculate the acid test ratio, the inventories should be subtracted from the current assets. Inventories consist of Trading stock and consumable stores on hand. Both the amounts must be deducted.

The ratio is expressed as  $x : 1$ . The business is regarded as liquid if the ratio is greater than 1, thus  $1,2 ; 1$ . For each R1 current liability there are R1,20 available in the form of assets.

## 3.3 Solvency of the business

### Solvency ratio

Total assets : Total liabilities

Total assets = Tangible assets + Fixed deposit + Current assets

Total liabilities = Non-current liabilities + Current liabilities

Solvency refers to the business's degree of solvency – in other words whether the business will be able to meet its long term obligations.

A business is:

Solvent = Total assets > Total liabilities

Insolvent = Total assets < Total liabilities

The ratio is expressed as  $x : 1$ . The business is regarded as solvent if the ratio is not lower as  $1 : 1$ .

## 3.4 Risk

### Debt/equity ratio

Non-current liabilities : Owners' equity

Owners' equity = Capital balances of partners + current account balances of partners

If current account of a partner has a debit balance, subtract the amount.

This ratio gives an indication of how the business is financed. Capital is provided by the owners but it can also be borrowed money. There is a cost to borrowing money. The

# Analysis of Financial Statements

business will have to pay interest for this privilege. If a business borrows a lot of money, they are putting themselves at great financial risk. If the profits drop the borrowed capital (loan) still need to be repaid with interest resulting in a financial strain on the business.

The debt to equity ratio gives the readers of the Financial Statements an idea of the extent to which the business is financed by borrowed capital and therefore the degree of risk that the business has placed itself in.

### When is it favourable to make use of borrowed capital?

A debt/equity ratio of 1 : 1 is regarded as acceptable. For every R1 invested by the owners there are R1 borrowed funds. A business which relies mainly on equity to fund its operations, e.g. 0,7 ; 1, may be regarded as a low-risk business (favourable geared) with a good credit rating. A business which makes a great deal use of borrowed capital, e.g. 1,3 : 1 may be regarded as a high risk business (negative geared) with a poor credit rating. Financial providers (banks) will consider to lend money to a business if the ratio is between 0,5-1 : 1.

## 3.5 The return on investment for the owners of the business

### Percentage return on average owners' equity

<u>Net profit</u>	X	<u>100</u>
Average owners' equity		1

This indicator enables the owners to measure how profitable their investment in the business is. It allows them to compare the rate of return in the business with the rate of return on alternative outside investments.

The owners can compare this percentage to the return that they could earn on an alternative form of investment, e.g. a fixed deposit. Instead of earning interest on a fixed deposit, the owners have opted to invest in the business. By comparing the return on the two options, they can decide whether or not their decision has been worthwhile. They can also decide whether it will be advisable to sell or close the business and invest the proceeds elsewhere. Before taking such a decision, the owners will have to consider some of the following points very carefully:

- The future prospects and grow of the business
- The safety or risk associated with other investments
- The current rates of return on investments in the money market.
- The general economic conditions in the country.

## Analysis of Financial Statements

### 3.6 Stakeholders who would be interested in the financial statements of the business

- SARS
- Financial providers
- Unions
- Employees
- Creditors

#### Activity 1

Use the transactions and Financial Statements for the years ending on 31 December 2007 and 31 December 2008 provided of Rolux Traders to perform the calculations required:

#### *Information*

1 Financial indicators on 31 December 2007:

Percentage net profit on turnover	42,7%
Percentage operating expenses on turnover	17,8%
Current ratio	2,1 : 1
Acid test ratio	1,6 : 1
Solvency ratio	3,4 : 1
Debt/equity ratio	0,27:1
Percentage return on average owners' equity	39,1%

2 Extract from the Income Statements:

## Analysis of Financial Statements

	31 December 2008	31 December 2007
Sales	214 000	184 000
Cost of sales	(74 000)	(72 300)
Gross profit	140 000	111 700
Other operating income	8 400	7 900
Gross operating income	148 400	119 600
Operating expenses	(46 800)	(32 900)
Operating profit	101 600	86 700
Interest income	2 480	2 340
Profit before interest expense	104 080	89 040
Interest expense	(12 300)	(10 400)
Net profit for the year	91 780	78 640

### 3 Notes to the Financial Statements

	31 December 2008	31 December 2007
7. Equity		
Balance at the end of the previous year	200 740	128 300
Additional capital contributed	-	-
Net profit for the year	91 780	78 640
Drawings	(9 300)	(6 200)
Balance at the end of the current year	283 220	200 740

## Analysis of Financial Statements

### 4 Balance Sheet:

	31 December 2008	31 December 2007
<b>ASSETS</b>		
Tangible assets	281 320	208 440
Fixed Deposit	15 000	15 000
Current assets	70 200	61 400
Inventories	18 300	14 800
Trade and other debtors	14 900	13 100
Cash and cash equivalents	37 000	33 500
<b>TOTAL ASSETS</b>	<b>366 520</b>	<b>284 840</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	283 220	200 740
Non-current liabilities	50 000	55 000
Current liabilities	33 300	29 100
Trade and other creditors	28 300	24 100
Short-term loan	5 000	5 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>366 520</b>	<b>284 840</b>

### *Required*

1.1 Calculate the following for 2008 and comment on the ratios:

- Percentage net profit on turnover
- Percentage operating expenses on turnover

# Analysis of Financial Statements

1.2.1 Calculate the following for 2008:

- Current ratio
- Acid test ratio

1.2.2 Can the business pay his short-term debts? Briefly explain.

1.3 Calculate the Solvency ratio for 2008.

1.4 The owner wants to expand the business. He does not know if he must take out another loan of R100 000 or contribute more capital. Help him to make the right decision. Do the debt/equity ratio to help you.

## Analysis of Financial Statements

1.5 Calculate the percentage return on average owners' equity. Comment on the percentage.

1.6 Name two stakeholders who would be interested in the Financial Statements of Rolux Traders.



# Cost Accounting

## Overview

Topic 3 Page 212

Cost Accounting

1

Page 212

Introduction to cost accounting concepts

Overview – Cost Accounting

## 1 Introduction to concepts

### 1.1 Introduction

A trading enterprise is an enterprise that buys and sells manufactured products at a profit. In a trading enterprise we talk about purchased and sold trading stock. A service enterprise is an enterprise where persons use their skills to provide a service to the community. A manufacturing enterprise is an enterprise that manufactures products (completed products) from raw materials.

### 1.2 Cost concepts

CONCEPT	EXPLANATION
Cost	Cost is the monetary value needed to manufacture a product or to render a service.
Fixed costs	Fixed cost is that section of the total costs that remain the same regardless of the amount of products produced.
Variable costs	Variable costs are the part of the total costs that change as the amount of products produced changes.
Direct costs	Direct costs can be directly linked to specific products, the production process or a section.
Indirect costs	Indirect costs cannot be directly linked to a specific product or the execution of an activity, but are part of the manufacturing of the product. Indirect costs are usually referred to as overheads.
Labour costs	Labour costs are the total amount paid to workers who are directly or indirectly involved in the manufacturing of products – worker contributions are also included.
Direct labour costs	Direct labour costs are the remuneration paid to employees who are directly involved in the manufacturing of a product.
Indirect labour costs	Indirect labour costs are the remuneration paid to employees who are not directly involved in the manufacturing of a product.

# Cost Accounting

Direct material costs	Direct material costs are the costs of all raw material and parts used in the production process and thus forms part of the final product.
Indirect material costs	Material and parts in small quantities, form part of the indirect costs of material. It is not possible to determine the number of such cost components used for individual products.
Total costs	Fixed costs + Variable costs
Primary costs	Direct material + Direct labour.
Manufacturing costs	Primary + overheads
Work-in-process	Work-in-progress is the same as incomplete products. As units are manufactured and the cost of completed unit needs to be calculated for a specific period, there will always be units that are incomplete. Work-in-process may be in any stage of completion, e.g. 1% - 99%.
Completed products	Completed goods are units that are 100% complete. These units are ready to be sold.
Cost of sales	Cost of sales involves completed units in relation to goods sold.

## Activity 1

Make a cross to indicate which items can be regarded as Direct costs/Indirect costs/not part of production costs.

Cost item	Production costs		Not part of production costs
	Direct costs	Indirect costs	
1. Rent of factory			
2. Wages of cleaners			
3. Wages of employees using tools working on the product			
4. Insurance of the equipment in the factory plant			
5. Maintenance of the factory buildings			
6. Cost of raw materials included in the finished products			
7. Administrative costs			
8. Marketing costs			
9. Depreciation on factory equipment			
10. Consumables issued to the factory			

# Cost Accounting

## Activity 2

Thembi manufactures designer bags and sells them at a flea-market. The following are costs that she incurs with the manufacturing of her bags.

Material– 0,75m	R24 per metre
Cotton – 50m	R10 per 1 000m
Webbing (for the handle) – 0,75m	R20 per metre
Beads (for decoration) – 48	R7 per dozen
Labour – 2,5 hours	R15 per hour
Rent (rents a garage to manufacture her bags)	R1 500 per month
Cleaning material	R50 per month
Electricity	R200 per month

### Questions

2.1 What is Thembi's Total direct material cost per item?

2.2 What is Thembi's Total direct labour cost per item?

2.3 What is Thembi's Total primary cost per item?

2.4 What is the total overhead cost involved in making the bags?

# Cost Accounting

2.5 Explain the difference between fixed costs and variable costs?

2.6 If 100 bags are made and sold, what will the total profit be if the selling price is R150 per bag?

## Activity 3

### *Required:*

Read the scenario and identify the category into which each cost can be classified. Put an X in the correct column on the Answer book supplied.

### *Information:*

Beady Bags is owned by Ms. S Mashingo. She started her own business making novelty fabric bags. Her business expanded as the demand for her product increased. She rented a small factory from which she operates. The following table lists all the costs involved in the manufacturing of her novelty fabric bags.

# Cost Accounting

No	Costs	Direct material costs	Direct labour costs	Indirect material costs	Indirect labour costs	Other
1	Insurance					
2	Rent expense					
3	Denim fabric					
4	Beads and other accessories					
5	Wages for the machinists and cutters					
6	Cotton for the sewing machine					
7	Salary for the quality checker					
8	Wages for the factory cleaner					
9	Zips for the bags					

An inexperienced assistant, Jonas, needs to find out the difference between Variable cost and Fixed cost in manufacturing. Explain in your own words to Jonas:

Fixed cost

Variable cost

# Budgeting

## Overview

Topic 1 Page 217	Budgeting
1 Page 217	Introduction to budgeting
2 Page 218	Budgeting concepts
3 Page 219	Cash budget

Overview – Budgeting

## 1 Introduction to budgeting

A famous saying tells us that: ‘People don’t plan to fail, they fail to plan. An enterprise/person without a budget is like a ship without a compass and a destination.

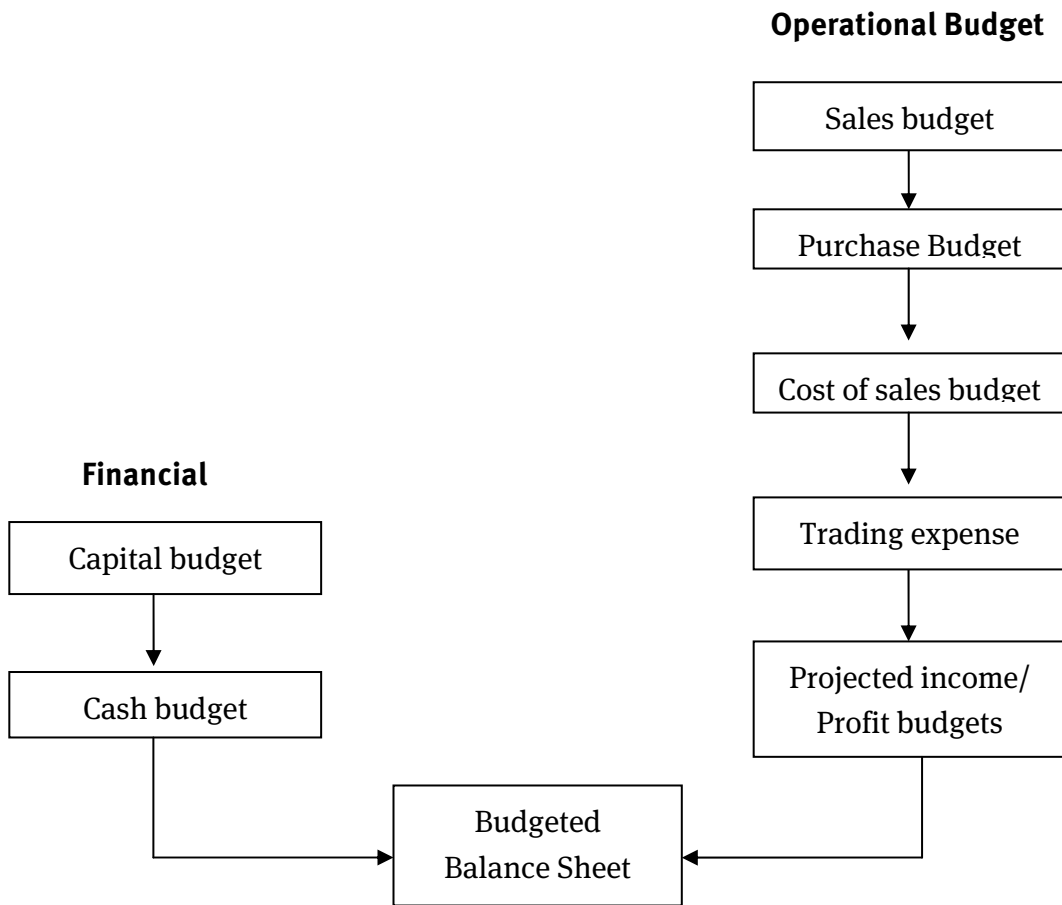
A budget is a very important managerial aid and is used for planning and control. However, managers tend to view budgets only as a set of rigid figures that limit personnel and place an additional administrative burden on the budget planners. This type of criticism is often completely unfounded. If a budget system is used correctly, it can be viewed as an extremely handy aid that motivates personnel and brings about effective coordination.

Efficient business management cannot take place without properly drawn up budgets. With the help of budgets the management can set attainable goals in terms of opportunities and threats for individual departments and the enterprise as a whole. At the same time they can analyze and specify the place and role of each department in achieving their goals. Problems or difficulties can often be addressed by drafting the main budget. By eliminating these difficulties, the result will be a coordinated, meaningful, realistic and achievable financial plan.

Budgets are financial aids that help the management of enterprises to express their planning in financial terms. They are important aids that enable the management to adapt overhead (strategic) planning to detailed planning, so that the allocation of sources to each department of the enterprise happens in a rational and systematic manner. Because of the scope and complexity of current enterprises, more than one budget is necessary in order to manage the enterprise successfully. The main budget is a summary of all the functional budgets. Functional budgets are divided into operational and financial budgets.

# Budgeting

The different budgets of a trade enterprise are represented as follows:



## 2 Budget concepts

### 2.1 Sales budget

Sales budgets are used to assess marketing and the efficiency of sales. The sales budget forms the most important subdivision of the profit budget. However, it is very difficult to project future sales accurately.

### 2.2 Profit budget

In this case the cost and income budget are combined and used by managers who take responsibility for both the income and expenditure of the enterprise as a whole. It deals with the drawing up of a projected income statement.

# Budgeting

## 2.3 Capital budget

The capital budget shows the expected (budgeted) future capital investment in fixed assets that may be deemed necessary to maintain the existing fixed assets or to make provision for an increase in the fixed assets.

## 2.4 Financing budget

The financing budget is used to ensure that the enterprise will have enough funds available in the short term for budgeted shortfalls between receipts (income) and payments (expenses). It is also used to plan for medium and long-term financing needs.

Therefore the budget is synchronised with the cash budget to ensure that the enterprise has enough funds available if and when needed.

## 2.5 Budgeted Balance sheet

The Budgeted Balance Sheet is the sum of all the other budgets and indicates what the financial situation of the enterprise is at the end of the budget period if the true results obtained correspond with the budgeted (planned) results. An analysis of this budgeted balance sheet may indicate problems (e.g. a poor solvency situation as a result of excessive loans) or opportunities (e.g. excessive liquidity that creates expansion opportunities) that necessitate a reconsideration of the other budgets.

## 2.6 Cash budget

A cash budget shows the expected inflow and outflow of cash. The cash budget reflects the expected balance in the bank during the budget period.

## 3 Cash budget

---

This deals with the cash flow of the enterprise. The cash consist of three sections, namely:

- inflow of cash/cash income
- outflow of cash/cash payments
- surplus/shortage of cash for the month



# Budgeting

It is important that one takes a close look at the cash budget, because the months when the cash flow is high must make provision for months that have a low cash flow.

For example: in December people spend a lot of money, which makes December a good turnover month, but in January people don't have money to spend, resulting in a poor turnover month.

A cash budget is drawn up for a certain period, usually a year, but it can be drawn up monthly.

Let's look at the three sections of a cash budget:

## 3.1 Cash receipts

These include all cash received during a specific period. Income consists of cash sales for a specific month; cash received from debtors; interests received on investments and bank accounts; loans negotiated and the money received from these; fixed deposits that mature; money received from fixed assets sold, as well as any other cash received, e.g. rent income and bad debts recovered.

## 3.2 Cash payments

This is all the cash paid during a specific period. Payments include cash paid for the purchase of merchandise, payments to creditors, repayments of loans, interest paid on loans and overdraft, money invested as fixed deposits, fixed assets that are purchased, consumables that will be purchased and all other expenses that must be paid.

## 3.3 Cash balance

In this section the estimated cash balance at the end of the month is calculated. It is calculated as follows:

- to obtain the cash surplus/deficit for the month: cash receipts less cash payments.
- the bank balance at the beginning of the month.
- the estimated bank balance at the end of the month.

## Budgeting

It is important to remember that the following items don't have an influence on cash and therefore, don't form part of the cash budget:

- discount allowed
- discount received
- bad debts
- depreciation
- profit on sale of asset
- loss on sale of asset

The following is an example of a cash budget:

Cash budget for the period 1 January 2009 to 31 March 2009				
	January	February	March	Total
Cash receipts				
Cash sales	xx	xx	xx	xx
Collection from debtors	xx	xx	xx	xx
Interest on fixed deposit	xx	xx	xx	xx
<b>TOTAL RECEIPTS</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Cash payments				
Cash purchases	xx	xx	xx	xx
Payments to creditors	xx	xx	xx	xx
Equipment	xx	xx	xx	xx
Operating expenses	xx	xx	xx	xx
<b>TOTAL PAYMENTS</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Cash surplus/(deficit)	xxx	xxx	xxx	xxx
Bank (opening balance)	xxx	xxx	xxx	xxx
Bank (closing balance)	xxx	xxx	xxx	xxx

# Budgeting

## Activity 1

ABC Cleaning services, hires out cleaning services to their clients at R70 per hour. Betty Blue, the owner, ensures that all cleaners work the same number of hours in a year and they are paid weekly for the number of hours that they work.

Betty has a manager, Alfred Green, who takes care of the day to day running of the business. Together they have drawn up the following budget for 2007.

	2006		2007
	BUDGET	ACTUAL	BUDGET
<b>RECEIPTS</b>			
Fee income from cleaning services	721 000	721 000	860 240
Rent income	12 000	12 000	14 400
Interest on fixed deposit	5 000	4 000	4 500
Loan from Blue Bulls Bank	50 000	50 000	20 000
<b>TOTAL RECEIPTS</b>	<b>788 000</b>	<b>787 000</b>	<b>899 140</b>
<b>PAYMENTS</b>			
Salary of office worker	54 000	54 000	60 000
Salary of Manager	150 000	170 000	225 000
Wages of 8 cleaners	206 000	206 000	210 000
Employer's contribution (e.g. medical aid, etc)	50 156	50 156	62 000
Office telephone & electricity	20 000	16 500	20 000
Motor vehicle running expenses	36 000	34 000	38 000
Interest on loan	7 500	7 500	10 500
Bank charges	15 000	19 000	20 000
Uniforms for cleaners	6 400	7 200	3 200
Office maintenance costs	17 000	13 000	13 000
Drawings by Bettie Blue	154 000	204 000	250 000
Purchase of new vehicle for Bettie Blue			420 000
<b>TOTAL PAYMENTS</b>	<b>716 056</b>	<b>781 356</b>	<b>1 331 700</b>
Cash surplus (deficit) for the year	72 044	5 644	(531 600)
Cash in the bank at the beginning of the year	160 075	232 119	237 763
Cash in the bank at the end of the year	232 119	237 763	(293 837)

# Budgeting

## Questions

1.1 Why is it important to prepare a cash budget for each financial year?

--

1.2.1 Why is "Bad debts" not shown in the cash budget?

--

1.2.2 Will "Bad debts recovered" be shown in the cash budget? Motivate.

--

1.3 What percentage interest did the business pay on the loan in 2006?

--

1.4 Name two items which will not appear in a cash budget.

--

1.5 Name two items that were well controlled in 2006.

--

1.6 Name two items that were not well controlled in 2006.

--

# Budgeting

1.7.1 What is your opinion about the drawings of Betty Blue?

--

1.7.2 Why is the bank balance in 2007 in brackets?

--

## Activity 2

### Information

Verster's Milk Shop			
Cash Budget for three months October to December 2009			
	OCTOBER	NOVEMBER	DECEMBER
<b>CASH RECEIPTS</b>			
Cash sales	100 000	110 000	115 000
Receipts from debtors	40 000	43 000	46 000
Rent income	3 000	3 000	3 000
Interest on fixed deposit			1 500
<b>TOTAL RECEIPTS</b>	<b>143 000</b>	<b>156 000</b>	<b>165 500</b>
<b>CASH PAYMENTS</b>			
Cash purchases of trading inventory	60 000	64 000	66 000
Payments to creditors	50 000	52 000	58 000
Salaries and wages	15 000	15 000	18 000
Equipment purchased		30 000	
Sundry operating expenses	10 500	10 500	10 500
<b>TOTAL PAYMENTS</b>	<b>135 500</b>	<b>171 500</b>	<b>152 500</b>
Cash surplus / (shortfall)	7 500	(15 500)	13 000
Bank opening balance	5 000	12 500	(3 000)
Bank closing balance	12 500	(3 000)	10 000

# Budgeting

## Questions

Use the cash budget given above to answer the following questions:

2.1 What is a cash budget?

--

2.2 Why do we need to draw up a cash budget?

--

2.3 Money has been invested in a fixed deposit. When does the business expect to receive interest on this investment?

--

2.4 When does the business intend to purchase equipment?

--

2.5 Name a month in which Verster's Milk Shop expects to receive more cash than it pays out.

--

# Budgeting

2.6 Name TWO items that will not appear in a cash budget.

--

2.7 Will 'bad debt recovered' be shown in the cash budget? Motivate.

--

## Revision

## Sample mid-year examination

TIME: 2 HOURS

MARKS: 200

## SECTION A

QUESTION 1 (Transaction analysis)

[30]

Required:

Study the example below and analyse the following transactions of LS Stores accordingly. Assume that the bank has a favourable balance. The perpetual/continuous inventory system is used.

Example:

Received R100 from a debtor, M. Samson, as part of his account.

	General ledger		Accounting equation		
No	Account debited	Account credited	A	OE	L
E.g.	Bank	Debtors control	+100	0	0

Transactions:

- 1 Received R50 000 from ACE Bank for a loan approved at an interest rate of 18% p.a.
- 2 Paid R122 postage out of the petty cash.
- 3 Purchased stationery on credit from Radue Traders for R1 530.
- 4 Received a credit note from Zet Repairs for R150 to rectify an amount overcharged on merchandise purchased by them on repairs.
- 5 A debtor, K. Motloung claimed a discount of R20 on an overcharge on merchandise purchased. The claim was approved.
- 6 The owner, J. Meshlo, withdrew R400 (cost price) goods for his own use.
- 7 Received a cheque of R540 from E. Ferndale. His account was previously written off as bad debts.



## Revision

## Answer sheet

No	General ledger		Accounting equation		
	Account debited	Account credited	A	OE	L

## QUESTION 2 (Debtors reconciliation)

[35]

Required:

From the following preliminary totals and additional information, extracted from the records of Pollock Sports Shop for October 2010, you are required to:

- 2.1 Use all relevant information and prepare the Debtors' Control Account for October 2010. (18)
- 2.2 Prepare the correct Debtors' list on 31 October 2010. The Debtors' list on 30 September 2010 was correct and corresponds with the control account for September 2010. (Show ALL the calculations in brackets) (17)

Information:

Debtors' list on 30 September 2010	R
G. Kirsten	1 020
J. Kallis	3 150
P. Adams	825
M. Ntini	30 (Cr)
J. Rhodes	4 920
	?

Debtors' list on 31 October 2010	R
N. Boje	2 310
G. Kirsten	1 020
P. Adams	450
J. Rhodes	5 700
	9 480

## Revision

Totals from subsidiary journals for October 2010:

1 Cash Receipts Journal		
Debtors control		
Receipts	Discount allowed	Total
R7 350	R630	R7 980
2 Cash Payments Journal		
Debtors control		R300

3 Debtors control			
Sales	Cost of sales		
R8 100	R7 200		
4 Debtors Allowances Journal			
Debtors Allowances	Cost of sales		
R525	R300		
5 General Journal			
Debtors control		Creditors control	
Debit	Credit	Debit	Credit
R420	R750	R660	R300

Additional information:

- 1 Merchandise returned by N. Boje, R30, was entered in the subsidiary book (journal) but was not posted to the Debtors' Ledger.
- 2 Credit sales R180 to G. Kirsten, was correctly entered in the subsidiary book (journal) but it was erroneously posted to the account of J. Rhodes in the Debtors' Ledger.
- 3 The transfer of a debit balance, R225, in P. Adams' account from the Debtors' Ledger to his corresponding account in the Creditors' Ledger, was entered as follows in the General Ledger, and posted as such to the ledgers.

	Debtors control		Creditors control	
	Debit	Credit	Debit	Credit
P. Adams	225		225	
P. Adams		225		225

- 4 A credit note issued to N. Boje for R50 was correctly entered in the subsidiary journal. However, the amount was posted to the account of J. Rhodes.

# Revision

Answer sheet:

2.1

General ledger of Pollock Sport Shop									
Dr.	Debtors control							B8	Cr.

2.2

Debtors list		
Debtors list on 31 October 2010	Debit	Credit

## Revision

QUESTION 3 (Salaries)

[22]

Required:

3.1 Complete the partially completed salary journal of Nathan Traders for the month ended 30 April 2010. (12)

Name	Gross salary	Deductions				Employers contributions			
		Pension	PAYE	Medical	Total	Net salary	Pension	Medical	Total
C. Mampa	8 000	640	1 850	150	2 640	5 360	640	300	940
L. Naidoo	3 600		900						

3.2 Answer the following questions which relate to question 3.1

3.2.1 How much must be paid to the pension fund on 30 April 2010? (3)

--

3.2.2 What is the operating expense of Nathan Traders in respect of Medical Aid Fund for April 2010? (2)

--

## Revision

3.2.3 Issued a cheque to settle the PAYE for April 2010. Name the accounts to be debited and credited. (2)

3.2.4 Name the accounts to be debited and credited when posting the net salary from the Salary Journal to the General Ledger. (2)

3.2.5 Name the account to be credited when the pension fund contributions are posted from the Salary Journal to the General Ledger. (1)

## Revision

Information:

- A The monthly salary of L. Naidoo (married) is R3 600
- B Deductions:  
 Pension fund: 8% of gross salary  
 PAYE: R900  
 Medical AID Fund: married R300 per month and single R150 per month.
- C Employers contributions:

	Pension Fund	Medical Aid Fund
C. Mampa	On a rand for rand basis	R2 for every R1
L. Naidoo	12% of gross salary	R2 for every R1

QUESTION 4 (General Journal & ledger accounts) [80]

You are provided with information taken from the books of Union Traders.

Required:

- 4.1 Open the General Journal with totals on 30 September 2010 and journalise all the omissions/errors and additional information. Close off the account at the end of the month. You don't have to do any narrations. (38)
- 4.2 Draw up the following ledger accounts in the General Ledger:
- 4.2.1 Trading stock (18)
- 4.2.2 Creditors control (12)
- 4.2.3 Stationery (12)

Note: Balance the accounts on 30 September 2010.

Information:

1 Some balances on 1 September 2010:

- Creditors control, R16 200
- Trading stock, R20 680
- Stationery, R1 240

2 Journal totals for September 2010:

Cash Receipts Journal

Bank	Debtors control	Discount allowed	Sales	Cost of sales	Sundry accounts
R23 260	R8 960	R60	R4 960	R2 480	R9 400

## Revision

## Cash Payments Journal

Bank	Creditors control	Discount received	Debtors control	Trading stock	Stationery	Sundry accounts
R45 360	R4 690	R90	R468	R18 000	R300	R22 000

## Debtors Journal

Sales	Cost of sales
R14 300	R7 150

## Debtors Allowances Journal

Debtors Allowances	Cost of sales
R1 200	R600

## Creditors Journal

Creditors control	Trading stock	Equipment	Stationery	Packing material	Sundry accounts
R20 423	R10 361	R6 281	R461	R690	R2 630

## Creditors Allowances Journal

Creditors control	Trading stock	Equipment	Stationery	Packing material	Sundry accounts
R3 167	R1 890	R804	R74	R151	R248

## General Journal

	Debit	Credit
Debtors control	R163	R41
Creditors control	R17	R462

## 3 Additional information

- A Transfer the account of S. Sithole with a debit balance of R25 in the Creditors ledger to the account in the Debtors ledger.
- B Goods sold to N. Naidoo in September 2010 for R250 has recorded in the Debtors journal as R450. The cost price was recorded correctly. Correct the error.
- C The overdue account of A. Nel, a debtor, who owes R960, must be charged with 17,5% interest for four months.
- D Goods returned for R80 by B. Bell, a debtor during August 2010, has been post to the account of BP Bel, a creditor. Correct the error.





# Revision

Dr.	Creditors control						B9	Cr.

Dr.	Stationery						N8	Cr.

QUESTION 5 (VAT)

[8]

5.1 What is the difference between VAT-input and VAT-output? (2)

5.2 Indicate by making a cross in the correct column if the following are Taxable supplies, Exempt supplies or Zero-rated supplies. (6)

	Taxable supplies	Exempt supplies	Zero-rated supplies
Passengers transported by taxi			
Dried beans			
A box of apples			
Maize meal			
Brown bread			
White bread			

QUESTION 6 (Final accounts)

[25]

## Revision

Note: The following questions are independent of one another. Answer each question and clearly show calculations where necessary.

## QUESTION 6.1 (8)

Calculate the book value of the assets and the owners' equity of a sole trader, Radebe Traders, on 30 June 2010, when taking into account the following information:

	Assets	Owners' equity	Liabilities
2009-06-30	R31 500	R?	R6 000
2010-06-30	R?	R?	R10 500

Additional information:

Income for the year ending 2010-06-30 is R97 250, expenditure is R60 000 and the owner took R18 000 for personal use.

Answer sheet:

## QUESTION 6.2 (5)

Information:

The Profit and Loss account of Hadebe for the year ending 31 March 2010 includes the following item:

Insurance	R7 200
-----------	--------

The Balance Sheet of the present and previous years includes the following item:

	2010	2009
Pre-paid insurance	R2 000	R2 400

# Revision

Required:

Calculate the amount paid with regard to insurance for the present year.

Note:

It is not necessary to reflect the full details on the General Ledger account.

Answer sheet

Dr.		Insurance						Cr.	

QUESTION 6.3

[12]

Information:

Puma Traders negotiated a loan from Highveld Bank on the following conditions:  
 Interest is repayable every six months on the amount due on 30 September and 31 March every year, at 12½% per year. Interest must be calculated to the nearest rand.  
 The accounting period of Puma Traders ends on the last day of May every year.

Required:

- Use the information to record the interest on loan account of Puma Traders in the General Ledger for the accounting period ending on 31 May 2010.
- Close the account off at the end of the year.

Dr.		Loan: Highveld Bank						Cr.	
2010	1	Bank		12 000	2009	1	Bank		27 000
Jan					Jun				
					Sep	1	Bank		7 500

Answer sheet

Dr.		Interest on loan						Cr.	

Total Marks: 200

## Revision

## Sample end-year examination

TIME: 3 HOURS

MARKS: 300

## SECTION A

QUESTION 1 (Transaction analysis)

[28]

You are provided with information taken from the books of Smartie Traders

Required:

Study the accounts provided and then answer the questions that follow:

General Ledger of Smartie Traders										
Dr.					Creditors control					Cr.
2011 Jan	31	?	CPJ	10 000	2011 Jan	1	Balance	b/d	12 000	
		?	CAJ	1 000		31	Sundry account	CJ	18 000	
		?	GJ	2 200			?	GJ	3 000	
		Balance	c/d	?						
				33 000					33 000	
					2011 Feb	1	Balance	b/d	?	

Dr.					Medical Aid Fund					Cr.
2011 Jan	31	Bank	?	?	2011 Jan	31	Salaries	SJ	3 500	
							?	SJ	7 000	

Dr.					Creditors for salaries					Cr.
2011 Jan	31	Bank	?	40 000	2011 Jan	31	?	SJ	45 000	

Dr.					Salaries					Cr.
2011 Jan	31	?	SJ	60 000						

# Revision

Questions:

1.1 Calculate the amount owed to trade creditors at the end of January 2011. (3)

1.2 Provide the contra details for the following amounts in the Creditors Control Account:

1.2.1 R10 000 (2)

1.2.2 R2 200 (2)

1.3 Name the source documents which were used to make the following entries in the Creditors control account:

1.3.1 R18 000 (2)

1.3.2 R1 000 (2)

1.4 Give TWO examples of items that could have been bought and included in the figure of R18 000 in the Creditors control account. (2)

1.5 Interest has been charged by creditors. Which amount in the Creditors control account includes this interest? (1)

## Revision

- 1.6 Stock has been returned to creditors. Which figure represents these transactions?  
(1)

- 1.7 Refer to the Medical Aid Fund Account

- 1.7.1 How much was deducted from employees' salaries in respect of Medical Aid? (2)

- 1.7.2 How much was contributed by the business on behalf of the employees to the Medical Aid Fund? (2)

- 1.8 Provide the folio for the entry of R40 000 on the debit side of the Creditors for Salaries account. (1)

- 1.9 When preparing the Financial Statements, under which note will you include the Creditors for salaries balance? (2)

- 1.10 Provide the contra details for the following entries:

- 1.10.1 R7 000 on the credit side of the Medical Aid Fund Account. (2)

- 1.10.2 R45 000 on the credit side of the Creditors for salaries Account. (2)

- 1.10.3 R60 000 on the debit side of the Salaries account. (2)

## Revision

QUESTION 2 (Income Statement of a sole trader)

[56]

Required:

Use the information of Pompey Traders to prepare the following:

2.1 The Trading stock account in the General Ledger. (10)

2.2 Income Statement for Pompey Traders for the year ended 30 June 2010. (46)

Notes:

Accounting period: 1 July 2009 to 30 June 2010.

Selling price = cost price + 50%.

Pre-adjustment trial balance on 30 June 2010

Capital	200 000
Drawings	29 600
Land and Buildings	100 000
Vehicles	70 000
Accumulated depreciation: Vehicles	11 760
Equipment	38 000
Accumulated depreciation: equipment	16 750
Trading stock	38 200
Debtors control	16 540
Fixed deposit	4 800
Bank (Dr.)	1 342
Creditors control	19 000
Advertising	3 976
Bank charges	1 080
Debtors Allowances	2 750
Rates	2 100
Rent income	12 375
Cost of sales	205 228
Bad debts	400
Interest on fixed deposit	384
Salaries	44 695
Interest on overdraft	200
Stationery	5 140
Telephone	1 430
Sales	310 592
Insurance	3 460
Water and electricity	1 920

## Revision

## Additional information

- 1 The owner (B Wilken) took merchandise (selling price, R600, cost price, R400) for his own use on 4 June 2010. The bookkeeper treated the transaction in the Debtors Journal as a credit sale to B Wilken and it was posted as such.
- 2 The stocktaking of trading stock was completed on 28 June 2010 and showed that the stock on hand was R38 140.
- 3 On 25 June 2010 the firm negotiated an agreement with the advertising agency. According to the agreement an intensive advertising campaign would be launched in the local newspaper from 4 July 2010. A deposit of R800 to cover the initial cost of the agency was paid on 25 June 2010 and debited to “Advertising”.
- 4 A debtor (K Weyer) who has a debit balance of R140 was declared insolvent on 10 June 2010. His attorney informed Pompey Traders that no dividend will be paid, but no entry to this effect has been made.
- 5 On 7 June 2010 R200 was received from Mr Smith, whose debt had previously been written off as irrecoverable. The amount was credited to the bad debts account.
- 6 The insurance account shows the following details:

Dr.		Insurance						Cr.	
2009 Jul	1	Prepaid expenses		500					
Oct	1	Bank (1/10/2009 – 30/9/2010)		2 000					
2010 Feb	1	Bank (1/2/2010 – 31/1/2011)		960					
				3 460					

- 7 The fixed deposit was invested on 1 November 2009 at 16% interest per annum for 12 months.
- 8 The telephone account for June 2010 must still be paid, R980.
- 9 Part of the building has been let since 1 March 2009. The tenancy stipulated, among other things, that the initial rent would be R900 per month for the first twelve months and thereafter an increase of 15% will come into effect on 1 March each year.
- 10 Stationery on hand according to a physical stocktaking, R575.
- 11 Write depreciation off as follows:
  - On vehicles, R14 400
  - On equipment, R3 714





## Revision

QUESTION 3 (Tangible assets and GAAP principle) [30]

The following information is extracted from the books of Rumo Traders.

Required:

- 3.1 Complete the note “Tangible assets” as part of the notes to the Financial Statements. (26)
- 3.2 Complete the following questions:
  - 3.2.1 If the Land and buildings market value is R800 000 on 31 December 2010, which amount will appear in the Financial Statements? (2)
  - 3.2.2 Name the accounting principle that you will apply. (2)

Information:

- 1 Some balances on 1 January 2010:

Land and Buildings, R480 000

Vehicles, R250 000

Equipment, R156 000

Accumulated depreciation: vehicles, R50 000

Accumulated depreciation: equipment, R16 000

- 2 The following transactions took place during the year:

31 March 2010

Receive an invoice from Abby Builders for the following:

- Building of a storeroom, R60 000
- Repairs of broken windows, R1 200

30 June 2010

Buy a new vehicle on credit from RSA Motors for R100 000.

30 September 2010

- Buy a computer and printer MN Computers and pay per cheque 230, R14 000
- Pay installation cost to SM Installers and pay per cheque 231, R1 000

31 December 2010

Write off depreciation on vehicles at 20% on the straight line method and on equipment at 10% on the carrying value.

## Revision

Answer sheet

Note: Tangible assets	Land and buildings	Vehicles	Equipment	Total
Cost price				
Accumulated depreciation				
Carrying value (begin)				
Movements				
Additions at cost				
Depreciation for the year				
Carrying value (end)				
Cost price				
Accumulated depreciation				
Calculation for depreciation on 31 December 2010:				
Vehicles:				
Equipment:				

3.2.1 If the Land and buildings market value is R800 000 on 31 December 2010, what amount will appear in the Financial Statements? (2)

3.2.2 Name the accounting principle that you will apply. (2)

## Revision

QUESTION 4 (Balance Sheet)

[40]

Required:

Use the information provided from Davido Traders to prepare the Balance sheet on 30 June 2010. Show all calculations in brackets.

Post-closing trial balance on 30 June 2010

Balance sheet accounts	Debit	Credit
Capital		362 400
Land and Buildings	380 000	
Vehicles	195 000	
Equipment	135 000	
Accumulated depreciation: vehicles		39 000
Accumulated depreciation: equipment		21 400
Trading stock	28 400	
Bank		29 800
Petty cash	1 000	
Cash float	500	
Debtors control	14 600	
Creditors control		38 600
Fixed deposit: Perm Bank	50 000	
Loan: ABC Bank		310 000
Consumable stores on hand	2 400	
Prepaid expenses	3 800	
Accrued income	2 800	
Income received in advance		5 500
Accrued expenses		6 800
	813 500	813 500

Additional information:

- 1 R15 000 of the fixed deposit at Perm Bank matured on 30 September 2010.
- 2 According to the loan agreement R30 000 must be paid back every year on 30 November.



## Revision

Extracts from the Balance sheet at 28 February 2009:

	2009	2008
Owners' equity	180 000	160 000
Non-current liabilities	120 000	130 000
Current liabilities (all creditors)	30 000	25 000
Fixed assets	240 000	227 000
Investments	40 000	40 000
Trading stock	25 000	23 000
Debtors	17 000	13 000
Cash	8 000	12 000

Financial indicators on 28 February 2008:

Current ratio	1,92 : 1
Acid test ratio	1 : 1
Return on average equity	10,2%

5.1.1 Calculate the mark-up percentage for 2009. (7)

5.1.2 The business was aiming for a mark-up of 150%. Explain TWO possible reasons why the business did not achieve this mark-up. (6)

## Revision

5.2 Is the business solvent on the 28 February 2009? Use a ratio to support your answer. (8)

5.3 Calculate the Debt/Equity ratio on the 28 February 2009. Explain whether the business has a high or low degree of risk? (8)

5.4 Explain the difference between solvency and liquidity. (4)

## Revision

5.5.1 Calculate current ratio on 28 February 2009. (5)

5.5.2 Calculate the acid test ratio on 28 February 2009. (5)

5.5.3 Comment on the liquidity of the business. (6)

5.6 Calculate the average return on owners' equity on 28 February 2009 and comment on the ratio. (8)



## Revision

5.7 Name THREE stakeholders who will be interested in the Financial Statements of the business. (3)

--

QUESTION 6 (Transaction analysis)

[36]

Required:

Analyse the following transactions of LS Stores according to the given example. Assume that the bank has an unfavourable balance. The perpetual/continuous inventory system is used.

Example:

Received R400 from a debtor, M. Smit, as part of his account.

	General ledger		Accounting equation		
No	Account debited	Account credited	A	OE	L
E.g.	Bank	Debtors control	-400	0	-400

Transactions:

- 1 The owner, B. Abrahams increased his capital contribution from R180 000 to R210 000.
- 2 Transfer the account of S. Steyn with a debit balance of R85 in the Creditors Ledger to the account in the Debtors Ledger.
- 3 Sold goods on credit to M. Mahlangu for R2 400. The business uses a mark-up of 60% on sales.
- 4 Pay the account of R12 500 to RSA Wholesalers (creditor) after 5% discount.
- 5 Buy packing material from SA Packers for R890 and pay per cheque.

## Revision

## Answer sheet

No	General ledger		Accounting equation		
	Account debited	Account credited	A	OE	L

QUESTION 7 (Independent questions)

[50]

QUESTION 7.1 (Budget concepts) (15)

Use the Cash Budget of Mbolweni Traders and answer the questions that follow.

Cash budget of Mbolweni Traders for January to March 2010

CASH RECEIPTS	January	February	March
Cash sales	42 000	56 000	63 000
Receipts from debtors	25 200	21 600	45 800
Capital contribution			20 000
<b>TOTAL RECEIPTS</b>	<b>67 200</b>	<b>77 600</b>	<b>108 800</b>
CASH PAYMENTS			
Cash purchase of stock	3 000	4 000	4 500
Payments to Creditors	34 155	32 040	37 733
Drawings	4 500	4 500	4 500
Loan Repayment			10 000
Interest on loan	1 600	1 600	1 600
Advertising	600	800	900
Salaries and wages	2 000	2 000	2 160
<b>TOTAL PAYMENTS</b>	<b>21 345</b>	<b>32 660</b>	<b>47 608</b>
Cash surplus (deficit)	21 345	32 660	?
Opening balance	8 400	29 745	62 405
Closing balance	29 745	62 405	?

# Revision

## Questions

7.1.1 What is the aim to prepare a cash budget? (2)

7.1.2 Name two items which will not appear in a cash budget. (2)

7.1.3 If cash sales are 60% of the total sales, calculate the total sales for January. (5)

7.1.4 Determine the cash surplus/ (deficit) for March. (3)

7.1.5 Determine the bank balance at the end of March. (3)

QUESTION 7.2 (Manufacturing concepts) (10)

Required:

Make a cross to indicate which items can be regarded as direct costs/indirect costs/not part of production costs.

AB Manufacturers manufactures tables.

## Revision

Cost item	Production costs		Not part of production costs
	Direct costs	Indirect costs	
1 Rent of factory			
2 Salary of manager of factory			
3 Wages of employees using equipment to make tables.			
4 Insurance of the equipment in the factory plant.			
5 Maintenance of the factory buildings.			
6 Raw materials to make the tables.			
7 Administrative costs.			
8 Marketing costs			
9 Depreciation on factory equipment.			
10 Glue and varnish for the tables			

## QUESTION 7.3 (VAT &amp; Ethics) (9)

Scenario:

Petrus runs a small retail business selling groceries on the outskirts of a rural area. His average monthly turnover is between R15 000 – R20 000. He is not a registered VAT vendor but he charges his customers VAT.

Required:

Answer the following questions:

7.3.1 Name any TWO zero-rated items Petrus sells to the local community. (2)

7.3.2 Do you think Petrus' actions regarding charging VAT on his items are legal?

Comment on your answer. (3)

## Revision

7.3.3 What is the difference between tax evasion and tax avoidance? (4)

QUESTION 7.4 (Internal control) (6)

7.4.1 Name THREE accounting control measures that are effective as preventative measures.

Total Marks: 300

## Answers

---

### Term 1 Topic 1 - Indigenous Bookkeeping

#### Activity 1

Answers will differ according to own informal business suggestion.

The following can be used as guidelines:

Capital needed

Start-up money as well as money to continue trading must be included. Capital contribution can also include an asset such as a vehicle, machinery or equipment contributed to the business by the owner.

Income per day

This has to be an estimate of what will come into the business per day for the service rendered or product sold.

Expenses per day

Money for small items of lesser value going out of the business needs to be reflected. This can also include a licence to trade, wages if there are employees involved, water and electricity, stationery or whatever else is applicable to the business.

Determine the cost of sales

If the business sells a product, the materials for the product or the product bought will be reflected as the cost of sales. This is what it cost the business to get the product from suppliers.

Determine the selling price

The cost of the product and the expenses incurred will be taken in consideration to calculate the selling price, but the selling price is negotiable to attract customers.

Labour cost

Only owner usually does the labour. If there are other labourers involved, it is usually not many labourers and they are paid wages. The profit of the day usually goes to the owner.

Fixed assets needed

Fixed assets needed are usually assets owned by the owner already.

Stock kept

The owner of an informal business will not keep much stock as high quantities of stock needs a large capital investment.

Bookkeeping

Bookkeeping will be done informally. Owners will perhaps calculate income and deduct expenses to calculate profit. There will not be an emphasis on the difference between assets and expenses and income and liabilities.

# Answers

## Activity 2

INFORMAL	FORMAL
Capital	
Normally the owners own funds are used. Borrowing of money is limited.	It all depends what type of business is started. Money can be borrowed from financial institutions.
Fixed assets	
Businesses have little or no fixed assets.	Businesses can have a lot of fixed assets and must have a fixed asset register for all fixed assets.
Inventory	
Low inventory is kept because they don't have storing space.	It all depends on the size of the business. Normally this type of businesses have enough storing space.
Selling price	
Prices changes quickly and the owner will determine the selling price. Sales is normally only for cash.	The selling price is determined by cost plus a profit margin and cannot change quickly. Goods are sold for cash and on credit.
Cost of sales	
All goods are bought for cash.	Goods are bought for cash and on credit.
Labour cost	
The owner is normally the only person employed by his business. He has to pay only salaries to himself. Normally this is the profit they make every day.	It all depends on the size of the business. The employee has to register and pay money over to SARS, UIF, etc.
Income	
All transactions are on cash basis and the income can easily be determined.	Cash and bad debts can result in less money being received than income declared.
Expenses	
All goods are bought for cash and they don't have a lot of overheads.	Goods can be bought for cash and on credit and their overheads are high.
Credit transactions	
Normally no credit transactions.	A business can buy on credit and sell on credit. A risk if a business sells on credit is bad debts.
Bookkeeping	
No formal bookkeeping.	Formal bookkeeping because there is tax implications.

# Answers

## Term 1 Topic 2 - Ethics

### Activity 1

1. C
2. A
3. B
4. D

## Term 1 Topic 3 – Accounting principles

### Activity 1

1. D
2. A
3. B
4. E
5. C
6. F
7. E
8. F
9. B
10. C

## Term 1 Topic 4 – Internal control

### Activity 1

Answers will vary.

Possibilities are:

- Moses can require all drivers to keep a record of the km reading before departure and the km reading when returning.
- Record can be kept of time of departure and time of return.
- Record can be kept of type of errand as well as area of customer and delivery of product.



# Answers

## Term 1 Topic 5 – Financial accounting

### Activity 1

Nr	Concepts	Answer
1	Vehicles	Fixed asset
2	Capital	Equity
3	Cost of sales	Expense
4	Packing material	Expense
5	Bank overdraft	Current liability
6	Fixed deposit	Financial asset
7	Drawings	Equity
8	Equipment	Fixed asset
9	Stationery	Expense
10	Loan	Non-current liability
11	Favourable bank balance	Current asset
12	Sales	Income
13	Land and buildings	Fixed asset
14	Cash float	Current asset
15	Debtors' control	Current asset
16	Trading stock	Current asset
17	Interest on fixed deposit	Income
18	Creditors' control	Current liability
19	Interest on loan	Expense
20	Services rendered	Income

### Activity 2

Nr.	A	OE	L
1	R380 000	<b>R? R260 000</b>	R120 000
2	<b>R? R888 000</b>	R648 000	R240 000
3	R810 000	R520 000	<b>R? R290 000</b>
4	<b>R? R200 000</b>	R140 000	R60 000
5	R735 000	<b>R? R695 000</b>	R40 000
6	R450 000	R380 000	<b>R? R70 000</b>

# Answers

## Activity 3

- 3.1 Cost price
- 3.2 Historical cost
- 3.3 equity
- 3.4 creditors
- 3.5 current
- 3.6 current liability
- 3.7 business entity
- 3.8 profit
- 3.9 retail business
- 3.10 fixed assets and financial assets

## Activity 4

No.	Selling price	Profit margin	Purchase price (cost)
1	R20 800	100%	<b>R? R10 400</b>
2	R80 000	<b>? 60%</b>	R50 000
3	<b>R? R16 000</b>	33 <sup>1</sup> / <sub>3</sub> %	R12 000
4	R45 000	60%	<b>R? R28 125</b>
5	R9 600	<b>? 20%</b>	R8 000
6	<b>R? R250 000</b>	66 <sup>2</sup> / <sub>3</sub> %	R150 000

# Answers

## Activity 5

Cash Receipts Journal of Lonely Traders – June 2010										CRJ		
Doc	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Debtors control	Discount allowed	Sundry accounts		
										Amount	Fol	Details
142	1	R. Bosch		24 600	24 600					24 600		Capital
143	4	M. Nkosi		12 000						12 000		Rent income
√		Sales		15 400	27 400	15 400	9 240					
144	12	M. Nelson		2 550	2 550			2 600	50			
145	15	Perm Bank		32 500	32 500					30 000		Fixed deposit: Perm Bank
										2 500		Interest on fixed deposit
√	23	Sales		5 600		5 600	3 360					
146		J. Abrahams		4 275	9 875			4 500	225			
√	27	Sales		17 000	17 000	17 000	10 200					
B/S	30	AB Bank			210					210		Interest on current account
					114 135	38 000	22 800	7 100	275	69 310		

# Answers

## Activity 6

Debtors Journal of Lonely Traders – June 2010					DJ
Doc	Day	Debtors	Fol	Sales	Cost of sales
51	5	M. Nelson		1 800	1 080
52	12	J. Abrahams		2 000	1 200
53	17	N. Rossouw		4 800	2 880
54	22	J. Abrahams		1 500	900
55	28	M. Nelson		480	288
				10 580	6 348

## Activity 7

Debtors Allowances Journal of Lonely Traders – June 2010					DAJ
Doc	Day	Debtors	Fol	Debtors Allowances	Cost of sales
24	8	M. Nelson		300	180
25	22	N. Rossouw		100	-
26	26	J. Abrahams		120	72
				520	252

# Answers

<b>Activity 8</b>												
Cash Payments Journal of Lonely Traders – June 2010										CPJ		
Doc	Day	Name of payee	Fol	Bank	Trading stock	Creditors control	Discount received	Debtors control	Wages	Sundry accounts		
										Amount	Fol	Details
124	1	RN Wholesalers		13 490		14 200	710					
125	3	Telkom		2 800						2 800		Telephone
126	6	Red Stores		13 190						12 800		Equipment
										390		Stationery
127	8	Cash		1 700					1500	200		Cash float
128	9	David Traders		2 000		2 000						
129	12	Sunshine		300						300		Drawings
130	15	Sam Distributors		5 000		5 200	200					
131	19	Cash		1 550					1550			
B/S	21	S. Storm (R/D)		1 200				1 200				
132	23	SA Traders		4 100	4 100							
133	24	RD Repairers		1 400						1 400		Repairs
134	26	SA Loans		22 000						20 000		Loan: SA Loans
										2 000		Interest on loan
135	28	R. Rheeder		12 000						12 000		Salaries
B/S	30	Perm Bank		600						280		Interest on overdraft
										320		Bank charges
				81 330	4 100	21 400	910	1 200	3050	52 490		

# Answers

## Activity 9

Creditors Journal of Lonely Traders – May 2010								CJ	
Doc	Day	Creditor	Fol	Creditors control	Trading stock	Stationery	Sundry account (10)		
							Amount	Fol	Details
87	4	RN Wholesalers		9 920	9 920				
88	7	Sam Distributors		6 600		600	6 000		Equipment
89	11	Davido Traders		840			840		Packing material
90	17	RN Wholesalers		14 000	14 000				
91	23	MN Motors		3 900			3 900		Drawings
92	28	Sam Distributors		780		780			
				36 040	23 920	1 380	10 740		

# Answers

## Activity 10

Creditors Allowances Journal of Lonely Traders – May 2010							CAJ		
Doc	Day	Creditor	Fol	Creditors control	Trading stock	Stationery	Sundry account (10)		
							Amount	Fol	Details
45	6	RN Wholesalers		640	640				
46	14	Davido Traders		80			80		Packing material
47	19	RN Wholesalers		2 800	2 800				
48	30	Sam Distributors		120		120			
				3 640	3 440	120	80		

## Activity 11

Petty Cash Journal of Lonely Traders – June 2010							PCJ		
Doc	Day	Details	Fol	Petty cash	Postage	Stationery	Sundry account		
							Amount	Fol	Details
76	4	Stationery		80		80			
77	12	Debtors control		180			180		Debtors control
78	21	Postage		78	78				
79	24	Trading stock		200			200		Trading stock
80	27	Stationery		230		230			
81	30	Wages		150			150		Wages
				918	78	310	530		

# Answers

## Activity 12

General ledger of Peter Suppliers									
Dr.		Petty cash					B8		Cr.
2011 May	1	Bank	CPJ	620	2011 May	31	Total payments	PCJ	890
	14	Bank	CPJ	300			Balance	c/d	700
	31	Bank	CPJ	670					
				1 590					1 590
2011 Jun	1	Balance	b/d	700					

## Activity 13

General Journal of Davido Traders – May 2011								GJ	
Day	Details	Fol	Debit	Credit	Debtors' control		Creditors' control		
					Debit	Credit	Debit	Credit	
4	G. Patella		123		123				
	Interest on overdue debtors			123					
6	Bad debts		840						
	Mosterd			840		840			
9	R. Ndlovu		20		20				
	Discount allowed			20					
14	Drawings		300						
	Trading stock			300					
16	Stork Traders		3 400				3 400		
	Storm Traders			3 400				3 400	
24	Trading stock		1 600						
	Stationery			1 600					
28	Donations		4 000						
	Trading stock			4 000					



# Answers

## Activity 14

Debtors' ledger of Dhlamini Traders					
M. Motaung					DL5
Date	Details	Fol	Debit	Credit	Balance
Feb 1	Account rendered				860
Feb 4	Receipt 145	CRJ		817	43
	Receipt 145	CRJ		43	-
Feb 6	Invoice 143	DJ	2 100		2 100
Feb 8	Dishonoured cheque	CPJ	817		2 917
	Journal voucher (discount)	GJ	43		2 960
Feb 11	Credit note 40	CAJ		280	2 680
Feb 16	Invoice 149	DJ	3 800		6 480
	Petty cash voucher 76	PCJ	200		6 680
Feb 25	Receipt 151	CRJ		4 500	2 180
	Receipt 151	CRJ		120	2 060
Feb 27	Invoice 153	DJ	1 340		3 400

## Activity 15

Creditors' ledger of BrutoLtd.					
Solly Wholesalers					CL5
Date	Details	Fol	Debit	Credit	Balance
May 1	Account rendered				16 200
May 4	Invoice 136	CJ		3 280	19 480
May 7	Cheque 210	CPJ	15 390		4 090
	Cheque 210	CPJ	810		3 280
May 12	Invoice 140	CJ		6 680	9 960
May 18	Debit note 38	CAJ	1 450		8 510
May 23	<b>No entry: cash</b>				
May 25	Cheque 282	CPJ	5 200		3 310

## Activity 16

- 16.1 Perpetual inventory system
- 16.2 R12 320
- 16.3 It is the beginning of the winter season
- 16.4 Cost of sales
- 16.5 Creditors control
- 16.6  $150/100 \times 28\ 000 = R42\ 000$
- 16.7 Cheque counterfoil
- 16.8 Duplicate invoice
- 16.9 Correction of error

# Answers

## Activity 17

17.1  $R14\ 300 - R620 = R13\ 680$

17.2 Debtors Allowances

17.3 Bank

17.4 Carriage on purchase paid on behalf of a debtor and must be debited to his account

17.5

- Cancellation of discount
- Correction of errors
- Interest charged on overdue account of debtors
- Transfers between debtors and creditors

17.6 R10 080

17.7 Duplicate invoice

17.8 Journal voucher

17.9

- Charge interest on overdue accounts
- Give discount on early payments
- Send out regular reminders, example account statements every month

## Activity 18

18.1  $R28\ 600 - R340 = R28\ 260$

18.2 Sundry purchases/Total purchases

18.3 Bank and discount received

18.4 R12 270

18.5

- Interest charge on overdue accounts
- Correction of errors
- Transfers between creditors and debtors

18.6 Duplicate debit note/original credit note

18.7 Duplicate receipt

# Answers

## Activity 19

No.	Debtors control		Debtors list		Creditors control		Creditors list	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
1		200		200				
2	240				180			
3					490		490	
4	144	144	144	144				
5			100					
6	300							
7								198
8				180				
9				40			40	
10	322		322					

## Activity 20

General ledger of Mashoke Traders									
Dr.		Debtors control						Cr.	
20.. Sep	1	Balance (21 370 – 720)	b/d	20 650	20.. Sep	30	Bank and discount allowed	CRJ	28 560
	30	Petty cash	PCJ	18			Debtors Allowances (960 + 20)	DAJ	980
		Sales	DJ	32 622			Journal credits	GJ	530
		Journal debits	GJ	840			Balance	c/d	24 360
		Bank (R/D)	CPJ	300					
				54 430					54 430
20.. Oct	1	Balance	b/d	24 360					

Debtors list on 30 September 2010	Debit	Credit
D. Botha	7 202	
L. Uys (5 380 – 100)	5 280	
G. Coetzee (5 890 + 18)	5 908	
J. van der Linde (4 520 – 400)	4 120	
B. de Villiers (1 980 – 90)	1 890	
W. van Jaarsveldt		640
G. Haasbroek (800 – 200)	600	
	25 000	640

Debtors list = R25 000 – R640 = R24 360

# Answers

## Activity 21

General ledger of Lucia Traders										
Dr.					Creditors control					Cr.
20..	1	Bank + D/R	CPJ	31 881	20..	1	Balance	b/d	4 283	
Nov		(30200 + 1681)			Nov					
	30	Sundry Allowances	CAJ	7 108		30	Sundry purchases	CJ	42 880	
							(42 700 + 180)			
		Journal debits	GJ	4 020			Journal credits	GJ	1 544	
		(3 520 + 500)					(1 300 + 244)			
		Balance	c/d	5 698						
				48 707					48 707	
					20..	1	Balance	b/d	5 698	
					Dec					

List of creditors according to Creditors Ledger		
	Debit	Credit
Ducasse Traders (689 + 180 – 500)		369
Lund Stores (284 + 1 400)		1 684
Lind Stores (2 065 – 1 400)		665
AB Motors (4 460 – 1 480)		2 980
Marais Traders ( -244 + 244)		-
		5 698

Discuss what is involved in setting up a good system of internal control over creditors.

All items that are received from a supplier must be accompanied by necessary documentation. The clerk at the warehouse must do the following:

- See that the goods on the invoice correspond with the items that have been delivered.
- Check whether any goods are damaged.
- If it happens that problems occur frequently with a supplier, an alternative supplier must be found.

# Answers

## Activity 22

Cash Receipts Journal of Sunshine Traders – April 20..											CRJ	
Doc	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Debtors' Control	Discount allowed	Sundry Accounts		
										Amount	Fol	Details
151	4	R. Brown		21 360	21 360					21 360	B1	Capital
V	13	Sales		9 600		9 600	6 400					
152		L. Lona	D4	5 985				6 300	315			
153		S. Botha		5 000	20 585					5 000	N15	Rent Income
V	20	Sales		5 400		5 400	3 600					
154		Bou Bank		250	5 650					250	N20	Interest on fixed deposit
155	23	S. Moaner	D2	1 950	1 950			2 000	50			
156	29	G. Pillay		400						400	N21	Bad debts recovered
V		Sales		3 600	4 000	3 600	2 400					
B/S	30	Permbank		–	110					110	N12	Interest on current account
157		G. Gift	D3	2 410	2 410			2 410				
				–	56 065	18 600	12 400	10 710	365	27 120		
					B9	N1	B6/N2	B7	N8			

# Answers

Cash Payment Journal of Sunshine Traders – April 20..										CPJ		
Doc	Day	Name of payee	Fol	Bank	Trading stock	Wages	Debtors control	Creditors control	Discount received	Sundry Accounts		
										Amount	Fol	Details
312	3	Kromhout Traders	C1	3 200				3 350	150			
313		Telkom		2 300						2 300	N17	Telephone
314	6	Santie Limited	C3	9 975				10 500	525			
315		City Hall		2 800						2 800	N18	Water and electricity
316	10	Cash		2 000		1 800				200	B10	Cash float
317	16	Cash		500						500	B11	Petty cash
318	17	Cash		1 800		1 800						
B/S	25	S. Moaner (r/d)	D2	1 950			1 950					
319	28	Cash		1 800		1 800						
320	29	SA Deliveries		340						340	N11	Carriage on sales
321	30	Brom Distributors	C2	8 214				8 414	200			
322		S. Moot		8 000						8 000	N6	Salaries
B/S		Perm Bank		550						550	N10	Bank charges
323		Snow Distributors		940	940							
324		Cash		410						410	B11	Petty cash
				44 779	940	5 400	1 950	22 264	875	15 100		
				B9	B6	N7	B7	B12	N9			

# Answers

Petty Cash Journal of Sunshine Traders – April 20..								PCJ		
Doc	Day	Details	Fol	Petty cash	Wages	Stationery	Trading stock	Sundry Accounts		
								Amount	Fol	Details
86	12	Stationery		140		140				
87		Donations		80				80	N16	Donations
88	15	Wages		400	400					
89	21	Carriage		140				140	B7 D1	Kromhout Traders+ Debtors' Control
90	28	Wages		100	100					
91		Goods		50			50			
				910	500	140	50	220		
				B11	N7	N4	B6			

# Answers

Creditors' Journal of Sunshine Traders – April 20..										CJ
Doc	Day	Creditors	Fol	Creditors control	Trading stock	Stationery	Packing material	Sundry Accounts		
								Amount	Fol	Details
132	8	Mala Manufacturers	C4	1 840	1 840					
133	15	Kromhout Traders	C1	440		260	180			
134		Mala manufacturers	C4	6 400				6 400	B5	Equipment
135	26	Santie Limited	C3	2 880	2 880					
136		Kromhout Traders	C1	530		380	150			
				12 090	4 720	640	330	6 400		
				B12	B6	N4	N5			

Creditors' Allowances Journal of Sunshine Traders – April 20..										CAJ
Doc	Day	Creditors	Fol	Creditors' Control	Trading Stock	Stationery	Packing material	Sundry Accounts		
								Amount	Fol	Details
35	11	Mala Manufacturers	C4	360	360					
36	18	Mala Manufacturers	C4	1 280				1 280	B5	Equipment
37	28	Kromhout traders	C1	40			40			
				1 680	360	-	40	1 280		
				B12	B6		N5			



# Answers

General Journal of Sunshine Traders – April 20..								GJ	
Day	Details	Fol	Debit	Credit	Debtors' Control		Creditors' Control		
					Debit	Credit	Debit	Credit	
1	Kromhout Traders	D1	150		150				
	Kromhout Traders	C1		150				150	
	<i>Transfer balance from debtor to creditor. (Journal voucher 125)</i>								
8	Interest on overdue creditors	N14	147						
	Brom Distributors	C2		147				147	
	<i>Creditor charges us with interest (Journal voucher 126)</i>								
10	Stationery	N4	280						
	Trading Stock	B6		280					
	<i>Error corrected (Journal voucher 127)</i>								
25	S. Moaner	D2	50		50				
	Discount allowed	N8		50					
	<i>Cancel discount on dishonoured cheque (Journal voucher 127)</i>								
25	G. Gift	D3	20		20				
	Interest on overdue debtors	N13		20					
	<i>Charge debtor with 2½% interest p.a. for two months. (Journal voucher 128)</i>								

## Answers

26	Drawings	B2	390					
	Trading stock	B6		390				
	<i>Owner takes trading stock at cost price for own use (Journal voucher 129)</i>							
27	Donations	N16	200					
	Trading Stock	B6		200				
	<i>Donate Trading Stock (Journal voucher 130)</i>							
30	Bad debts	N19	2 410					
	G. Gift	D3		2 410		2 410		
	<i>Debtor is written off as bad debt (Journal voucher 131)</i>							
					220	2 410	-	297
					B7	B7		B12

# Answers

Debtors Journal of Sunshine Traders – April 20..					DJ
Doc	Day	Debtors	Fol	Sales	Cost of sales
88	4	L. Lona	D4	1 200	800
89		R. Madisha	D5	750	500
90	16	R. Madisha	D5	360	240
91	21	Kromhout Traders	D1	780	520
92	23	S. Moaner	D2	2 700	1800
93	29	L. Lona	D4	540	360
				6 330	4 220
				B7/N1	B6/N2

Debtors' Allowances Journal of Sunshine Traders – April 20..					DAJ
Doc	Day	Debtors	Fol	Debtors Allowances	Cost of sales
56	10	L. Lona	D4	300	200
57	25	S. Moaner	D2	270	–
				570	200
				B7/N3	B6/N2

Debtors control									
Dr.	Trading Stock							B7	Cr.
20..									
20..	1	Balance	b/d	14 200			Bank and Creditors	10 740	
Apr	1	Balance	b/d	127 900			Drawings	1 280	
Apr							Debtors' Allowances		
Apr							Control		
	30	Creditors' Bank cash	BPJ	6 768			Debtors' Drawings	85 328	
		Control					Allowances		
		Creditors'					Balance	578 640	
	30	Sales	DJ	6 330			Journal debits	2 440	
		Control		86 388			Drawings	86 388	
		Bank (r/d)	KBJ	1 950			Balance	3 260	
20..		Cost of sales	DAJ	85 200			Bank	3 260	
May	1	Journal debits	AJ	85 270			Balance	3 260	
		Petty cash	PCJ	50			Cost of sales	600 000	
				22 840				4 220	
Dr.							Drawings		22 840
20..							Creditors' control		300
20..	1	Balance	b/d	9 150			Balance		15 360
May	1	Balance	b/d	4 740					
Apr				33 210					33 210
20..	26	Trading Stock	GJ	390					
May	1	Balance	b/d	15 360					
				5 130					

Land and buildings									
Dr.								B3	Cr.
20..									
Apr	1	Balance	b/d	280 000					

Fixed deposit: Build Bank									
Dr.								B8	Cr.

# Answers

20.. Apr	1	Balance	b/d	30 000					
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Dr.		Bank					B9		Cr.
20.. Apr	1	Balance	b/d	18 300	20.. Apr	30	Total payments	CPJ	44 779
	30	Total receipts	CRJ	56 065			Balance	c/d	29 586
				74 365					74 365
	1	Balance	b/d	29 586					

Dr.		Cash float					B10		Cr.
20.. Apr	1	Balance	b/d	400					
	10	Bank	CPJ	200					
				600					

Dr.		Petty cash					B11		Cr.
20.. Apr	1	Balance	b/d	500	20.. Apr	30	Total payments	PCJ	910
	16	Bank	CPJ	500			Balance	c/d	500
	30	Bank	CPJ	410					
				1 410					1 410
20.. May	1	Balance		500					

Dr.		Creditors control					B12		Cr.
20.. Apr	30	Bank and discount received	CPJ	22 264	20.. Apr	1	Balance	b/d	25 100
		Sundry Allowances	CAJ	1 680		30	Sundry purchases	CJ	12 090
		Balance	c/d	13 543			Journal credits	GJ	297
				37 487					37 487
					20.. May	1	Balance	b/d	13 543

Dr.		Deposit: Rent Income					B13		Cr.
					20.. Apr	1	Balance	b/d	5 000

# Answers

Dr.		Sales				N1		Cr.	
					20.. Apr	1	Balance	b/d	75 000
						30	Bank	CRJ	18 600
							Debtors' control	DJ	6 330

Dr.		Cost of sales				N2		Cr.	
20.. Apr	1	Balance	b/d	50 000	20.. Apr	30	Trading Stock	DAJ	200
	30	Trading Stock	CRJ	12 400			Balance	c/d	66 420
		Trading Stock	DJ	4 220					
				66 620					66 620
20.. May	1	Balance	b/d	66 420					

Dr.		Debtors Allowances				N3		Cr.	
20.. Apr	1	Balance	b/d	4 200					
	30	Debtors' control	DAJ	570					
				4 770					

# Answers

Dr.		Stationery					N4		Cr.
20.. Apr	1	Balance	b/d	1 800					
	10	Trading Stock	GJ	280					
	30	Petty Cash	PCJ	140					
		Creditors' Control	CJ	640					
				2 860					

Dr.		Packing material					N5		Cr.
20.. Apr	1	Balance	b/d	960	20.. Apr	30	Creditors' Control	CAJ	40
	30	Creditors' control	CJ	330			Balance	c/d	1 250
				1 290					1 290
20.. Apr	1	Balance	b/d	1 250					

Dr.		Salaries					N6		Cr.
20.. Apr	1	Balance	b/d	24 000					
	30	Bank	CPJ	8 000					
				32 000					

Dr.		Wages					N7		Cr.
20.. Apr	1	Balance	b/d	21 600					
	30	Bank	CPJ	5 400					
		Petty cash	PCJ	500					
				27 500					

Dr.		Discount allowed					N8		Cr.
20.. Apr	1	Balance	b/d	240	20.. Apr	25	S. Moaner	GJ	50
	30	Debtors' Control	CRJ	365		30	Balance	c/d	555
				605					605
	1	Balance	b/d	555					

# Answers

Dr.		Discount received					N9		Cr.
					20.. Apr	1	Balance	b/d	1 380
						30	Creditors' Control	CPJ	875
									2 255

Dr.		Bank charges					N10		Cr.
20.. Apr	1	Balance	b/d	890					
	30	Bank	CPJ	550					
				1 440					

Dr.		Carriage on sales					N11		Cr.
20. Apr	1	Balance	b/d	435					
	29	Bank	CPJ	340					
				775					

Dr.		Investment on current account					N12		Cr.
					20.. Apr	1	Balance	b/d	265
						30	Bank	CRJ	110
									375

Dr.		Interest on overdue debtors					N13		Cr.
					20.. Apr	1	Balance	b/d	180
						25	G. Gift	GJ	20
									200

Dr.		Interest on overdue creditors					N14		Cr.
20.. Apr	1	Balance	b/d	420					
	8	Brom Distributors	GJ	147					
				567					

# Answers

Dr.		Rent Income					N15		Cr.
					20.. Apr	1	Balance	b/d	15 000
						13	Bank	CRJ	5 000
									20 000

Dr.		Donations					N16		Cr.
20.. Apr	1	Balance	b/d	160					
	12	Petty Cash	PCJ	80					
	27	Trading Stock	GJ	200					
				440					

Dr.		Telephone					N17		Cr.
20.. Apr	1	Balance	b/d	6 300					
	3	Bank	CPJ	2 300					
				8 600					

Dr.		Water and electricity					N18		Cr.
20.. Apr	1	Balance	b/d	9 300					
	6	Bank	CPJ	2 800					
				12 100					

Dr.		Bad debts					N19		Cr.
20.. Apr	1	Balance	b/d	1 400					
	30	G. Gift	GJ	2 410					
				3 810					

Dr.		Interest on Fixed deposit					N20		Cr.
					20.. Apr	1	Balance	b/d	750
						29	Bank	CRJ	250
									1 000



# Answers

Dr.	Bad debts recovered				N21		Cr.	
				20.. Apr	1	Balance	b/d	230
					29	Bank	CRJ	400
								630

Trial Balance of Sunshine Traders on 30 April 20..			
Balance Sheet section	Fol.	Debit	Credit
Capital	B1		600 000
Drawings	B2	5 130	
Land and buildings	B3	280 000	
Vehicles	B4	124 000	
Equipment	B5	85 520	
Trading Stock	B6	15 360	
Debtors' Control	B7	9 150	
Fixed Deposit: Build Bank (10% p.a.)	B8	30 000	
Bank	B9	29 586	
Cash Float	B10	600	
Petty Cash	B11	500	
Creditors' Control	B12		13 543
Deposit: Rent Income	B13		5 000
Nominal section	Fol	Debit	Credit
Sales	N1		99 930
Cost of sales	N2	66 420	
Debtors' Allowances	N3	4 770	
Stationery	N4	2 860	
Packing Material	N5	1 250	
Salaries	N6	32 000	
Wages	N7	27 500	
Discount allowed	N8	555	
Discount received	N9		2 255
Bank charges	N10	1 440	
Carriage on sales	N11	775	
Interest on current account	N12		375
Interest on overdue debtors	N13		200
Interest on overdue creditors	N14	567	
Rent income	N15		20 000
Donations	N16	440	
Telephone	N17	8 600	

# Answers

Water and electricity	N18	12 100	
Bad debts	N19	3 810	
Interest on fixed deposit	N20		1 000
Bad debts recovered	N21		630
		742 933	742 933

Debtors' Ledger of Sunshine Traders						
Kromhout Traders						DL1
Date	Day	Details	Fol	Debit	Credit	Balance
20..	1	Account rendered				(150)
Apr						
	1	Journal voucher 125	GJ	150		-
	21	Invoice 91	DJ	780		780
	21	Petty cash voucher 89	PCJ	140		920
S. Moaner						DL2
Date	Day	Details	Fol	Debit	Credit	Balance
20..	1	Account rendered				2 000
Apr						
	23	Invoice 92	DJ	2 700		4 700
		Receipt 155	CRJ		1 950	2 750
		Receipt 155	CRJ		50	2 700
	25	Credit note 57	DAJ		270	2 430
		Dishonoured cheque	CPJ	1 950		4 380
		Journal voucher 128	GJ	50		4 430
G. Gift						DL3
Date	Day	Details	Fol	Debit	Credit	Balance
20..	1	Account rendered				4 800
Apr						
	25	Journal voucher 129	GJ	20		4 820
	30	Receipt 157	CRJ		2 410	2 410
		Journal voucher 132	GJ		2 410	-
L. Lona						DL4
Date	Day	Details	Fol	Debit	Credit	Balance
20..	1	Account rendered				5 400
Apr						
	4	Invoice 88	DJ	1 200		6 600
	10	Credit note 56	DAJ		300	6 300
	13	Receipt 152	CRJ		5 985	315
		Receipt 152	CRJ		315	-
	29	Invoice 93	DJ	540		540

# Answers

R. Madisha						DL5
Date	Day	Details	Fol	Debit	Credit	Balance
20.. Apr	1	Account rendered				2 150
	4	Invoice 89	DJ	750		2 900
	16	Invoice 90	DJ	360		3 260

Debtors list of Sunshine Traders		
Debtors list	Fol	Debit
Kromhout Traders	D1	920
S. Moaner	D2	4 430
G. Gift	D3	–
L. Lona	D4	540
R. Madisha	D5	3 260
		9 150

Creditors' Ledger of Sunshine Traders						
Kromhout Traders						CL1
Date	Day	Details	Fol	Debit	Credit	Balance
20.. Apr	1	Account rendered				3 200
		Journal voucher 125	GJ		150	3 350
	3	Cheque 312	CPJ	3 200		150
		Cheque 312	CPJ	150		–
	15	Invoice 133	CJ		440	440
	26	Invoice 136	CJ		530	970
	28	Debit note 37	CAJ	40		930
Brom Distributors						CL2
Date	Day	Details	Fol	Debit	Credit	Balance
20.. Apr	1	Account rendered				8 400
	8	Journal voucher 126	GJ		147	8 547
	30	Cheque 321	CPJ	8 214		333
		Cheque 321	CPJ	200		133

# Answers

Santie Ltd.						CL3
Date	Day	Details	Fol	Debit	Credit	Balance
20.. Apr	1	Account rendered				10 500
	6	Cheque 314	GJ	9 975		525
		Cheque 314	CPJ	525		-
	26	Invoice 135	CJ		2 880	2 880
Mala Manufacturers						CL4
Date	Day	Details	Fol	Debit	Credit	Balance
20.. Apr	1	Account rendered				3 000
	8	Invoice 132	CJ		1 840	4 840
	11	Debit note 35	CAJ	360		4 480
	15	Invoice 134	CJ		6 400	10 880
	18	Debit note 36	CAJ	1 280		9 600
Creditors list of Sunshine Traders						
Creditors list			Fol	Credit		
Kromhout Traders			C1	930		
Brom Distributors			C2	133		
Santie Ltd.			C3	2 880		
Mala Manufacturers			C4	9 600		
				13 543		

# Answers

## Activity 23

Nr	Source document	General Ledger		A	OE	L
		Account debited	Account credited			
1	Journal voucher	Debtors control	Creditors control	+150	0	+150
2	Cheque counterfoil	Telephone	Bank	-2 300	-2 300	0
3	Duplicate receipt	Bank	Capital	+21 360	+21 360	0
4	Cheque counterfoil	Creditors control	Bank	-9 975	0	-9 975
		Creditors control	Discount received	0	+525	-525
5	Original invoice	Trading stock	Creditors control	+1 840	0	+1 840
6	Journal voucher	Interest on overdue cred. account	Creditors control	0	-147	+147
7	Duplicate invoice	Debtors control	Sales	+4 200	+4 200	0
		Cost of sales	Trading stock	-2 100	-2 100	0
8	Duplicate credit note	Debtors Allowances	Debtors control	-300	-300	0
		Trading stock	Cost of sales	+150	+150	0
9	Duplicate debit note	Creditors control	Trading stock	-360	0	-360
10	Journal voucher	Stationery	Trading stock	-280	-280	0
11	Petty cash voucher	Stationery	Petty cash	-80	-80	0
12	Cash register roll	Bank	Sales	+9 600	+9 600	0
		Cost of sales	Trading stock	-4 800	-4 800	0
13	Journal voucher	Drawings	Trading stock	-300	-300	0
14	Duplicate receipt	Bank	Debtors control	+220	0	0
		Bad debts	Debtors control	-880	-880	0
15	Petty cash voucher	Wages	Petty cash	-400	-400	0
16	Duplicate receipt	Bank	Debtors control	+1 950	0	0
		Discount allowed	Debtors control	-50	-50	0
17	Bank statement	Debtors control	Bank	+1 950	0	0
	Journal voucher	Debtors control	Discount allowed	+50	+50	0
18	Journal voucher	Donations	Trading stock	-200	-200	0
19	Journal voucher	Debtors control	Interest on overdue deb.	+20	+20	0
20	Duplicate receipt	Bank	Bad debts recovered	+400	+400	0
21	Cheque counter foil	Trading stock	Bank	+340	0	0
22	Duplicate receipt	Bank	Fixed dep: AB Bank	+30 000	0	0
		Bank	Int. on fixed deposit	+2 500	+2 500	0
23	Cheque counterfoil	Salaries	Bank	-8 000	-8 000	0
24	Petty cash voucher	Debtors control	Petty cash	+140	0	0

# Answers

25	Bank statement	Bank charges	Bank	-550	-550	0
		Bank	Interest on current acc.	+110	+110	

## Activity 24

Nr	Source document	General ledger		A	OE	L
		Account debited	Account credited			
1	Cash register roll	Bank	Sales	0	+3 000	-3 000
		Cost of sales	Trading stock	-2 000	-2 000	0
2	Duplicate receipt	Bank	Debtors control	-3 800	0	-3 800
		Discount allowed	Debtors control	-200	-200	0
3	Bank statement	Debtors control	Bank	+3 800	0	+3 800
	Journal voucher	Debtors control	Discount allowed	+200	+200	0
4	Cheque counterfoil	Creditors control	Bank	0	0	+7 650
		Creditors control	Discount received	0	+850	-850
5	Cheque counterfoil	Trading stock	Bank	+9 840	0	-9 840
6	Cheque counterfoil	Trading stock	Bank	+840	0	-840
7	Duplicate receipt	Bank	Debtors control	-150	0	-150
	Journal voucher	Bad debts	Debtors control	-350	-350	0
8	Duplicate receipt	Bank	Capital	0	+20 000	-20 000
9	Bank statement	Bank charges	Bank	0	-610	+610
		Int. on bank overdraft	Bank	0	-180	+180
10	Duplicate receipt	Bank	Rent income	0	+5 000	-5 000

# Answers

## Term 2 Topic 1 - VAT

### Activity 1

1.1

- Tax evasion is avoiding paying tax by illegal means
- Tax avoidance is avoiding tax by legal means

1.2 Income tax (PAYE), VAT, Import/custom duties

1.3 These are items that are basic products and therefore are zero rated to avoid undue hardship for poor people.

1.4 To be registered as a VAT vendor, your turnover must be more than R1miljon.

1.5 14%

1.6 Value Added Tax

### Activity 2

2.1 It would be unfair to people in lower income groups if VAT were charged on basic food items, so certain items are charged at 0% VAT to avoid making it even more expensive. Examples: brown bread, maize products, rice, lentils, dried beans, fruit, vegetables, milk, milk powders, cooking oil, eggs, canned pilchards, etc.

2.2  $56 + 11 + 30 + 24 + 13 = 134 \times 14\% = R18,76$

(HINT: Notice that the Items that have a 0% VAT has not been included to calculate the VAT for all the items)

# Answers

## Term 2 Topic 2 – Salaries and Wages

### Activity 1

1.1

Year	Annual increase	Annual salary	Monthly salary
2002		180 000	15 000
2003	12 000	192 000	16 000
2004	12 000	204 000	17 000
2005	18 000	222 000	18 500
2006	18 000	240 000	20 000

1.2

$$17\ 000 + (60\% \times 17\ 000)$$

$$= 17\ 000 + 10\ 200$$

$$= 27\ 200$$

1.3

$$20\ 000 + 20\ 000 = 40\ 000$$

### Activity 2

$$\text{Normal time} = 8 \times 4 = 32 \times R50 = R1\ 600$$

$$\text{Overtime} = 43 - 32 = 11 \times R75 = \underline{R\ 825}$$

$$\text{Gross wage} = \underline{R2\ 425}$$



# Answers

## Activity 3

Wage Journal of TAT Stores for the week ending 28 October 2009													WJ
Employees	Ordinary time		Overtime		Gross wages	Deductions			Total deductions	Net wages	Employer contributions		
	Hours	Amount	Hours	Amount		PAYE	UIF	Medical			SDL	UIF	Medical
G. Brutus	40	1000	6	225	1225	245	10	50	305	920	12,25	10	75
Johnson	40	1080	4	162	1242	248,40	10,80	50	309,20	932,80	12,42	10,80	75
le Roux	40	720	8	216	936	187,20	7,20	50	244,40	691,60	9,36	7,20	75
					3403	680,60	28	150	858,60	2544,4	34,03	28	225
					N2	B3	B7	B6		B2	N3/B4	N6/B7	N5/B6

Salary Journal of TAT Stores for the month ending 31 October 2009												SJ
Employees	Gross salary	Deductions			Total Deductions	Net salary	Employers contributions				Cheques issued	
		PAYE	Pension	Medical			SDL	Pension	Medical	Total		
M. Groenew.	2700	2700	756	200	3656	7144	108	756	300	1164	947	
R. Fouche	8300	1494	581	240	2315	5985	83	581	360	1024	948	
M. Rossouw	12500	3500	875	280	4655	7845	125	875	420	1420	949	
	31600	7694	2212	720	10626	20974	316	2212	1080	3608		
	N1	B3	B5	B6		B1	B4/N3	N4/B5	N5/B6			

# Answers

Cash Payments Journal of TAT Stores – October 2009								CPJ	
Doc	Day	Name of payee	Fol	Bank	Creditors for wages	Trading stock	Sundry accounts		
	27	Totals	b/d	38 290	6 690	10 310	21 290		
947-949	31	-----		20 974			20 974	B1	Creditors for salaries
950		Cash		2544,40	2544,40				
951		SARS		10222,60			10222,60	B3	SARS – PAYE
952		SARS		442,43			442,43	B4	SARS – SDL
953		New Pens. fund		4424			4424	B5	Pension fund
954		Health med. aid		3300			3300	B6	Medical aid
955		SARS		560			560	B7	SARS – UIF
				80757,43	9234,40	10 310	61213,03		
					B2				

### General Ledger of TAT Stores

Dr.		Creditors for salaries						B1		Cr.
Oct	31	Bank	CPJ	20974	Oct	31	Salaries	SJ	20974	

Creditors for wages					B2				
Oct	31	Bank	CPJ	9234,4	Oct	28	Balance	b/d	6690
							Wages	WJ	2544,40
				9234,40					9234,40

SARS - PAYE					B3				
Oct	31	Bank	CPJ	10222,60	Oct	28	Balance	b/d	1848
							Wages	WJ	680,60
						31	Salaries	SJ	7694
				10222,60					10222,60

Dr.		SARS - SDL						B4		Cr.
Oct	31	Bank	CPJ	442,43	Oct	28	Balance	b/d	92,40	
							SDL	WJ	34,03	
						31	SDL	SJ	316	
				442,43					442,43	

# Answers

Pension fund					B5				
Oct	31	Bank	CPJ	4424	Oct	31	Salaries	b/d	2212
							Pens fund contr.	SJ	2212
				4424					4424

Medical aid fund					B6				
Oct	31	Bank	CPJ	3300	Oct	28	Balance	b/d	1125
							Wages	WJ	150
							Med aid contr.	WJ	225
						31	Salaries	SJ	720
							Med aid contr.	SJ	1080
				3300					3300

SARS - UIF					B7				
Oct	31	Bank	CPJ	560	Oct	28	Balance	b/d	504
							Wages	WJ	28
							UIF	WJ	28
				560					560

Salaries					N1				
Oct	31	Gross salaries	SJ	31 600					

Wages					N2				
Oct	28	Balance	b/d	9 240					
		Gross wages	WJ	3 403					
				12643					

Dr.					Skills Development Levy					N3		Cr.	
Oct	28	Balance	b/d	92,40									
		SARS – SDL	WJ	34,03									
	31	SARS - SDL	SJ	316									
				442,43									

Pension fund contribution					N4				
Oct	31	Pension fund	SJ	2 212					

# Answers

Medical aids contribution						N5			
Oct	28	Balance	b/d	675					
		Medical aid	WJ	225					
	31	Medical aid	SJ	1 080					
				1 980					

UIF contribution						N6			
Oct	28	Balance	b/d	252					
		SARS - UIF	WJ	28					
				280					

## Activity 4

4.1

Salary Journal for March 2008									SJ
				DEDUCTIONS					
Employee	Basic salary	Bonus	Gross salary	Pension fund	Medical Aid	PAYE	UIF	Total Deductions	Net Salary
Totals	19 000		19 000	1 520	480	4 801,04	190	6 991,04	12 008,96
Maseko	15 000		15 000	1 200	320	3 491,67	150	5 161,67	9 838,33
	a	b	c	d	e	f	g	h	I

Employer contributions			
Medical aid	Pension fund	UIF	SDL
960	2 280	190	190
640	1 800	150	150
J	k	l	M

4.2

$$15\,000 + 150 + 640 + 1\,800 + 150 = 17\,740$$

4.3

General ledger of PP Traders										
Dr.					Creditors for salaries					Cr.
					Mar	31	Salaries			21 847,29

XYS Pension Fund										
					Mar	31	Salaries			2 720
							Pension contribution			4 080

# Answers

Salaries									
Mar	31	Sundry accounts		34 000					

4.4

Bonus  $15\ 000 \times 80\% = R12\ 000$

Salary = R15 000

TOTAL = R27 000

4.5

- Division of duties
- Receipts and cash slips agreed to deposit slips
- Physical security of cash till
- Regular surprise counts of cash
- Cash received must be recorded in the books immediately
- Cash deposit into the bank daily
- A document must be issued for all cash received
- Cash must be kept in a safe place until it is deposited
- Cancelled receipts to be investigated
- Cash registers should not be near shop exists
- No payments can be made from the till

## Activity 5

5.1

Basic  $R36\ 000 \div 12 = R3\ 000$  pm

Less deductions

- Pension fund R240
- Medical aid R250
- PAYE R720
- Net salary R1 790

5.2

- Employee deduction R250
- Employer contributions R500
- Cheque to be issued R750

5.3

COLUMN A	COLUMN B Account debited	COLUMN C Account credited
Total of the pension deduction in the Wages Journal	Wages	Pension fund
Total of the cheques in the CPJ for net wages	Creditors for wages	Bank
Issued a cheque to settle PAYE	SARS – PAYE	Bank
Total of the net salaries in the Salaries Journal	Salaries	Creditors for salaries

# Answers

## Term 2 Topic 3 – Final accounts and adjustments

### Activity 1

<i>Answer sheet</i>			
Asset register for computer			
Details of depreciation			
Date	Annual depreciation	Accumulated depreciation	Carrying value
31/12/2002	R2 000	R2 000	R8 000
31/12/2003	R2 000	R4 000	R6 000
31/12/2004	R2 000	R6 000	R4 000
31/12/2005	R2 000	R8 000	R2 000
31/12/2006	R1 999	R9 999	R1
Asset register for computer			
Details of depreciation			
Date	Annual depreciation	Accumulated depreciation	Carrying value
31/12/2002	R15 000	R15 000	R85 000
31/12/2003	R12 750	R27 750	R72 250
31/12/2004	R10 838	R38 588	R61 412
31/12/2005	R9 212	R47 800	R52 200
31/12/2006	R7 830	R55 630	R44 370

### Activity 2.1

General Journal of Fista Wholesalers			GJ
Details	Fol	Debit	Credit
Depreciation	N20	30 400	
Accumulated depreciation: Vehicles	B6		28 000
Accumulated depreciation: Equipment	B7		2 400
Write off depreciation on vehicles at 20% on cost price and 10% on equipment on book value			

# Answers

General ledger of Fista Wholesalers									
Dr.		Vehicles					B4		Cr.
2007 Mar	1	Bank	CPJ	80 000	2008 Feb	29	Balance	c/d	200 000
Aug	31	Creditors control	CJ	120 000					
				200 000					200 000
2008 Mar	1	Balance	b/d	200 000					

Equipment									
Dr.							B5		
2007 Mar	1	Balance	b/d	24 000					

Accumulated depreciation on vehicles									
Dr.							B6		
					2008 Feb	29	Depreciation	GJ	28 000

Accumulated depreciation on equipment									
Dr.							B7		Cr.
					2008 Feb	29	Depreciation	GJ	2 400

Depreciation									
Dr.							N20		Cr.
2008 Feb	29	Accumulated depreciation: vehicles	GJ	28 000	2008 Feb	29	Profit and loss	GJ	30 400
		Accumulated depreciation: equipment	GJ	2 400					
				30 400					30 400

Calculations:

Vehicles:

$$20/100 \times 80\,000 = R16\,000$$

$$20/100 \times 120\,000 \times 6/12 = R12\,000$$

$$\text{Total depreciation} = R28\,000$$

Equipment:

$$10/100 \times 24\,000 = 2\,400$$

# Answers

## Activity 2.2

General Journal of Fista Wholesalers				GJ			
Details				Fol	Debit	Credit	
Depreciation				N20	42 460		
Accumulated depreciation: vehicles				B6		40 000	
Accumulated depreciation: equipment				B7		2 460	
<i>Write off depreciation on vehicles at 20% on cost price and 10% on equipment on book value.</i>							

General ledger of Fista Wholesalers										
Dr.		Vehicles						B4		Cr.
2008	1	Balance	b/d	200 000						
Mar										

Equipment									
								B5	
2008	1	Balance	b/d	24 000	2009	28	Balance	c/d	36 000
Mar					Feb				
Dec	1	Creditors control	CJ	11 000					
		Bank	CPJ	1 000					
				36 000					36 000
2009	1	Balance	b/d	36 000					
Mar									

Accumulated depreciation on vehicles									
								B6	
2009	28	Balance	c/d	68 000	2008	1	Balance	b/d	28 000
Feb					Mar				
					2009	28	Depreciation	GJ	40 000
				68 000	Feb				
									68 000
					2009	1	Balance	b/d	68 000
					Mar				

Dr.		Accumulated depreciation on equipment						B7		Cr.
2009	28	Balance	b/d	4 860	2008	1	Balance	b/d	2 400	
Feb					Mar					
					2009	28	Depreciation	GJ	2 460	
				4 860	Feb					
									4 860	
					Mar	1	Balance	b/d	4 860	



# Answers

		Depreciation				N20			
2009 Feb	28	Accumulated depreciation: vehicles	GJ	40 000	2009 Feb	28	Profit and loss	GJ	42 460
		Accumulated depreciation: equipment	GJ	2 460					
				42 460					42 460

Calculations:

Vehicles:

$$20/100 \times 200\,000 = R40\,000$$

Equipment:

$$10/100 \times (24\,000 - 2\,400) = 2\,160$$

$$10/100 \times 12\,000 \times 3/12 = 300$$

$$\text{Total depreciation} = 2\,160 + 300 = R2\,460$$

## Activity 3

Nr	Adjustment	General ledger		Effect			Reversal required
		Account debited	Account credited				
Ex	Additional bad debts written off	Bad debts	Debtors control	-	-	o	No
1	Rent received for 13 months from a tenant	Bad debts	Debtors control	-	-	o	No
2	Depreciation of on equipment at cost price	Rent income	Income received in advance	o	-	+	Yes
3	Insurance paid in advance	Depreciation	Accumulated depreciation : equipment	-	-	o	No
4	A trading stock deficit is identified	Prepaid expenses	Insurance	+	+	o	Yes
5	Interest on loan owed at the end of the year	Trading stock deficit	Trading stock	-	-	o	No
6	Interest on overdraft has been wrongly classified as bank charges	Interest on loan	Accrued expenses	o	-	+	Yes
7	Commission income not yet received at the end of the year	Interest on overdraft	Bank charges	o	+-	o	No

# Answers

8	Fuel on hand at the year-end per physical count	Accrued income	Commission income	+	+	o	Yes
9	An amount received from a debtor who's account was previously written off as bad debts. The bad debts account was credited.	Consumable stores on hand	Fuel	+	+	o	Yes
10	A trading stock surplus is identified.	Bad Debts	Bad debts recovered	o	+-	o	No
		Trading stock	Trading stock surplus	+	+	o	No

## Activity 4

General Journal of Samantha Traders – December 2010			
Details	Fol	Debit	Credit
Trading stock deficit		500	
Trading stock			500
Consumable stores on hand		3 070	
Stationery			2 180
Packing material			890
Prepaid expenses		1 500	
Advertising			1 500
Telephone		1 200	
Accrued expenses			1 200
Accrued income		500	
Interest on fixed deposit			500
Bad debts		300	
Debtors control			300
Interest on loan		6 000	
Accrued expenses			6 000
Rent income		5 000	
Income received in advance			5 000
Prepaid expenses		600	
Insurance			600

# Answers

General ledger of Samantha Traders									
Dr.		Capital				B1		Cr.	
2010 Dec	31	Drawings	GJ	18 400	2010 Dec	31	Balance	b/d	315 260
		Balance	c/d	350 540			Profit & loss	GJ	53 580
				368 940					368 940
					2011 Jan	1	Balance	b/d	350 540

Drawings									
		B2							
2010 Dec	31	Balance	b/d	18 400	2010 Dec	31	Capital	GJ	18 400

Trading account									
		F1							
2010 Dec	31	Cost of sales	GJ	200 000	2010 Dec	31	Sales	GJ	377 000
		Profit and loss	GJ	177 000					
				377 000					377 000

Profit and loss									
		F2							
2010 Dec	31	Discount allowed	GJ	480	2010 Dec	31	Trading account	GJ	177 000
		Bank charges	GJ	1 340			Discount received	GJ	640
		Interest on loan (7 200 + 6 000)	GJ	13 200			Interest on fixed deposit (1 500 + 500)	GJ	2 000
		Bad debts (840 + 300)	GJ	1 140			Bad debts recovered	GJ	180
		Telephone (11 480 + 1 200)	GJ	12 680			Rent income (65 000 - 5 000)	GJ	60 000
		Water and electricity	GJ	14 600					
		Stationery (8 140 - 2 180)	GJ	5 960					
		Packing material (4 380 - 890)	GJ	3 490					
		Advertising (3 710 - 1 500)	GJ	2 210					
		Insurance (8 340 - 600)	GJ	7 740					

# Answers

		Salaries	GJ	60 800					
		Wages	GJ	22 300					
		Trading stock deficit	GJ	500					
		Depreciation	GJ	39 700					
		Capital	GJ	53 680					
				239 820					239 820

Post-closing Trial balance of Samantha Traders on 31 December 2010			
	Fol	Debit	Credit
Capital	B1		350 540
Drawings (closed off)	B2	0	
Land and buildings	B3	238 000	
Vehicles	B4	160 000	
Equipment	B5	90 500	
Accumulated depreciation: Vehicles (32 000 + 32 000)	B6		64 000
Accumulated depreciation: Equipment (8 500 + 7 700)	B7		16 200
Trading stock (24 300 – 500)	B8	23 800	
Debtors control (14 600 – 300)	B9	14 300	
Bank	B10	18 400	
Petty cash	B11	600	
Cash float	B12	500	
Creditors control	B13		28 830
Fixed deposit: AB Investors (10% p.a.)	B14	20 000	
Loan: SA Bank (12% p.a.)	B15		100 000
Consumable stores on hand	B16	3 070	
Prepaid expenses (1 500 + 600)	B17	2 100	
Accrued expenses (1 200 + 6 000)	B18		7 200
Accrued income	B19	500	
Income received in advance	B20		5 000
		571 770	571 770

# Answers

## Activity 5

	Pre-adjustment trial balance		Adjustments		Post-adjustment trial balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Balance sheet accounts section						
Capital		323 136				323 136
Drawings	13 092		220		13 312	
Land and buildings	240 800				240 800	
Vehicles	184 000				184 000	
Equipment	72 000			2 000	70 000	
Accumulated depreciation: vehicles		36 800		27 600		64 400
Accumulated depreciation: equipment		13 680		5 632		19 312
Bank	23 900				23 900	
Petty cash	900				900	
Cash float	200				200	
Trading stock	23 800			140 + 1 380	22 280	
Debtors control	21 600			300	21 300	
Fixed deposit: KL Bank (12% p.a.)	10 000				10 000	
Loan: Build Bank (15% p.a.)		170 000				170 000
Creditors control		25 980	2 000			23 980
SARS - PAYE		1 800				1 800
Pension fund		480				480
SARS - UIF		42				42
Consumable stores on hand			640		640	
Income received in advance				2 700		2 700
Prepaid expenses			1 400		1 400	
Accrued expenses				580 + 12 750		13 330
Accrued income			300		300	
<b>Nominal accounts section</b>						
Sales		184 000				184 000
Cost of sales	121 906				121 906	
Debtors Allowances	1 140				1 140	
Discount allowed	610				610	

# Answers

Discount received		1 230				1 230
Consumable stock	2 310			80 + 640	1 590	
Telephone	3 900				3 900	
Water and electricity	6 840		580		7 420	
Bank charges	910				910	
Interest on fixed deposit		300		300		600
Interest on loan	12 600		12 750		25 350	
Pension fund contributions	3 031				3 031	
UIF contribution	866				866	
Bad debts	635		300		935	
Rent income		34 200	2 700			31 500
Interest on current account		1 280				1 280
Interest on overdraft	124				124	
Interest on overdue creditors	84				84	
Wages	14 300				14 300	
Salaries	29 000				29 000	
Insurance	4 380			1 400	2 980	
Trading stock deficit			1 380		1 380	
Depreciation			27 600 + 5 632		33 232	
			55 502		55 502	837 790
					837 790	837 790

# Answers

## Term 3 Topic 1 – Financial Statements

### Activity 1

Income statement of Rumo Traders for the year ended 31 December 2005			
	Fol	Debit	Credit
Sales (648 000 – 8 000)			640 000
Cost of sales			(320 000)
Gross profit			320 000
Other operating income			121 800
Fee income (122 000 – 600)		121 400	
Bad debts recovered (200 + 200)		400	
Gross operating income			441 800
Operating expenses			(411 316)
Skills Development Levy (2 285 + 108)		2 393	
Pension fund contributions (16 002 + 1 480)		17 482	
UIF		4 570	
Insurance (23 800 – 12 950)		10 850	
Advertising (2 600 – 456)		2 144	
Donations (2 800 + 3 200)		6 000	
Stationery (1 480 – 120 – 203)		1 157	
Bad debts (1 400 + 200 + 340)		1 940	
Material costs		34 100	
Telephone (18 900 + 1 600)		20 500	
Water and electricity		9 400	
Wages		68 300	
Salaries (160 200 + 10 800)		171 000	
Rent expense (31 970 – 2 530)		29 440	
Bank charges		840	
Trading stock deficit		300	
Depreciation		30 900	
Operating profit			30 484
Interest income	1		2 968
Profit before interest expense			33 452
Interest expense	2		(64)
Net profit for the year	7		33 388

# Answers

Balance sheet of Rumo Traders on 31 December 2005			
	Note	R	R
<b>ASSETS</b>			
NON-CURRENT ASSETS			253 300
Fixed assets / Tangible assets	3	233 300	
Financial assets			
Fixed deposits (maturation period longer than 12 months)		20 000	
<b>CURRENT ASSETS</b>			138 599
Inventories	4	60 703	
Trade and other debtors	5	49 496	
Cash and cash equivalents	6	28 400	
<b>TOTAL ASSETS</b>			391 899
<b>EQUITY AND LIABILITIES</b>			
Owner's equity	7		313 591
<b>NON-CURRENT LIABILITIES</b>			
Mortgage loan			
<b>CURRENT LIABILITIES</b>			78 308
Trade and other creditors	8	78 308	
Bank overdraft			
<b>TOTAL EQUITY AND LIABILITIES</b>			391 899

## Notes to the financial statements:

<b>1. Interest income / Investment income</b>		
From investments		2 700
From overdue debtors		
From current account		268
		2 968

<b>2. Interest expense / Finance costs</b>		
On mortgage bond		
On overdraft		64
On overdue creditors		
		64



## Answers

	Land and Buildings	Vehicles	Equipment	Total
3. Tangible assets				
Cost price		200 000	88 000	288 000
Accumulated depreciation		(56 000)	(23 800)	(79 800)
Carrying value (begin)		144 000	64 200	208 200
Movements				
Additions at cost		40 000	16 000	56 000
Depreciation		(22 100)	(8 800)	(30 900)
Carrying value (end)		161 900	71 400	233 300
Cost		240 000	104 000	344 000
Accumulated depreciation		(78 100)	(32 600)	(110 700)

4. Inventories	
Trading stock (60 800 – 300)	60 500
Consumable stores on hand	203
	60 703

5. Trade and other receivables (debtors)	
Trade debtors (32 600 – 340)	32 260
Prepaid expenses (12 950 + 2530 + 456)	15 936
Accrued income	300
Deposit for water and electricity	1 000
	49 496

6. Cash and cash equivalents	
Fixed deposits (maturing in 12 months)	15 000
Savings account	
Bank (Debit balance)	12 800
Cash float	200
Petty cash	400
	28 400

7. Owner's equity	
Balance at the beginning of the year	305 103
Net profit (loss) for the year	33 388
Additional capital contributed	0
	338 491
Drawings (28 100 – 3 200)	(24 900)
Balance at the end of the current year	313 591

# Answers

8. Trade and other payables (creditors)	
Trade creditors (63 840 – 120)	63 720
Accrued expenses	1 600
Income received in advance	600
Creditors for salaries/wages	8 400
Pension fund (740 + 1 480)	2 220
Medical fund	108
SARS (PAYE)	1 660
Skills Development Levy	78 308

## Term 3 Topic 2 – Analysis of Financial Statements

### Activity 1

1.1

<p>Percentage net profit on turnover</p> $\frac{91\,780}{214\,000} \times 100 = 42,9\%$ <p>The percentage net profit on turnover increased from 42,7% to 42,9%.</p>	<p>Percentage operating expenses on turnover</p> $\frac{46\,800}{214\,000} \times 100 = 21,9\%$ <p>The percentage operating expenses on turnover increased from 17,8% to 21,9%.</p>
---	---

1.2.1

<p>Current ratio:</p> $70\,200 : 33\,300 = 2,1 : 1$	<p>Acid test ratio</p> $70\,200 - 18\,300 : 33\,300 = 1,6 : 1$
---	--

1.2.2 The current ratio staid the same as last year and the acid test ratio also stayed the same. The business can pay its short term debts.

1.3

Total assets : Total liabilities

366 520 : 83 300

4,4 : 1

1.4

50 000 : 283 220

0,18 : 1

The business is low geared, thus they can take out another loan.

# Answers

1.5

$$\frac{91\,780}{241\,980} \times 100$$

$$= 37,9\%$$

It is a good return because the owner will get about 6% interest if he invested at other financial institutions.

1.6 Unions, Financial institutions, SARS, Creditors, Employees

## Term 4 Topic 1 – Cost Accounting

### Activity 1

Cost item	Production costs		Not part of production costs
	Direct costs	Indirect costs	
1 Rent of factory		x	
2 Wages of cleaners		x	
3 Wages of employees using tools working on the product.	x		
4 Insurance of the equipment in the factory plant.		x	
5 Maintenance of the factory buildings.		x	
6 Cost of raw materials included in the finished products.	x		
7 Administrative costs.			x
8 Marketing costs			x
9 Depreciation on factory equipment.		x	
10 Consumables issued to the factory		x	

### Activity 2

2.1

$$\text{Material } R24 \times 0,75 = R18$$

$$\text{Cotton } R10/1\,000 \times 50 = R0,50$$

$$\text{Webbing } R20 \times 0,75 = R15$$

$$\text{Beads } 48/12 \times R7 = R28$$

$$R18 + R0,50 + R15 + R28 = R61,50$$

$$2.2 \quad 2,5 \times R15 = R37,50$$

$$2.3 \quad R61,50 + R37,50 = R99$$

$$2.4 \quad R1\,500 + R50 + R200 = R1\,750$$

# Answers

2.5

- Fixed costs are costs that remain the same irrespective of how many items are produced.
- Variable costs change in direct proportion to the number of items produced.

2.6 Variable cost = R99 per unit x 100 (number of units) = R9 900

Fixed cost = R1 750

SP = 100 x 150 = 1 500

Profit = SP – VC – FC

= 15 000 – 9 900 – 1 750

= 3 350

## Activity 3

No	Costs	Direct material costs	Direct labour costs	Indirect material costs	Indirect labour costs	Other
1	Insurance					x
2	Rent expense					x
3	Denim fabric	x				
4	Beads and other accessories	x				
5	Wages for the machinists and cutters		x			
6	Cotton for the sewing machine			x		
7	Salary for the quality checker				x	
8	Wages for the factory cleaner				x	
9	Zips for the bags	x				

Fixed Cost:

The fixed costs do not change even if the quantities produced by the factory increase or decrease

Variable Cost:

Variable costs increase if the factory produces more products and decrease if less is produced.

# Answers

## Term 4 Topic 2 - Budgeting

### Activity 1

1.1

- to plan for future receipts and payments of cash
- to keep control of money coming in and going out of the business
- to ensure that sufficient cash is available at all times to meet obligations

1.2.1 It is not a cash amount

1.2.2 Yes. It is a cash item

1.3  $7\,500/50\,000 \times 100 = 15\%$

1.4 Depreciation/Discount received/profit on sale of asset/loss on sale of asset/discount allowed.

1.5

- Office telephone and electricity
- Motor vehicle running expenses
- Office maintenance costs

1.6

- Managers salary
- Drawings by Betty Blue
- Bank charges
- Staff uniforms

1.7.1 It increases with about R50 000 per annum. It is too high. She should decrease withdrawals.

1.7.2 It is an overdraft.

### Activity 2

2.1 A plan or estimation of your expected cash receipts and payments for the future.

2.2 To plan for the future / to detect any future cash flow problems / to assist management in making financial decisions / etc.

2.3 December

2.4 November

2.5 October or December

2.6 Depreciation

Bad debts

Discount allowed

Discount received

2.7 Yes

It is a cash item.

# Answers - Mid-year exam

## Answers

### Mid-year exam

#### QUESTION 1 (30)

No	General ledger		Accounting equation		
	Account debited	Account credited	A	E	L
1.1	Bankv	Loan: ACC Bankv	+50 000v	0	+50 000v
1.2	Postagev	Petty cashv	-122v	-122v	0
1.3	Stationeryv	Creditors controlv	0	-1 530v	+1 530v
1.4	Creditors controlv	Repairsv	0	+150v	+150v
1.5	Debtors Allowancesv	Debtors controlv	-20v	-20v	0
1.6	Drawingsv	Trading stockv	-400v	-400v	0
1.7	Bankv	Bad debts recoveredv	+540v	+540v	0

#### QUESTION 2 (18)

Dr.		Debtors control				B8		Cr.	
2010 Oct	1	Balance	b/d	9 885v	2010 Oct	31	Bank + D/Av	CRJ	7 980v
	30	Salesv	DJ	8 100v			Debtors Allowancesv	DAJ	525v
		Bank (R/D) v	CPJ	300v			Journal credits (750v + 450v)	GJ	1 200
		Journal debitsv	GJ	420v			Balance	c/d	9 000v
				18 705					18 705
2010 Nov	1	Balance	b/d	9 000(v)					

#### Debtors' list (17)

N. Boje (2 310v - 30v - 50v)	2 230
G. Kirsten (1 020v + 180v)	1 200
P. Adams (450v - 450v)	0
J. Rhodes (5 700v - 180v + 50v)	5 570
	9 000(v)

# Answers - Mid-year exam

QUESTION 3 [21]

3.1 (12)

Name	Gross salary	DEDUCTIONS				Net salary	EMPLOYERS CONTRIBUTIONS		
		Pension	PAYE	Medical	Total		Pension	Medical	Total
C. Mampa	8 000	640	1 850	150	2 640	5 360	640	300	940
L. Naidoo	3 600	288vV	900	300vV	1 488 (v)	2 112 (v)	432vV	600vV	1 032(v)
(v)	11 600	928	2 750	450	4 128	7 472	1 072	900	1 972

3.2.1  $928v + 1\ 072v = 2\ 000(v)$  (2)

3.2.2 R900vV (2)

3.2.3 Dr. SARS -PAYEv; Cr. Bankv (2)

3.2.4 Dr. Salaryv; Cr. Creditors for salariesv (2)

3.2.5 Pension fundv (1)

# Answers - Mid-year exam

## QUESTION 4 [80]

### 4.1 General Journal of Union Traders (38)

Details	Fol	Debit	Credit	Debtors control		Creditors control	
				Debit	Credit	Debit	Credit
Total (v)	b/d			163	41	17	462
S. Sitholev		25		25vV			
S. Sitholev			25				25vV
Salesv		200v					
N. Naidoov			200v		200v(v)		
A. Nelv		56v		56vV			
Interest on overdue debtorsv			56v				
BP Belv		80				80vV	
B. Bellv			80		80vV		
Donationsv		300v					
Trading stockv	B6		300v				
Drawingsv		100v					
Stationeryv	N8		100v				



## Answers - Mid-year exam

Stationeryv	N8	275v					
Trading stockv	B6		275v				
			(v)	244	321	97	487
						B9	B9

# Answers - Mid-year exam

## 4.2 General Ledger of Union Traders

Dr.		Trading stock					B6		Cr.
2010 Sep	1	Balance	b/d	20 680v	2010 Sep	30	Cost of salesv	CRJ	2 480v
	30	Bankv	CPJ	18 000v			Cost of salesv	DJ	7 150v
		Creditors controlv	CJ	10 361v			Creditors controlv	CAJ	1 890v
		Cost of salesv	DAJ	600v			Donationsv	GJ	300v
							Stationeryv	GJ	275v
							Balance	c/d	37 546v
				49 641					49 641
2010 Oct	1	Balance	b/d	37 546					

(18)

Dr.		Creditors control					B9		Cr.
2010 Sep	30	Bank + D/R	CPJ	4 690v	2010 Sep	1	Balance	b/d	16 200v
		Sundry Allowances	CAJ	3 167v		30	Sundry purchasesv	CJ	20 423v
		Journal debitsv	GJ	97(v)			Journal creditsv	GJ	487(v)
		Balance	c/d	29 156(v)					
				37 110					37 110
					2010 Oct	1	Balance	b/d	29 156

(12)

Dr.		Stationery					B6		Cr.
2010 Sep	1	Balance	b/d	1 240v	2010 Sep	30	Creditors controlv	CAJ	74v
	30	Bankv	CPJ	300v			Drawingsv	GJ	100v
		Creditors controlv	CJ	461v			Balance	c/d	2 102v
		Trading stockv	GJ	275v					
				2 276					2 276
2010 Oct	1	Balance	b/d	2 102					

(12)

# Answers - Mid-year exam

QUESTION 5 [8]

5.1 VAT-Input = Purchases $\sqrt$ ; VAT-output = Sales $\sqrt$  (2)

5.2 (6)

	Taxable supplies	Exempt supplies	Zero-rated supplies
Passengers transport by taxi		X $\sqrt$	
Dried beans			X $\sqrt$
A box of apples	X $\sqrt$		
Maize meal			X $\sqrt$
Brown bread			X $\sqrt$
White bread	X $\sqrt$		

QUESTION 6

QUESTION 6.1 (8)

Owners' equity = R31 500 $\sqrt$  - R6 000 $\sqrt$  = R25 500

Owner's equity	R25 500 ( $\sqrt$ )
Income	R97 250 $\sqrt$
Expenses	(R60 000) $\sqrt$
Drawings	(R18 000) $\sqrt$
	R44 750

R44 750 (OE) + R10 500 (L) = R55 250( $\sqrt$ )

QUESTION 6.2 (5)

Dr.		Insurance						Cr.	
		Prepaid expenses		2 400			Prepaid expenses		2 000
		*Bank		6 800			Profit and loss		7 200
				9 200					9 200

\*Balancing amount

QUESTION 6.3 (12)

Dr.				Cr.					
2009	30	Bank $\sqrt$		1 203 $\sqrt\sqrt$	2010	31	Profit and loss $\sqrt$		3 453( $\sqrt$ )
Sep					May				
2010	31	Bank $\sqrt$		1 781 $\sqrt\sqrt$					
Mar									
May	31	Accrued expense $\sqrt$		469 $\sqrt\sqrt$					
				3 453					3 453

# Answers – End-year exam

## Answers

### End-year exam

#### QUESTION 1

- 1.1  $33\ 000\text{v} - 13\ 000\text{v} = 20\ 000\text{v}$  (3)
- 1.2.1 BankvV (2)
- 1.2.2 Journal debitsvV (2)
- 1.3.1 Original invoicevV (2)
- 1.3.2 Duplicate debit note/Original credit notevV (2)
- 1.4 Fixed assets; consumable stores; drawings, trading stock vV (Any 2= 2x1)
- 1.5 R3 000v (1)
- 1.6 R1000 v (1)
- 1.7.1 R3 500vV (2)
- 1.7.2 R7 000vV (2)
- 1.8 CPJv (1)
- 1.9 When preparing the financial statements, under which note will you include the Creditors for Salaries balance? (2)
- 1.10.1 Medical Aid Fund ContributionsvV (2)
- 1.10.2 SalariesvV
- 1.10.3 Gross salariesvV

#### QUESTION 2

Dr.		Trading stock						Cr.	
2010 Jun	30	Balance	b/d	38 200v	2010 Jun	30	Drawingsv	GJ	400v
		Cost of salesv	GJ	400v			Trading stock deficitvV	GJ	60vV
							Balance (v)	c/d	38 140
				38 600					38 600
2010 Jul	1	Balance	b/d	38 140					

(10)

# Answers – End-year exam

Income statement of Pompey Traders for the year ended 30 June 2010

Sales (310 592v - 2 750vv - 600vv)		307 242
Cost of sales (205 228v - 400vv)		(204 828)
Gross profit		102 414(v)
Operating income		11 540(v)
Rent income (12 375v - 1 035vv)	11 340	
Bad debts recovered	200vv	
Gross operating income		113 954(v)
Operating expenses		(81 020)(v)
Advertising (3 976v - 800vv)	3 176	
Bank charges	1 080v	
Rates	3 100v	
Bad debts (400v + 140vv)	540	
Salaries	44 695v	
Stationery (5 140v - 575vv)	45 65	
Telephone (1 430v + 980vv)	2 410	
Insurance (3 460v - 1 100vv)	2 360	
Water and electricity	1 920v	
Trading stock deficit	60(v)	
Depreciation	18 114v	
Operating profit		32 934(v)
Interest income (384v + 128vv)		512
Net profit before interest expense		33 446(v)
Interest expense		(200) vv
Net profit for the year		33 246(v)

(46)

## QUESTION 3

Note: Tangible assets	Land and buildings	Vehicles	Equipment	Total
Cost price	480 000v	250 000v	156 000v	886 000
Accumulated depreciation		(50 000) v	(16 000) v	(66 000)
Carrying value (begin)	480 000	200 000	140 000	820 000 (v)
Movements				
Additions at cost	60 000vv	100 000vv	15 000vv	175 000
Depreciation for the year		(60 000)	(14 375)	(74 375)
Carrying value (end)	540 000	240 000	140 625	920 625(v)
Cost price	540 000v	350 000v	171 000v	1 061 000
Accumulated depreciation		(110 000) v	(30 375) v	(140 375)

# Answers – End-year exam

Calculation for depreciation on 31 December 2010:
Vehicles:
$20/100 \times 250\ 000 = 50\ 000\text{V}$
$20/100 \times 100\ 000 \times 6/12 = 10\ 000\text{V}$
Total = $50\ 000 + 10\ 000 = 60\ 000$
Equipment:
$10/100 \times 140\ 000 = 14\ 000\text{V}$
$10/100 \times 15\ 000 \times 3/12 = 375\text{V}$
Total = $14\ 000 + 375 = 14\ 375$

3.2.1 R540 000V (2)

3.2.2 Historical cost principleV (2)

## QUESTION 4

Balance sheet of Davido Traders on 30 June 2010

<b>ASSETS</b>		
Non-current assets		684 600(v)
Fixed assets (380 000V + 195 000V + 135 000V - 39 000V - 21 400V)	649 600(v)	
Financial assets		
Fixed deposit (50 000V - 15 000V)	35 000(v)	
Current assets		68 500(v)
Inventories (28 400V + 2 400V)	30 800(v)	
Trade and other receivables(14 600V + 2 800V + 3 800V)	21 200(v)	
Cash and cash equivalents (15 000V + 1 000V + 500V)	16 500(v)	
<b>TOTAL ASSETS</b>		<b>753 100(v)</b>
<b>EQUITY AND LIABILITIES</b>		
Owners' equity		362 400V
Non-current liabilities		280 000(v)
Loan (310 000V - 30 000V)	280 000(v)	
Current liabilities		110 700
Trade and other payables (38 600V + 55 000V + 6 800V)	50 900(v)	
Bank overdraft	29 800V	
Short term loan	30 000V	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>753 100(v)</b>

(40)

# Answers – End-year exam

## QUESTION 5

5.1.1 (7)

Gross profit x 100 √ for formula

Cost of sales 1

160 000 √ - 68 000 √ x 10

68 000 √ 1

= 135,3 % (√)

5.1.2 (6)

Theft of goods; errors in calculations; cash discounts; merchandise sold at incorrect price √ √ √ √ √ √

Any two x 3 = 6

5.2 (8)

Total assets : Total liabilities √ for formula

240 000 + 40 000 + 50 000 : 120 000 + 30 000

330 000 √ √ : 150 000 √ √

2,2 : 1 √ (√)

5.3 (8)

Long term liabilities : Owners' equity √ mark for ratio

120 000 √ : 180 000 √

0,67 : 1 √ (√)

Acceptable √

The business is low geared √ √

5.4 (4)

Solvency : if the business can pay its long-term debts. √ √

Liquidity: if the business can pay its short-term debts. √ √

5.5.1 (5)

Current assets : current liabilities √ mark for ratio

50 000 √ : 30 000 √

1,67 : 1 √ (√)

5.5.2 (5)

Current assets – inventories : Current liabilities √ mark for ratio

25 000 √ : 30 000 √

0,83 : 1 √ (√)

5.5.3 (6)

- The current ratio decreased from 1,92 : 1 in 2008 to 1,67 : 1 in 2009. √ √
- The acid test ratio decreased from 1 : 1 in 2008 to 0,83 : 1 in 2009 √ √
- The business will find it difficult to pay its short-term debts √ √

# Answers – End-year exam

5.6 (8)

$\frac{\text{Net profit}}{\text{Average equity}} \times 100$  ✓mark for formula

Average equity 1

$\frac{14\,400}{170\,000} \times 100$

$= 8,5\%$  ✓✓

Although the ratio decreased, the owner got more than he would have received if he invested at financial institutions (+6%) ✓✓

OR Ratio decreased and owner therefore needs to be concerned as the ratio is not much higher than an investment at a financial institution such as a bank.

5.7 (3)

Unions; employees; SARS; creditors; financial institutions (Any 3 x 1 = 3) ✓✓✓

QUESTION 6 (36)

No	General ledger		Accounting equation		
	Account debited	Account credited	A	E	L
1	Bank ✓	Capital ✓	0	+30 000 ✓✓	-30 000 ✓✓
2	Debtors control ✓✓	Creditors control ✓✓	+85 ✓	0	+85 ✓
3	Debtors control ✓	Sales ✓	+2 400 ✓	+2 400 ✓	0
	Cost of sales ✓	Trading stock ✓	-960 ✓(✓)	-960 ✓(✓)	0
4	Creditors control ✓	Bank ✓	0	0	+11 875 ✓(✓)
	Creditors control ✓	Discount received ✓	0	+625 ✓(✓)	-625 ✓(✓)
5	Packing material ✓	Bank ✓	0	-890 ✓	+890 ✓

QUESTION 7 (50)

QUESTION 7.1 (15)

7.1.1 (2)

- For a business to see if he has enough cash receipts to pay cash payments and to make early provision for it.
- For decision making by management
- Any valid explanation

7.1.2 (2) Any 2 x 1 = 2

- Depreciation
- Bad debts
- Owner takes trading stock for personal use

7.1.3 (5)

$42\,000 \times 100 / 60$

$= R70\,000$  ✓(✓)



# Answers – End-year exam

7.1.4 (3)

$$108\ 800\text{V} - 47\ 608\text{V} = 61\ 192\text{V}$$

7.1.5 (3)

$$61\ 192\text{V} + 62\ 405\text{V} = 123\ 597\text{V}$$

QUESTION 7.2 (10)

Cost item		Production costs		Not part of production costs
		Direct costs	Indirect costs	
1	Rent of factory		X ✓	
2	Salary of manager of factory		X ✓	
3	Wages of employees using equipment to make tables.	X ✓		
4	Insurance of the equipment in the factory plant.		X ✓	
5	Maintenance of the factory buildings.		X ✓	
6	Raw materials to make the tables.	X ✓		
7	Administrative costs.			X ✓
8	Marketing costs			X ✓
9	Depreciation on factory equipment.		X ✓	
10	Glue and varnish for the tables		X ✓	

QUESTION 7.3 (9)

7.3.1 Lentils; brown bread; maize meal ✓✓ (2)

7.3.2 No, ✓

It is unethical what he does, he can be legally charged. ✓✓ (3)

7.3.3 (4)

- Tax evasion is an illegal activity deliberately undertaken by a taxpayer to reduce or free himself from a tax liability. ✓✓
- Tax avoidance is a legal activity to arrange a taxpayer's affairs as to reduce the level of taxation for which he is liable. ✓✓

7.3.4 Division of duties; proper documentation; proper authorisation; proper recording and follow-up. ✓✓ ✓✓  
 ✓✓ (Any 3 x 2 = 6)