SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2024

GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GRADE 11

SUBJECT: ACCOUNTING

LEARNER NOTES

SESSION 1- 5

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SESSION 1: BANK RECONCILIATION

INTRODUCTION

Bank reconciliation is a process of matching the cash journals and the bank account prepared by the business with the bank statement received from the bank. The purpose is to ensure that figures in the records of the bank and the business are correct and are in agreement.

Bank Reconciliation forms part of the **internal control process** where different sets of information are compared, differences are identified, investigated and corrected.

The purpose of the Bank Reconciliation

- Identify differences
- Identify errors, and omissions
- Verify the accuracy of all transactions recorded.
- Improve internal control by minimizing fraud or errors

Bank Reconciliation enables the business or individual to keep track of the following:

■ Outstanding deposits ■ Electronic transfers made by the business or person ■ Interest earned on the credit balance	■ Bank charges/ service fees ■ Electronic transfers /direct deposits in favour of the business ■ Interest on overdraft

Concepts unique to Bank Reconciliation	
Current Bank Account	An account from which money can be drawn immediately without notice, payments can be made through electronic transfers or debit card.
Bank charges	Amounts deducted by the bank as payment for the services it provides. Bank charges are reflected on the bank statement.
Bank overdraft facility	Allows the current account holder to withdraw funds that exceed the available balance. Banks offer funds at a stipulated limit.
Interest on overdraft	Interest charged by the bank money withdrawn in excess of the credit bank balance or overdraft or unfavourable bank balance.
Interest on current account	Interest earned by the current account holder whose account reflects a favourable bank balance.
Electronic funds transfer (EFT)	Electronic transfer of money from one bank account to another, without direct interaction of the bank staff.

Comparison between the bank statement and the current bank account

Records of the business	Records of the bank
■ Cash transactions recorded in the **CRJ** and **CPJ.**	■ The bank sends a **statement of account** to the business showing a record of all transactions that took place, withdrawals and deposits.
■ **Cash received** and deposited is reflected on **debit** side of the bank account. ➡ **Assets of the business increase**	■ The Bank **credits** all **deposits** made by the business. ➡ **Liability to the bank increase**
■ **Payments** made by the business are recorded on the **credit** side of the bank account. ➡ **Assets decrease**	■ **Payments, withdrawals, debit orders** made by the business are reflected on the **debit** side of the bank statement. ➡ **Liability decreases**
■ A **favourable** balance is reflected on the **debit** side of the bank account	■ A **favourable** bank balance is reflected on the **credit** side of the bank statement
■ An **unfavourable** bank balance (**bank** reflected on the **credit** side of the bank account	■ An **unfavourable** bank balance is **overdraft)** is reflected on the **debit** side of the bank statement

Bullet two and three are applicable to a FAVOURABLE bank account

WORKED EXAMPLE: BANK RECONCILIATION

LOFTUS TRADERS

REQUIRED:

Use the information provided to prepare the following

1.1 Updated Cash Receipts Journal and Cash Payment Journal for December 2023.

1.2 Bank account for December 2023.

1.3 Bank reconciliation Statement for December 2023.

INFORMATION:

A. Extract from the Bank Reconciliation Statement for 30 November 2023

Outstanding EFT no. 600 (28 November 2023)	R2 680
Favourable balance as per Bank account	14 940

NOTE:

- Outstanding EFT no. 600 appeared on the December 2023 Bank Statement.

B. Provisional totals from cash journals

- Cash receipts Journal- **R120 000**
- Cash payments journal- **R95 910**

C. The following information appearing in December 2023 Bank Statement from Pam Bank did not appear in the cash Journals for December 2023.

CRJ

- A direct deposit from debtor J Duma for R2 190, to settle his account of R2 500.

BRS

- Pam Bank credited Loftus Traders with an additional interest of R1 000. This amount was supposed to be interest due to the owner's personal account.

CPJ

- Cash deposit fee - R210, Cash candling fees - R1 035

CRJ

- Received an EFT of R5 400 from Malherbe Aircons for a refund to the business. **CRJ**
- EFT amounting to R1 930 is a payment from T Helberg, a debtor, who was previously declared insolvent. **CRJ**
- Pam Bank credited Loftus Traders with R720 interest on current account. **CPJ**
- R2 400 was deducted through a stop order, the payment was made to WW Finance, it is an instalment for the trailer. **CPJ**
- A debit order of R1 680 to Gecko Insurers for the business insurance. **BRS**
- Bank Statement balance on 31 December 2023: R?

D. The following entries were not reflected in the Bank Statement for December appeared in the cash journals

- Additional capital contribution by the owner on 29 December 2023, R30 000.
- Cash deposit for sales on 30 December 2023, R15 300.
- EFT no. 967 for R10 500 to PR Suppliers, for stationery purchased.
- EFT no. 970 for R 27 690 to KM Stores, for equipment purchased.

Transactions took place after the issue of bank statement

SUGGESTED SOLUTION

IMPORTANT: Errors and Omissions by the business will be corrected in the Journals

When updating the Journals, it is important to record the provisional totals.

CASH RECEIPTS JOURNAL OF LOFTUS TRADERS - DECEMBER 2023					
DOC	**DATE**	**DETAILS**	**BANK**	**SUNDRY**	**DETAILS**
B/S	**31**	**Total**	**120 000**		
B/S		J Duma	2 190	2 190	Debtors control
B/S		T Helberg	1 930	1 930	Bad debt recovered
B/S		Malherbe	5 400	5400	Creditors control
B/S		Pam Bank	720	720	Interest on current account
			130 240	**10 240**	

Always record the correct details to earn full marks

This amount will be recorded in the bank account, on the debit side

CASH PAYMENTS JOURNAL OF LOFTUS TRADERS -DECEMBER 2023					
Doc	**DATE**	**DETAILS**	**BANK**	**SUNDRY**	**DETAILS**
	1	**Total b/d**	**95 910**		
B/S	31	WW Finance	2 400	2 400	Creditors control
B/S		Gecko Insurers	1 680	1 680	Insurance
B/S		Pam Bank	1 245	1 245	Bank charges
B/S			**101 235**	**5 325**	

This amount will be recorded in the bank account, on the credit side.

Cash deposit and cash handling fee 210 + 1 035

Favourable balance from the previous BRS (Dr balance)

Total amount from the CRJ

BANK ACCOUNT					
1 Dec 2023	Balance b/d	14 940	31Dec 2023	Total payments	101 235
31	Total receipts	130 240		Balance c/d	43 945
		145 180			**145 180**
1 Jan 2024	Balance b/d	43 945			

Favourable balance from the previous BRS (Dr balance)

37 885 is a balancing amount

All outstanding deposits must be debited

Errors made by the bank will be corrected in the BRS

All outstanding deposits must be EFT's

Amount transferred from the Bank Account. (Dr)

Cr balance as per bank statement is a favourable balance.

BANK RECONCILIATION STATEMENT OF LOFTUS TRADERS ON 31 DECEMBER 2023

	Debit	Credit
Balance as per Bank statement		37 835
Outstanding EFT deposit		30 000
Outstanding cash deposit		15 300
Dr amount wrongly credited	1 000	
Outstanding EFT		
No. 967	10 500	
No. 970	27 690	
Balance as per bank account	43 945	
One mark for both totals	**83 135**	**83 135**

LIST OF POSSIBLE ERRORS, DIFFERENCES AND OMMISSIONS

Entries on Bank Statement	Records Corrected or Updated
Credit Entries	**Entries** appearing in the **Bank Statement** only,

• Interest on current account • Direct deposits • Internet deposits	will be recorded **in CRJ.**

Debit Entries
• Interest on overdraft
• Stop orders and Debit orders
• Bank charges
  Service fees
  Levy on debit transactions Credit card costs, etc.
	Entries appearing in the **Bank Statement** only, will be recorded **in CPJ.**

Entries in Cash Journals	Records Corrected or Updated

Cash Receipts Journal
• Amounts received incorrectly recorded (Include EFT's)
  Overstated
  Understated
	Overstated: Difference should be recorded in the **CPJ**
	Understated: Difference should be recorded in the **CRJ**

Cash Payments Journal
• Amounts paid incorrectly recorded (Include EFT's)
  Overstated
  Understated
	Overstated: Difference should be recorded in the **CRJ**
	Understated: Difference should be recorded in the **CPJ**

Errors of **overstating** and **understating** are normally picked up when:

- Bank Statement is compared against the Journals
- When financial records are audited internally

ONLINE BANKING

Online Banking is also known as **internet banking, virtual banking**. It is a system that enables customers of a bank or other financial institutions to conduct a range of financial transactions through the financial institutions website or mobile application. This has become a common way to access bank accounts.

ADVANTAGES OF ONLINE/INTERNET BANKING

- Do not have to stand in queues to pay accounts/not restricted to business hours/timesaving.
- Do not have to walk around with cash hence less fraud/theft.
- Maintain your own internet banking limits.

- Payments/receipts can be made immediately/account is updated immediately.
- Send proof of payment to a beneficiary immediately.
- Convenient or easy to use.
- Cheaper bank charges

DISADVANTAGES OF ONLINE/INTERNET BANKING

Potential disadvantages of online banking are:

- lack of face-to-face customer support
- cash deposit services and a risk of technology failures
- security breaches
- Possibility of overspending

Internal control processes that should be implemented to safeguard cash are:

- Ensure deposits are done on regular basis
- Rotate duties and times of banking to avoid creating a pattern
- Provide security when going to bank ,at least two people should go
- Divide duties ,the person who receives cash cash cannot be the person who banks or prepare the financial records.
- Use the collection companies to collect cash on a daily/regular basis.
- Check documentation ,receipts against deposit slips
- Senior personnel should check via internet banking / deposit slips that deposits reflected daily.
- Request SMS from bank for all transactions.
- Encourage debtors to make direct transfers (EFT).
- use of electronic notification of cash/bank deposits

The internal auditor is responsible for improving internal control processes

ACTIVITY 1: RECONCILIATIONS

EXTRACTED FROM EC NOV 2023 **(40 marks; 30 minutes)**

AQUA STORES

The information relates to August 2023. The owner, Flavo, uses the official bank statement which is available on the 26th of each month, to complete the monthly bank reconciliation process.

REQUIRED:

1.1.2 Calculate the correct Bank Account balance on 31 August 2023.

1.1.3 Prepare the Bank Reconciliation Statement on 31 August 2023.

1.1.4 Explain any TWO different internal control measures that Flavo can implement, based on a problem you identified in the information provided. List the problem identified and the possible internal control measures in the table provided in the ANSWER BOOK.

INFORMATION:

A. Extract from the Bank Reconciliation Statement on 31 July 2023:

Outstanding deposits:	Dated 17 July 2023	R 27 600
	Dated 27 July 2023	21 900
Outstanding EFT's:	No. 662	7 530
	No. 663	11 290
Unfavourable balance as per Bank Account		7 440

NOTE

- The deposit on the 17 July for cash sales, was reflected on the August bank statement as R20 000. The balance must be written off, as the cashier in charge no longer works here.
- EFT No. 662 for stationery purchased, appeared on the August bank statement with the correct amount of R3 750.
- All other entries were correctly captured on the August bank statement

B. On 31 August 2023, the provisional totals in the cash journals were:

Cash Receipts Journal	Cash Payments Journal
R 117 600	R 126 200

C. Extract of the Bank Statement on 26 August 2023:

DETAILS	AMOUNT
Deposit: M. Shaba	R 9 000
Cash handling Fees	270
Debit order: BC Municipality	2 360
EFT Charges	230
Deposit S. Deley	4 160
Debit order: BC Municipality	2 360
EFT: George Garage	1 340
Koel Insurers	1 860

- The deposit from M. Shaba is for the monthly rent income.
- The debit order to BC Municipality was for rates and taxes.
  Note that payment was duplicated on the statement in error. The bank will rectify this on the next statement.
- The deposit from debtor S. Deley is in settlement of his account of R4 500.
- The EFT to George Garage was for petrol for Flavo's private vehicle. He neglected to hand over the slip to the bookkeeper to record the transaction.
- The payment to Koel Insurers is for the business insurance.

D.Entries in the August 2023 cash journals that did not appear on the August bank statement are the following:

- Deposit on 28 August 2023, R22 750
- EFT No. 816 for R3 370
- EFT No. 817 for R9 180

E. Bank statement balance on 26 August 2023: R ?

ACTIVITY 1: RECONCILIATIONS

1.1.1 CASH RECEIPTS JOURNAL

DETAILS OF SUNDRY ACCOUNT		AMOUNT
TOTAL	b/f	117 600

CASH PAYMENTS JOURNAL

DETAILS OF SUNDRY ACCOUNT		AMOUNT
TOTAL	b/f	126 200

1.1.2

Calculate the correct Bank Account Balance.

1.1.3 BANK RECONCILIATION STATEMENT ON 31 AUGUST 2023

	DEBIT	CREDIT

1.1.4	Explain any TWO different internal control measures that Flavo can implement, based on a problem you identified in the information provided.		
	PROBLEM IDENTIFIED	**TWO INTERNAL CONTROL MEASURES**	

ACTIVITY 2: CONCEPTS AND BANK RECONCILIATION (51 marks; 40 minutes)

2.1 CONCEPTS

State whether the following statements are TRUE or FALSE. Write only TRUE or FALSE next to the question number in the ANSWER BOOK (3)

2.1.1 Costs charged in respect of EFTs do not form part of the bank charges.

2.1.2 A credit balance on the Bank Statement reflects a positive bank balance.

2.1.3 Interest debited on the Bank Statement will be recorded in the Cash Receipts Journal.

2.2 Answer the following questions:

2.2.1 Explain to Mabuto, the owner of Butros Traders, why it is important that he prepares the Bank Reconciliation Statement at the end of each month. Provide T**HREE** reasons. (6)

2.2.2 What does the abbreviation EFT stand for? (2)

2.2.3 List FOUR advantages of internet banking. (8)

2.2.4 Jane, the bookkeeper, has been assigned the duty of processing and controlling all EFTs. Provide **TWO** reasons why the internal auditor should be concerned about this. (4)

2.3 BANK RECONCILIATION

BUTROS TRADERS

The information below relates to Butros Traders for the year ended 31 March 2023.

REQUIRED:

2.3.1 Calculate the correct totals for both the Cash Receipts Journal and the Cash Payments Journal of March 2023.
NOTE: Details are not required. (11)

2.3.2 Prepare the Bank Account in the General Ledger for March 2023. (6)

2.3.3 Prepare the Bank Reconciliation Statement on 31 March 2023. (11)

INFORMATION:

A. The Cash Journals had the following totals for the bank column on 31 March 2023, before the Bank Reconciliation was completed:

Cash Receipts Journal	R477 400
Cash Payments Journal	R413 500

B. Extract from the Bank Reconciliation Statement on 28 February 2022:

Balance as per Bank Statement		???
Outstanding deposit		R 84 700
Outstanding EFTs		
No. 415 (28 February 2023)	R6000	
No. 416 (28 February 2023)	R28 500	
Favourable balance as per Bank Account	R299 600	

C. Additional information relating to the Bank Reconciliation Statement on 28 February 2022:

- The outstanding deposit of R84 700 appeared on the March 2023 Bank Statement.
- EFT no. 415 for R6 000 appeared on the March 2023 Bank Statement.
- EFT no. 416 appeared on the March 2023 Bank Statement with the correct amount of R62 500. The amount recorded in the journal for February 2023 was incorrect

D. Entries in the Cash Journals for March 2023 that do not appear on the Bank Statement for March 2023:

- EFT no. 480 for R25 000. This was for textbooks and a laptop for the owner's son.
- EFT no. 481 for R18 000 for the repairs to the business vehicle.
- A cash deposit for the week ended 31 March 2023 of R124 500

E. Entries that appear on the March 2023 Bank Statement from Alli Bank, that do not appear in the Cash Journals for March 2023:

Date	Details	R	Balance
18 Mar	Debit order 225 : Tee Insurers	- 34 000	212 000 (Cr)
18 Mar	Debit order 388 : Taa Insurers	- 34 000	178 000 (Cr)
22 Mar	Ekurhuleni Municipality (EFT)	- 52 000	126 000 (Cr)
25 Mar	L. Naidoo (EFT from tenant)	28 000	154 000 (Cr)
28 Mar	Delta Bank	96 750	250 750 (Cr)
30 Mar	Service fees	-1750	249 000 (Cr)
30 Mar	Interest	400	249 400 (Cr)

NOTE:

- Debit order 225 was for the business's monthly insurance premium to Tee Insurers.
- Debit order 388 appeared on the business's Bank Statement on 18 March 2023. The business does not have an insurance policy with Taa Insurers. The bank agreed that the error will be corrected on the next Bank Statement.
- The deposit from Delta Bank was for the fixed deposit of R90 000 that has matured

ACTIVITY 2: CONCEPTS AND BANK RECONCILIATION

2.1: CONCEPTS

2.1.1	
2.1.2	
2.1.3	

2.2.1	Explain to Mabuto, the owner of Butros Traders, why it is important that he prepares the Bank Reconciliation Statement at the end of each month. Provide THREE reasons.	

2.2.2	What does the abbreviation EFT stand for?	

2..2.3	List FOUR advantages of internet banking.	

2.2.4	Jane, the bookkeeper, has been assigned the duty of processing and controlling all EFTs.Provide TWO reasons why the internal auditor should be concerned about this.	

2.2: BANK RECONCILIATION

CASH RECEIPTS JOURNAL		CASH PAYMENTS JOURNAL	
Totals	**477 400**	**totals**	**413 500**

BANK ACCOUNT			

BANK RECONCILIATION STATEMENT of BUTROS TRADERS -31 MARCH 2023		
	DEBIT	**CREDIT**

ACTIVITY 3: RECONCILIATIONS GP NOVEMBER 2021 **(40 marks; 32 minutes)**

3.1 BANK RECONCILIATION

REQUIRED:

Study the information taken from the accounting records of Sahara Traders and complete the following instructions.

3.1.1 Complete the Bank Account in the General Ledger, by making the necessary entries directly into the Bank Account.

NOTE: FOLIOS ARE NOT REQUIRED

3.1.2 Prepare the Bank Reconciliation Statement as at 30 November 2023.

3.1.3 Briefly explain the purpose of preparing a bank reconciliation statement.

3.1.4 List TWO internal control measures a business can implement to control cash in the business.

INFORMATION:

The bookkeeper from Sahara Traders compared the Bank Statement received from NBF during November 2023, with the October 2023 Bank Reconciliation Statement and the Cash Journals for November 2023 and found the following differences:

i. The Bank Account in the General Ledger showed an unfavourable provisional balance of

ii. R9 228, whilst the Bank Statement showed an unfavourable balance of R16 768 on iii. 30 November 2023.

iv. A deposit of R2 190 received on 25 November for sales was entered in the Cash Receipts Journal as R2 910.

v. A debtor, T. Rhino, transferred R1 000 directly into the Bank Account of Sahara Traders in settlement of his account of R1 100.

vi. The annual insurance premium in respect of the owner's personal vehicle was paid by means of a debit order, R1 440. vii. Bank charges totalling R80 and interest charged on the debit balance, R60 appeared only on the Bank Statement. viii. An EFT for R5 820 made to pay for trading stock purchased appeared as R5 280 in the relevant journal. Upon investigation it was discovered that the bookkeeper had incorrectly recorded the amount. ix. A deposit of R4 190 made by S. Cheetah for the office space he rents from Sahara Traders was recorded on the Bank Statement as R4 290. The amount was correctly recorded in the CRJ.

x. The bank has incorrectly debited Sahara Traders account with interest of R7 000 instead of R700. xi. The following information in the November 2023 Cash Journals did not appear on the Bank Statement for November 2023:

- Outstanding deposit, R6 000
- EFT 333 for R6 500 for a payment of a creditor, WW Stores

ACTIVITY 3: RECONCILIATIONS (40 marks; 32 minutes)

3.1.1 GENERAL LEDGER OF SAHARA TRADERS

Bank B 10

Date		Details	Amount	Date		Details	Amount
2023 Nov	30			2023 Nov	30		

3.1.2 Bank Reconciliation Statement of Sahara Traders on 30 November 2023

	DEBIT	CREDIT

3.1.3	**Briefly explain the purpose of preparing a bank reconciliation statement.**	**(2)**
3.1.4	**List TWO internal control measures a business can implement to control cash in a business.**	**(2)**

SESSION 2: CREDITORS RECONCILIATION

Creditors' reconciliation is an internal control measure that highlights the differences between **a Creditor's balance in the creditors' ledger** of a business and the **monthly statement** received from a creditor (an external set of information).

This process ensures that the creditors' accounts are properly maintained and controlled.

The second type of reconciliation involves comparing the **Creditors Control Account** in the General Ledger against the **Creditors List** and correcting differences thereof.
Creditors Control Account: The General Ledger account that contains all related totals from the relevant Subsidiary Journals. The account balance allows one to verify the accuracy of Creditors lists total.

Reconciliation of Creditors List and Creditors Control

Records prepared internally

(Cred

Cred

Creditors List

- Creditor A R3 000
- Creditor B R2 500
- Creditor C R1 200
- Creditor D R 4 300

Creditors Control Account	
	Balance c/d **R11 000**

After reconciling the creditors control and the creditors list the balances must be the same

from the subsidiary journals

The total is:
3 000 + 2 500 +1 200 +4 300 =**R11 000**

The two Ledger accounts are prepared by the business. [General Ledger and Subsidiary Ledger]

Totals of the two must be the same, because they are prepared from the same information They both increase on the credit side and decrease on debit side

WORKED EXAMPLE – RECONCILIATION OF CREDITORS' CONTROL AND CREDITORS' LIST

REQUIRED

Use the following information extracted from the records of Zizi Traders to:

- Prepare the Creditors' Control account on 31 March 2023
- Reconcile the Creditors' List of balances with the balance of the Creditors' Control account.

Check 2023 NSC exam paper, reconciliation of list of creditors and creditors control were tested in grade 12 exam

INFORMATION

A. Balances on 1 March 2023:		
Creditors' control		28 700

B. Totals on 31 March 2023		
List of creditors		28 860
C. Totals from Journals on 31 March 2023		
Creditors' Journal		121 800
Creditors' Allowance Journal		2 128
Journal debits - Creditors		896
Journal credits - Creditors		462
Cash Payment Journal		
Creditors' control		117 236
Discount received		504

ADDITIONAL INFORMATION

1. The Creditors' Journal was overcast by R800.

2. An amount of R1 200 in the Creditors' Allowance Journal was posted to the account of Wall Wholesalers as R2 200.

3. An amount of R42 was included by mistake in the Creditors column of the Journal credits. This was in respect of interest that was cancelled on a debtor's account, B Baloyi. It has not been posted to his personal account.

ANALYSIS OF ERRORS FROM ABOVE TRANSACTIONS:

Type of error	Procedure to follow
1.Overcast /overstated	o The Creditors Journal has been closed off ,the amount will be corrected in the General Journal o The List of creditors is not affected by this transaction
2.Error in posting	o Calculate the difference and correct only the account of the creditor.

3.Incorrect entry	o Correct only the area affected by the error.

SUGGESTED SOLUTION

GENERAL LEDGER OF ZIZI TRADERS

CREDITORS CONTROL

2021 Mar	31	Total returns / Creditors allowances	CAJ	2 128	2021 Mar	1	Balance	b/d	28 700
		Journal debits	GJ	896		31	Sundry / Total purchases (121 800- 800)	CJ	121 000
		Bank and discount	CPJ	117 236			Journal credits (462 – 42***)	GJ	420
		Balance	c/d	29 860					
				## 150 120					150 120
					Sep	1	Balance	b/d	## 29 860
					***42 is only deducted in this account, it will not be deducted from the list of creditors, it affects the list of debtors and Creditors Journal not the individual accounts				

NOTE: Our closing balance for Control account is the same as the closing total for our Creditors list after reconciling the two

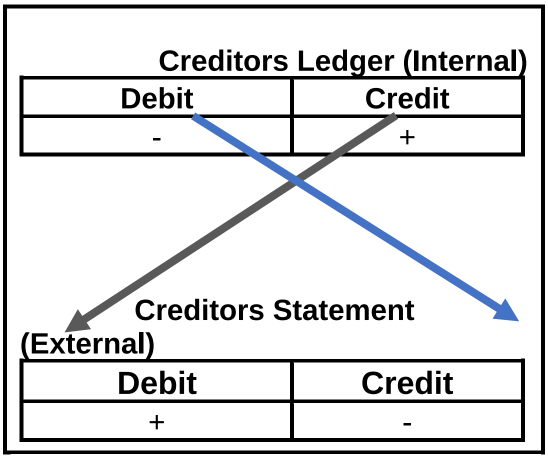
Creditors' list		
Total	28 860	
Wall Wholesalers	1 000	**(2 200 -1 200)** The error of posting was made to the account of Wall
Total	## 29 860	

Note: The creditors control and the creditors list are generated by the business.

The grade 11 exams and assessments will be restricted to reconciliation of Creditors Ledger and Creditors Statement

RECONCILIATION OF CREDITORS LEDGER AND CREDITORS STATEMENT

Internal records (Creditors Ledger) is compared to Creditors Statement



Creditor's ledger account- prepared by the business Creditor's Statement is an external document prepared by the Supplier (Creditors). Total of the two must reconcile

NOTE	Suppliers regard the business as a debtor that's why we compare different sides, debit side of creditors ledger is compared against credit side of creditors statement

These typical reasons explain why the balance on the statement received from a creditor is different from the Creditor's ledger account balance:

- The statement date differs from the closing date in the Creditors Ledger.
- Transactions (purchases; returns/allowances; payments; discounts) could have been omitted or entered incorrectly in the Creditors Ledger account and/or the statement of account.
- A discount could have been deducted on the Creditors ledger account but not accepted by the creditor.
- Posting and/or recording errors in either the creditor's ledger and/or the statement.
- Addition or subtraction errors in either the creditor's ledger and/or the statement.

The Reconciliation process involves the following steps:

Step1: Compare the **credit (+)** column of the Creditors Ledger with the **debit (+)** column of the statement.

Creditors Ledger	Statement of Account
Invoices	Invoices

Step 2: Compare the **debit (–)** column of the Creditors Ledger with the **credit (–)** column of the statement.

Creditors Ledger		Statement of Account
Debit notes		Credit notes
Cheques	are	Receipts
Discount received		Discount allowed

compar ed with

Step 3: Tick the amounts that **appear in both** the Creditors Ledger and the statement. Circle the amounts that **appear in only the** Creditors Ledger or the statement.

Step 4: Errors and/or omissions in the Creditors Ledger must be corrected by the business.

Step 5: Errors and/or omissions on the statement must be recorded in the Creditor's Reconciliation Statement. The Creditor must be notified of this error/omission so that it can be corrected on the next statement.

PROCEDURE FOR CORRECTING ERRORS	
ERROR	**CORRECTION**
Incorrect entry in the Creditors Ledger , e.g. **wrongly credited** the account	Correct on the **debit side** of the Creditors Ledger to cancel the entry
Overstated amount on the **debit** side of Creditors Ledger	Calculate the **difference** and record it on the **credit** side
Understated amount on the debit side of Creditors Ledger	Calculate the difference and record it on the **debit** side (**same** side)
Returns entered **as purchases** in the creditors ledger (on credit side of Ledger)	**Double** the amount and record on the **debit** side of the Creditors Ledger

The creditors ledger may reflect transactions that took place **after the issue date reflected in the creditors statement**,the statement should be updated with such figures by the creditor.In our books this entry will be recorded in the Creditors Reconciliation.
Ommissions in **both records** ,record the entry in both records, this is normally applicable to the reconciliation of Creditors list and creditors control (Internal records)
The errors suchs as understating ,overstating ,incorrect entries etc.can also be identified on the statements received from creditors .

WORKED EXAMPLE 2: CREDITORS RECONCILIATION

SONDELA TRADERS

REQUIRED:

A template that must be used to compile a report is attached in the answer book.

A report compiled by an accountant and auditor will address the following:

Reconciliation of the Creditor's Ledger Account of Chitheka Wholesalers (9)
in the books of Sondela Traders and the statement account for January
2024 received from the Chitheka Wholesalers.

INFORMATION

A. CREDITORS LEDGER OF SONDELA TRADERS

Chitheka Wholesalers (CL3)						
DATE		**DETAILS**	**FOL**	**DEBIT**	**CREDIT**	**BALANCE**
January	1	Account rendered				36 900
	05	Invoice no.125			4 860	
	07	Debit note 970			2 400	
	13	EFT 302		35 060		
		Discount received		1 700		
	22	Invoice no.150			18 978	
	25	Invoice no.170			12 600	
	30	Invoice no.185			8 700	47 678

5

B. Statement received from Chitheka Wholesalers

Chitheka Wholesalers	**Acc no 30267993**

44 Cockatoo Road **29 January 2024**
Nigel 1496

DEBTOR SONDELA TRADERS					
DATE		**TRANSACTIONS**	**DEBIT**	**CREDIT**	**BALANCE**
January	01	Opening Balance			36 900
	05	Invoice no.125	6 660		
	07	Credit notes 970		2 400	
	13	EFT 302		35 060	
	20	Invoice no.1350	9 600		
	22	Invoice no.150	18 978		
	25	Invoice no.170	12 600		
	29	Interest on overdue account	240		47 518

ADDITIONAL INFORMATION

(i) Invoice no.125 on 5 January 2024 was incorrectly recorded as R 4 860 in the creditor's ledger of Sondela Traders.

(ii) Sondela Traders qualified for a discount on the payment made on 13 January 2024 as per agreement. Chitheka Wholesalers forgot to deduct it and apologized indicating it will be brought into consideration on the next statement.

(iii) Invoice no. 1350 for R 9 600 on the statement received was an error made by Chitheka Wholesalers. This invoice was not issued to Sondela Traders

(iv) Credit note no.970 was recorded incorrectly by Sondela Traders.

(v) Invoice no.185 does not appear on the statement as it was issued after the statement date.

	Creditors ledger of Sondela Traders	**Statement of Account**	
Incorrect Balances	**47 678**	**47 518**	
(i)	1800		*The error is in the ledger, an invoice amount was understated, therefore **add** the difference*
(ii)		(1700)	*The error was done by the supplier, who forgot to record discount. (Discount will be subtracted).*

(iii)		(9 600)	*The error was by the supplier, they recorded an invoice that related to another supplier, in correcting this we subtract the incorrectly recorded invoice.*
(iv)	(4 800) or - 2 400 – 2 400		*A credit note will be subtracted when recording in the Ledger, but the business made a mistake by adding this amount* ***(as if it was an invoice)*** *The account must be reduced by recording the amount twice.*
(v)		8 700	*The invoice was omitted as the purchase took place after the statement was sent, therefore we record the entry on the statement.*
(vi)	240		*The interest of R240 charged by a creditor appears only in the statement, we need to update our records.* ***(interest will increase the amount owed)***
	44 918	**44 918**	*Similar balances are referring to reconciled differences.*

ACTIVITY 1: CREDITORS RECONCILIATION

GAUTENG - FEBRUARY 2022 **(11 marks)**

LEGEND SUPPLIERS

Legend Suppliers is owned by Terry Naicker. The business has been supplying cleaning material to various organization for 5 years, they purchase most of their stock on credit from Mahloko Suppliers. The financial records are for 31 January 2024.

REQUIRED:

1.1 Explain why the balance of the Creditors' Ledger account in the General Ledger is different from the balance of statement of account. (2)

1.2 Use the table provided to indicate changes to the:

- Creditors' Ledger Account in the books of Legend Suppliers
- Creditors' Reconciliation Statement on 31 January 2024

(9)

INFORMATION:

A. Creditors' Ledger Account in the books of Legend Suppliers

MAHLOKO SUPPLIERS (CL6)						
				DEBIT	**CREDIT**	**BALANCE**
2024 Jan	1	Balance	b/d			
	12	Invoice 220			116 640	
		EFT 033		48 600		
	18	Debit Note 702		12 360		
		Invoice 289			58 920	
		Invoice 333			36 000	
	24	Debit Note 877			11 640	
	25	Journal voucher 585		7 680		
	31	EFT 112		111 120		140 640

B. Statement of account from Mahloko Suppliers

Legend Suppliers 85 Tonk Meter Road 25 January 2024					
			DEBIT	**CREDIT**	**BALANCE**
2024 January	1	Balance			
	12	Invoice 220	116 640		
		Receipt 742		48 600	
	18	Credit Note 791		9 000	
		Invoice 333	36 000		
	22	Invoice 395	15 000		
	24	Credit Note 888		11 640	195 600

Errors, omissions, and other information:

(a) Invoice 289 was incorrectly reflected in the account of Mahloko Suppliers in the Creditors' Ledger. These goods were purchased from Mahlangu Suppliers.

(b) Credit Note 791 was recorded incorrectly on the statement of account. This relates to the correct entry for Debit Note 702 in the Creditors' Ledger

(c) Invoice 395 on the statement of account was for goods ordered by Legend Suppliers.

(d) Mahloko Suppliers also purchased goods on credit from Legend Suppliers. Legend Suppliers has transferred a debit balance from the Debtors' Ledger (Journal voucher 585). Mahloko Suppliers will include this on the next statement.

(e) The transaction on 24 January 2024 is for merchandise returned to Mahloko Suppliers.

(f) The statement of account reflects transactions up to 24 January 2024.

ACTIVITY 1: CREDITORS RECONCILIATION AND INTERNAL CONTROL

1.1 In your report explain why the balance of the Creditors' Ledger account in the General Ledger is different from the balance of statement of account.	
	2

1.2 CREDITORS RECONCILIATION		
	Creditor ledger Account of Mahloko Suppliers in Books of Legend Suppliers	**Statement of Account from Mahloko Suppliers**
Balance	**140 640**	**195 600**
(a)		
(b		
(c)		
(d)		
(e)		
(f)		
		9

ACTIVITY 2: GAUTENG NOVEMBER 2021-ADAPTED

CREDITORS' RECONCILIATION

A Statement of Account received from a creditor, Green Apple Traders on 31 October 2023, indicates that Fresh Fruit Mart owes them R14 530. According to the Creditors' Ledger of Fresh Fruit Mart, the amount owing to Green Apple Traders. is R13 789.

REQUIRED:

2.1.1 Use the table provided in your ANSWER BOOK to RECONCILE the difference between (8) the creditor's Statement of Account and the Creditors' Ledger of the business

2.1.2 An internal auditor of Fresh Fruit Mart discovered that goods to the value of R6 500 ordered from PK Stores were not delivered to the premises of the business. An investigation revealed that the person in charge of placing the orders and receiving goods, ordered the goods for his personal use.

A An internal auditor of Fresh Fruit Mart discovered that goods to the value of R6 (2) 500 ordered from PK Stores were not delivered to the premises of the business. An investigation revealed that the person in charge of placing the orders and receiving goods, ordered the goods for his personal use

B Provide TWO internal control measures that should be applied to (2) prevent this from happening again.

INFORMATION:

After an investigation the following were brought to light:

a. An EFT made to Green Apple Traders. was not received in time to allow a discount. Fresh Fruit Mart assumed they would receive a R450 discount and had entered it in their books as such.

B. Goods to the value of R980 returned to Green Apple Traders was recorded in the Creditors' Statement as R890.

C. An invoice received for goods bought from Green Apples Traders for R700 was incorrectly entered in the Creditors' Ledger of Fresh Fruit Mart as a debit note.

D. The Creditors' Statement received shows interest on the overdue account of R251. No entry has been made with regards to this transaction in the Creditors' Ledger of Fresh Fruit Mart.

E. The following transactions took place after the Creditors' Statement was printed and emailed to Fresh Fruit Mart:

- An invoice of R3 400 for goods purchased on 29 October 2023
- An EFT of R1 950, made in part payment of the account on 30 October 2023

CREDITORS' RECONCILIATION OF FRESH FRUIT MART ON 31 OCTOBER 2023

	Statement of Account from Green Apple Traders	**Creditors' Ledger of Fresh Fruit Mart**
Incorrect balance	**14 530**	**13 789**
A.		
B.		
C.		
D.		
E.		
Correct balance		

A.	**What action should be taken by the management against this employee? Provide TWO points.**	(2)
B.	**Provide TWO internal control measures that should be applied to prevent this from happening again.**	(2)

ACTIVITY 3 (EC NOVEMBER 2023)

CREDITORS RECONCILIATION

Simple Stores buys goods on credit from Nandu Suppliers. A statement of account was received on 28 August 2023. The balance did not correspond with the balance on the Creditors Ledger account of Nandu Suppliers.

REQUIRED:

Complete the table provided in the ANSWER BOOK, to show the effect of each error or omission. Indicate an increase (+) or decrease (-) next to each amount. (12)

INFORMATION:

Balance of the Creditor's Ledger account of Nandu Suppliers in the books of Simple Stores	R40 100
Balance as per the statement received from Nandu Suppliers	R21 020

ERRORS AND OMISSIONS:

A. Simple Stores reflected a credit invoice of R8 800 in the Creditors Ledger account of Nandu Suppliers. This was for goods purchased from Nandosile Dealers.

An allowance of R1 740 for damaged goods returned was recorded as an invoice in B. the creditor's ledger account of Nandu Suppliers.

An invoice for R15 200 was incorrectly reflected as R12 500 on the statement C. received from Nandu Suppliers.

Simple Stores recorded a 10% discount on an EFT payment of R9 600. This did not D. appear on the statement. Nandu Suppliers stated that the discount should have been 5% and will include this on the next statement.

Nandu Suppliers did not deduct the 10% trade discount on a credit invoice for goods purchased. The correct net amount of R11 160 was recorded in the creditor's ledger E. account in the books of Simple Stores.

An invoice for goods purchased for R6 300 on 30 August 2023 was not on the statement from Nandu Suppliers. The statement date is 28 August 2023.
F

	CREDITOR LEDGER ACCOUNT OF NANDU SUPPLIERS	**STATEMENT FROM NANDU SUPPLIERS**
Balance	**40 100**	**21 020**
A.		
B.		
C.		
D.		
E.		
F.		
Correct balance		

ACTIVITY 4: CREDITORS' RECONCILIATION (25 marks; 20 minutes)

Gauteng June 2023

SUNRAYS NURSERIES

The owner of Sunrays Nurseries, Ms Flowers, requested your help in a reconciliation of a creditor's account from creditor Rose Traders. Ms Flowers is of the opinion that her business only owes R3 266 to Rose Traders and she is therefore upset that the statement she received reflects an amount of R16 727 outstanding.

REQUIRED:

4.1 Prepare the corrected account for Rose Traders in the Creditors' Ledger of Sunrays Nurseries. (14)

4.2 Prepare the Creditors' Reconciliation Statement on 30 April 2023. (11)

INFORMATION:

A. The following account appeared in the Creditors' Ledger of Sunrays Nurseries on 30 April 2023:

Details		**Debit**	**Credit**	**Balance**
April				
1	Balance		2 000	2 000
3	Receipt 417		600	2 600
6	Invoice 338		3 850	6 450
10	EFT 1048	3 630		2 820
	Discount (EFT 1048)	330		2 490
11	Invoice 619	1 870		620
	Debit note 72	297		323

15	Invoice 342		5 200	5 523
20	Debit note 75	350		5 173
24	EFT 1059	2 420		2 753
	Discount (EFT 1059)	242		2 511
26	Invoice 2301		4 400	6 911
30	EFT 1067	4 050		2 861
	Discount (EFT 1067)		405	3 266

B On 30 April 2023 Ms Flowers received the following statement from Rose Traders:

Details		**Debit**	**Credit**	**Balance**
April				
1	Balance	2 000		2 000
6	Invoice 338 (Sales)	3 850		5 850
10	Receipt 1104 (Payment received)		3 630	2 220
	Discount allowed on receipt 1104		363	1 857
11	Credit note 143 (Allowance)		270	1 587
15	Invoice 342 (Sales)	5 720		7 307
19	Invoice 347 (Sales)	2 310		9 617
20	Credit note 145 (Allowance)		350	9 267
24	Receipt 1112 (Payment received)		2420	6 847
	Discount allowed on receipt 1112		121	6 726
29	Invoice 351 (Sales)	10 001		16 727

C. The entry on 3 April 2023 in the account of Rose Traders in the Creditors' Ledger is incorrect, the amount was received from a debtor, Palm Tree.

D. Ms Flower has an arrangement with Rose Traders that a 10% discount will be received on each payment made (see entries on 10th and 24th).

E. Invoice 619 for R1 870 on 11 April 2023 in the account of Rose Traders in the Creditors' Ledger, is in respect of stock sold to Plants Galore on credit.

F. On 11 April 2023 an entry for R297 (debit note 72) was made in the Creditors' Allowance Journal dealing with an allowance from Rose Traders. It has been established that this entry has been correctly made in the Creditors' Ledger.

G. An error was made when posting the entry on 15 April from the Creditors' Journal to the account of Rose Traders. The amount is correct on the statement received.

H. Invoice 347 on 19 April 2023 on the statement from Rose Traders was in respect of another customer, Reaping Rose.

I. Invoice 2301 for R4 400 on 26 April in the account of Rose Traders in the Creditors' Ledger was erroneously posted to this account, instead of to the account of Bark Traders.

J. The sales of R10 001 reflected on 29 April 2023 in the statement from Rose Traders was definitely for Sunrays Nurseries.

K. A posting error occurred in the books of the business, for the discount (EFT 1067) on the 30th which still has to be corrected.

L. Certain entries do not appear on the statement as the statement was sent on 27 April 2023, while the Creditors' Ledger continues till 30 April 2023

4.1 CREDITORS' LEDGER OF SUNRAYS NURSERIES

ROSE TRADERS

Details		Debit	Credit	Balance
April				
30	Incorrect Balance			3 266

Creditors' Reconciliation Statement of Sunrays Nurseries on 30 April 2023

4.2

Details			Balance
April			
30	Balance as per Creditors Statement		16 727

	CREDITOR LEDGER ACCOUNT OF NANDU SUPPLIERS	STATEMENT FROM NANDU SUPPLIERS
Balance	3 266	16 727
A.		
B.		
C.		
D.		
E.		
F.		
Correct balance		

Alternative answer she

This template can be used to respond to activity 4. The purpose of the template above is to familiarize you to different templates. An examiner can decide to change the structure of the answer sheet.

Internal controls relating to creditors include:

- Adequate segregation (separation) of duties with regards to creditors' transactions. (.g.the same person should not order and receive goods.)
- The clerk receiving the items from creditors must check the delivery note against the order form to ensure that all items ordered were delivered.
- All documents (invoices; debit notes etc.) relating to credit transactions must be correctly processed in the proper journals.
- Paying creditors on time to take advantage of settlement discounts and to avoid interest being charged.
- Transactions involving purchase of goods from creditors should be authorised
- Check accuracy of invoices from creditors
- Invoices to be processed (stamped) before payment

SESSION 3: TANGIBLE ASSETS

INTRODUCTION

Tangible assets are physical items owned by a business such as equipment, buildings, and vehicle. They are not intended for resale but to be used for daily operations of the business to generate profit

The value of Tangible assets such as vehicles and equipment **depreciate** because of wear and tear resulting from daily use and the value of land and buildings **appreciates** if the property is well maintained.
Tangible assets are not easily converted to cash compared to current assets such as debtors, inventory and cash and cash equivalents.

CONCEPTS UNIQUE TO TANGIBLE ASSETS	
Depreciation	A reduction in the value of an asset over time due in particular to wear and tear.
Accumulated Depreciation	Is the total amount ‘of depreciation deducted from the fixed asset since its acquisition.
Carrying value / book value	Original cost price less the depreciation that has accumulated over the period in which the asset has been in the business.
Age of Assets	Businesses should monitor their assets to identify assets that need to be replaced. Assets that are old due to wear and tear should be replaced with efficient assets.
Replacement Rate	It refers to how often the business determines a fixed asset will be replaced.
Replacement Value of Assets	When a fixed asset has to be replaced, the business needs to look if it is worth replacing the old asset and what it will cost them to buy the new asset.
Lifespan of assets	Estimated length of time the asset can reasonably be used to generate income and be of benefit to the business.

ACQUISITION OF ASSETS

- Factors to be considered when new equipment is acquired (bought).

- The existing equipment has become old / out of date.
- Running costs of current assets may be too high.
- The business wants to keep up to date with new technology.

ASSET REGISTER

Is the list of assets that belong to the entity. The purpose of fixed asset register is to keep track of the book value of assets and determine the depreciation to be calculated and recorded for management and taxation purpose.

The business should keep every transaction relating to an asset in the fixed asset register. Each asset owned by the business should have a detailed entry page in the register

ASSET REGISTER FORMAT

ASSET REGISTER

Mzansi Traders

Item	: Delivery Vehicle STV 565 GP
Date of purchase	: 2020 March 01
Cost price	: R120 000
Purchased from	: Speedy Motors
Rate of depreciation	: 20%p.a. on cost

Date	Current Depreciation	Accumulated Depreciation	Carrying value
2021-02-28	24 000	24 000	96 000$$
2022-02-28	24 000	48 000	72 000
2023-02-28	24 000	72 000 #	48 000
2024-02-29	24 000***	96 000	24 000##

Cost price –Accumulated depreciation =Carrying Value
120 000 -24 000 = 96 000

DETAILS OF ASSETS RECORDED IN THE ASSET REGISTER

• Date of purchase	• Rate of depreciation
• Cost Price	• Book value
• Details of the seller	• Life expectancy
• Type and model	• Method of depreciation
• Serial number	• Depreciation
• Receipt/Invoice	• Accumulated depreciation

DEPRECIATION METHODS

FIXED METHOD	DIMINISHING BALANCE
Takes place over the **useful life** of the asset at a fixed rate. (e.g.over 5 years at 20% p.a.)	Writing off depreciation on the **carrying value** at a fixed percentage (e.g., 15% p.a.) Writing off takes place over a longer period.

WORKED OUT EXAMPLE: COST PRICE METHOD

INFORMATION

The financial year ends on the last day of February each year. Bought a delivery van for R360 000 on 1 March 2023.

REQUIRED

Calculate depreciation on 28 February 2024 at 20% p.a. on cost price

ANSWER

360 000 x 20% x 12/12= 72 000

ACTIVITY 1: DEPRECIATION USING COST PRICE METHOD

INFORMATION

The financial year ended on 31 December 2023.
Balance of the Equipment account in the General Ledger on 1 January 2023: R180 000.
Bought a new cash register for R10 000 on 1 July 2023.

REQUIRED

Calculate depreciation on 31 December 2023 at 10% p.a. on cost price.

ANSWER SHEET

WORKED EXAMPLE: DIMINISHING BALANCE METHOD

INFORMATION
The following balances appear on 1 March 2023 as follows:

Equipment	R80 000
Accumulated depreciation on equipment	R8 000.

REQUIRED
Calculate depreciation on 28 February 2024 at 10% p.a. on the diminishing balance method.

ANSWER
Cost price –Accumulated Depreciation = Carrying Value
80 000 – 8 000 = 72 000
72 000 x 10% = 7 200

ACTIVITY 2: DEPRECIATION USING DIMINISHING BALANCE METHOD

INFORMATION

- Balances appear in the books on 1 March 2022 as follows:
  - Equipment R80 000
  - Accumulated depreciation on equipment R15 200
- Bought new equipment for R192 000 on 1 November 2022.

REQUIRED

Calculate depreciation on 28 February 2023 at 10% p.a. on the diminishing balance method.

ANSWER SHEET

EXAMPLE 3: TANGIBLE ASSETS REQUIRED:

3.1 Prepare the ledger accounts using the given balances on 1 March 2023.

3.2 Calculate the depreciation to be written off on vehicles and equipment for the financial year ending 29 February 2024.

3.3 Calculate the carrying amounts of vehicles and equipment on 29 February 2024.

INFORMATION:

On 1 March 2023 the following balances appear in the books of Astrin Traders:

Vehicles (at cost price)	R1 600 000
Equipment (at cost price)	760 000
Accumulated depreciation on Vehicles	300 000
Accumulated depreciation on Equipment	273 600

Adjustments and additional information:

(a)During the financial year a new vehicle and new equipment were purchased and paid via EFT. The following information relates to the transactions:

Details	Date purchased	Cost price
Vehicles	1 August 2023	R720 000
Equipment	1 January 2024	R547 200

Depreciation must be written off as follows:

- On vehicles at 10% per annum on cost price.

- On equipment at 20% per year on the diminishing balance method.

General ledger of Astrin Traders

Balance sheet accounts section

Vehicles

2023 Mar.	*1*	Balance	b/d	1 600 000					
Aug.	*1*	Bank	CPJ	720 000					
				2 320 000					

Equipment

2023 Mar.	1	Balance	b/d	720 000					
Aug.	1	Bank	CPJ	547 200					
				1 307 200					

Accumulated depreciation on equipment									
					2023 Mar.	1	Balance	b/d	300 000
					2024 Feb.	29	Depreciation 160 000 + 42 000)	GJ	202 000
									502 000

Accumulated depreciation on vehicles									
					2023 Mar.	1	Balance	b/d	273 600
					2024 Feb.	29	Depreciation 97 280 + 18 2400)	GJ	115 520
									389 120

Nominal accounts section									
Depreciation									
2024 Feb.	29	Acc. depreciation on vehicles	GJ	20 2000	2024 Feb.	29	Profit and loss account	GJ	317 520
		Acc. depreciation on equipment	GJ	115 520					
				317 520					317 520

3.2 Calculations:

Vehicles

Used for the entire year:
R1 600 000 x 10/100 x 12/12 = <u>R160 000</u>

New vehicles purchased: <u>1 August 2023 – 29 February 2024:</u> R720 000 x 10/100 x 7/12 = <u>R42 000</u>

Equipment used for the entire year: (R760 000 – R273 600) x 20/100 x 12/12 = <u>R97 280</u>
New equipment purchased during the year: <u>1 January 2024 – 29 February 2024:</u> (R547 200 – R0) x 20/100 x 2/12 = <u>R18 240</u>

3.3 Calculate the carrying amounts of vehicles and equipment on 29 February 2024
Carrying value of vehicles on 29 February 2024: **Cost price – Accumulated depreciation** = R2 320 000 – R502 000 = <u>R1 818 000</u>
Carrying amount of equipment on 29 February 2024: **Cost price – Accumulated depreciation** = R1 307 200 – R389 120 = <u>R918 080</u>

DISPOSAL OF TANGIBLE ASSETS

Fixed assets are **not purchased for the purpose of resale** in the normal course of running a business, however if the owner no longer requires the asset he may decide to dispose or sell it.

In an event an asset is sold the ,the business will have to **derecognise or remove** the assets from the financial assets of the business.

What are the reasons for disposing Tangible Assets?

- The existing asset is too old or has outlived its useful life
- Vehicles may have been involved in accidents

- Damaged assets that cannot be used by a business anymore
- Asset may be obsolete
- The existing asset is too old or has outlived its useful life

Different methods of disposing assets

Methods of disposing Tangible Assets	Account affected
Asset can be sold for cash	Bank account
Asset can be sold on credit	Debtors Control
They can be donated	Donation
Taken for personal use by the owner	Drawings
They can be traded-in	Creditors Control
Scrapped	Write off, no payment
Assets can be written off because of damages	Insurance claim approved/Accrued income

Assets are disposed at a:		
Price sold for	**Carrying value**	**Profit/Loss**
R50 000	R50 000	No Profit No Loss
R88 000	R64 000	R24 000 Profit
R105 000	R120 000	R15 000 Loss

FORMAT OF AN ASSET DISPOSAL ACCOUNT AND ASSET ACCOUNT

DR		Asset Account					CR
Mar	1	Balance b/d @cost	xxxx	Mar	31	Asset disposal @cost	xxx
		Bank /Creditors Control @cost				Balance c/d @cost	xxx
			xxxx				xxxx
		Balance b/d @cost	xxxx				xxxx

DR **Asset Disposal** **CR**

Mar 1 Equipment / Vehicle xxxx Mar 31 Accumulated depreciation on equipment xxx

Bank /Debtors Control/Creditors Control / Donation/Drawings xxx

Profit on sale of asset is recorded on the debit side

			Loss on sale of asset			xx	
	xxxx	xxxx					

FORMAT –NOTE ON TANGIBLE ASSETS

Note 3 - Fixed/Tangible assets

	Land & Buildings	Vehicles/ Equipment
Carrying value at the beginning of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	**Nil**	**(xxx)**
Movements		
Additions at cost	xxxx	xxxx
Disposals at carrying value	**(xxx)**	**(xxx)**
Depreciation	**Nil**	**(xxx)**
Carrying value at the end of the financial year	xxxx	xxxx
Cost	xxxx	xxxx
Accumulated depreciation	**Nil**	**(xxx)**

Tangible assets are recorded at a carrying value and reduce the balance of assets

These balances will exclude the asset that has been disposed off

EXAMPLE: SALE OF ASSET DURING ACCOUNTING PERIOD

INFORMATION

The financial year of Zizzy Traders ends on 29 February 2024.

The following balances appeared on 1 March 2023:

• Equipment	R40 000
• Accumulated depreciation on equipment	R 11 200

On 31 August 2023 Zizzy Traders sold an old typewriter on credit to George for R1 050. The original price was R2 200.
The total amount written off for depreciation at the end of the previous financial year was R800.
Depreciation is calculated at 20% per annum at cost price.

REQUIRED

- Show how the transaction will be recorded in the General Ledger
- Prepare note 3 on Tangible assets

SOLUTION – ASSET SOLD DURING THE YEAR

GENERAL LEDGER OF ZIZZY TRADERS

Equipment									
2023 Mar	1	Balance	b/d	40 000	2024 Feb	29	Asset disposal	GJ	2 200
							Balance	c/d	37 800
				40 000					40 000
2024 Mar	1	Balance	b/d	37 800					

2 200 x 6/12 x 20% = 220

800 + 220 = 1 020

Remaining asset: (40 000 - 2 200) x 20% =7 560

Sold asset: 2 200 x 6/12 x 20% = 220

Accumulated depreciation on Equipment									
2023 Aug	31	Asset disposal	GJ	1 020	2023 Mar	1	Balance	b/d	11 200
2024 Feb	29	Balance	b/d	17 960	Aug	31	Depreciation	GJ	220
					2024 Feb	29	Depreciation	GJ	7 560
				18 980					18 980
					2024 Mar	1	Balance	b/d	17 960

NOTE: Depreciation is calculated at the end of the accounting period, it will only be calculated during the year if an asset is sold. Depreciation on remaining assets will be calculated at the end of year.

Depreciation									
2024 Feb	29	Accumulated depreciation on equipment	GJ	7 780	2024 Feb	29	Profit and Loss	GJ	7 780

Debtors control									
2023 Aug	31	Asset disposal	GJ	1 050					

Asset disposal									
20203 Aug	31	Equipment	GJ	2 200	2023 Aug	31	Accumulated depreciation on equipment	GJ	**1 020
							Debtors control	GJ	1 050
							Loss on sale of asset	GJ	130
				2 200					2 200

Loss on sale of an asset									
2023 Aug	31	Asset disposal	GJ	130	2023 Aug	31	Profit and Loss	GJ	130

NOTE 3 ON TANGIBLE ASSETS		
	Equipment	
Carrying value at the beginning of the financial year	**28 800**	
Cost	40 000	
Accumulated depreciation	(11 200)	
Movements		
Additions at cost	**-**	*Cost –Acc Dep – Current Dep*
Disposals at carrying value	(1 18**0)**	*2 200 -800 -220 =1 180*
Depreciation	(7 780)	
Carrying value at the end of the financial year	**19 840**	
Cost	37 800	*40 000 - 2 200*
Accumulated depreciation	(17 960)	*11 200 +7 780 -800- 220*

ACTIVITY 3 : TANGIBLE ASSETS **GAUTENG P2 JUNE 2023**

KG TRADERS
You are provided with information relating to KG Traders on 30 June 2023, the nd of the accounting period:

REQUIRED:

Use the information given to complete the following:

3.1.1 Depreciation on vehicles for the year ended 30 June 2023. Use the table Provided as a guide. (16)

3.1.2. Asset Disposal Account in the General Ledger (8)

3.1.3 Prepare Note 3 on Tangible Assets. Show calculations where necessary (19)

INFORMATION:

Balances on 1 July 2022

	Cost	**Accumulated depreciation**	**Carrying value**
Land and buildings	400 000	(0)	400 000
Vehicles	300 000	(76 000)	224 000

TRANSACTIONS

30 September 2022

- Extension to the building at the cost of R120 000
- Repairs to the storeroom cost the owner R25 000

31 December 2022

- Traded in an old vehicle for R55 000 on a new vehicle for R150 000 from Jozi Motors. The vehicle was bought on 1 July 2020 or R100 000.

Calculation of Depreciation

- On vehicles at 20% per annum on book value

3.2 INTERNAL CONTROL OF ASSETS

REQUIRED:
Answer the question related to the case study below.

INFORMATION:

Jeanette Row s is the owner of Hair Online, an online store which sells hair products delivered to your do r. Jeanette recently bought a building in Springs which she uses as the office as well as the storage facility. The business has
2 mini vans, which Jeanette purchased second hand: each with their own driver, 1 laptop and 1 printer. Jeanette has asked for your help with the following:

3.2.1 Jeanette is aware that most assets lose value due to normal wear and tear.
Which fixed asset does not normally depreciate at the end of the financial year?
Briefly explain why this asset does not depreciate. (2)

3.2.2 Jeanette takes the laptops home every day for her children to use so they can access their online lessons.
Explain how the depreciation will be dealt with for these laptops. Refer to the applicable GAAP principle in your answer. (3)

3.2.3 Jeanette noticed that one of the mini van's kilometer readings is higher than it should be. Give ONE practical solution on how she can solve this issue. (2)

ANSWER SHEET 3.1.1 DEPRECIATION

	Amount for this year
NEW:	
SOLD: **Year:1** **Year:2** **Year:3 Total:**	
OLD:	
Total depreciation for the year:	

3.1.2									
Dr			**Asset Disposal Account**				**N6**		**Cr**
									8

3.1.3 Fixed Assets	**Land and buildings**	**Vehicles**
Carrying value 1/7/2022		
Cost		
Accumulated depreciation		
Movements		
Additions		
Disposals		
Depreciation		
Carrying value 30/6/2023		
Cost		
Accumulated depreciation		

3.2 INTERNAL CONTROL OF ASSETS

3.2.1	Jeanette is aware that most assets lose value due to normal wear and tear. Which fixed asset does not normally depreciate at the end of the financial year? Briefly explain why this asset does not depreciate.	
		(2)

3.2.2	Jeanette takes the laptops home every day for her children to use so they can access their online lessons. Explain how the depreciation will be dealt with for these laptops. Refer to the applicable GAAP principle in your answer.	
		(3)
3.2.3	Jeanette noticed that one of the mini van's kilometer reading is higher than it should be. Give ONE practical solution on how she can solve this issue.	
		(2)

Management or internal control of tangible assets

- Purchases of assets should be authorised by management
- An internal auditor must ensure that proper records and documentation relating to fixed assets are in place.
- All fixed assets should be recorded in a Fixed Asset Register.

(Each asset will have a separate register)

- Receipts /invoices should be proof of purchase for insurance and external audit purpose
- Fixed assets purchased must be labelled / bar coded or a serial number given for identification and asset verification.
- Regular stock taking of assets and comparing against the asset register
- Signing in and out of assets to track where they are and who used them
- The movement of assets must be recorded in a logbook, e.g., vehicles
- All fixed assets must be insured against fire, theft, etc.
- Install tracking devices in motor vehicles and other assets.

SESSION 4: TANGIBLE ASSETS

WORKED EXAMPLE: ASSETS BOUGHT AND SOLD DURING THE YEAR

INFORMATION

The financial year of BBB Traders ends on 29 February 2024.

SOLUTION - ASSETS BOUGHT AND SOLD DURING THE YEAR

Calculation for carrying value for new and remaining assets:

	Total Assets	Sold Asset	Remaining Assets
Cost	312 000 -	76 000 =	236 000

Acc Depreciation	(104 000) -	(34 200) * =	(69 800)
Carrying Value	208 000 -	41 800 =	166 200

Calculate Depreciation for each category of assets:

Sold	Old	New
41 800 x 20% x 6/12 = 4 180*	166 200 x 20% = 33 240	200 000 x 3/12 x 20%=10 000
Total Depreciation: 4 180 + 33 240 + 10 000 = 47 420		

GENERAL LEDGER OF BBB TRADERS

VEHICLES									
2023 Mar	1	Balance	b/d	236 000	2024 Feb	29	Asset disposal	GJ	76 000
2023 Dec	1	Bank		200 000			Balance	c/d	360 000
				436 000					436 000
2024 Mar	1	Balance	b/d	360 000					

Note: Each amount is recorded at cost in the Asset Account.

34 200* + 4 180* = 38 380
Depreciation of asset sold

33 240 + 10 000
Remaining and new asset

Depreciation of an asset sold

Accumulated depreciation on vehicles									
2024 Feb	29	Asset disposal	GJ	**38 380	2023 Mar	1	Balance	b/d	104 000
					Aug	31	Depreciation	GJ	4 180
		Balance	b/d	113 040	2024 Feb	29	Depreciation	GJ	43 240
				151 420					151 420
					2024 Mar	1	Balance	b/d	113 040

***NOTE:** When you sell an asset you need to remove the cost price of the asset and the accumulated depreciation from the books of the business.*

Asset disposal									
2023 Aug	31	Vehicle	GJ	76 000	2023 Aug	31	Accumulated depreciation on vehicle	GJ	*38 380
		Profit on sale of an asset	GJ	9 580			Debtors control	CRJ	47 200
				85 580					85 580

NOTE 3 ON TANGIBLE ASSETS		*Calculations*
	Vehicles	
Carrying value at the beginning of the financial year	**208 000**	
Cost	312 000	
Accumulated depreciation	(104 000)	
Movements		
Additions at cost	200 000	
Disposals at carrying value	(37 620)	*76 000 - 34 200 - 4 180 = 37 620*

Depreciation	(47 420)	*4 180 + 33 240 + 10 000 = 47 420*
Carrying value at the end of the financial year	**322 960**	*312 000 -76 000 + 200 000 = 436 000*
Cost	436 000	
Accumulated depreciation	(113 040)	*104 000 + 47 420- 34 200 – 4 180 =113 040*

ACTIVITY 1 (EC P1 NOVEMBER 2023)

FIXED (TANGIBLE) ASSETS

The information relates to SANDI BROTHERS for the financial year ended 28 February 2023

REQUIRED:

Calculate the missing figures indicated by **(i)** to **(iii)** on the Fixed Asset Note. (12)

INFORMATION:

A. Note to the Statement of Financial Position:

FIXED ASSETS	**BUILDINGS**	**VEHICLES**	**EQUIPMENT**
Carrying value (1 March 2022)		1 190 000	360 000
Cost	**(i)**	1 950 000	970 000
Accumulated depreciation	0	(760 000)	(610 000)
Movements			
Additions	500 000	0	270 000
Disposals	0	**(ii)**	0
Depreciation	0	(270 000)	**(iii)**
Carrying value (28 Feb. 2023)			
Cost	6 150 000		
Accumulated depreciation			

B. Additional Information

- Depreciation is calculated as follows:
  Equipment – 10% p.a. on carrying value.
  Vehicles – 15% p.a. on cost.

- During the financial year, extensions to the buildings were completed.

- An old vehicle, cost price R300 000, was sold at carrying value on 31 August 2022. The accumulated depreciation on this vehicle was R240 000 on 1 March 2022.

- New equipment was purchased on 1 November 2022.

WORKINGS	ANSWER
(i) Cost price of buildings on 1 March 2022	
(ii) Carrying value of the vehicle sold	
(iii) Total depreciation on equipment	

ACTIVITY 2: GP NOV 2023 P1

FIXED ASSETS NOTE

GOODY SHOE TRADERS

You are provided with the following information from the records of Goody Shoe Traders. The financial year end is 31 December 2023.

REQUIRED:

2.1.1 Calculate the total depreciation on equipment for the year ended 31 December 2023. (4)

2.1.2 Complete the Fixed Assets Register for the vehicle sold. (5)

2.1.3 Calculate the depreciation on the old vehicles for the year ended 31 December 2023. (4)

2.1.4 Complete the Fixed Assets Note to the Financial Statements on 31 December 2023. (12)

INFORMATION:

INFORMATION:

A. Extract of a Pre-adjustment Trial Balance of Goody Shoe Traders. List of balances on 31 December 2023

Vehicles	2 680 000
Equipment	810 000
Accumulated depreciation on vehicles	1 060 000
Accumulated depreciation on equipment	240 000

B. Equipment

- New equipment with a cost price of R120 000 was purchased on 1 October 2023. No entries have been made.

- Equipment is depreciated at 20% p.a. using the cost price method.

C. Vehicles

- One of the delivery vehicles was sold for R190 000 on 1 July 2023. The vehicle was

purchased on 1 July 2021 for R320 000. • Vehicles are depreciated at 10% p.a. using the diminishing balance method.

2.1.1

Depreciation on equipment	**AMOUNT**
Old Equipment:	
New Equipment:	
Total depreciation for the year:	

2.1.2

Extract of fixed asset register of goody shoe traders for vehicles sold

EXTRACT OF FIXED ASSET REGISTER OF GOODY SHOE TRADERS FOR VEHICLES SOLD				
Delivery vehicle (sold)			**COST PRICE = R320 000**	
Date	**Current depreciation**	**Accumulated depreciation**	**Carrying value**	**Calculation**
31 Dec 2021	**16 000**	**16 000**		
31 Dec 2022				
1 Jul 2023				

2.1.3

Depreciation on old vehicles	**AMOUNT**
SOLD	

OLD	
Total depreciation for the year:	

	VEHICLES	**EQUIPMENT**
Carrying value at the beginning of the year		
Cost	**2 680 000**	**810 000**
Accumulated depreciation	**(1 060 000)**	**(240 000)**
Movements		
Additions at cost		
Disposals at carrying value		
Depreciation		
Carrying value at end of the year		
Cost		
Accumulated depreciation		

ACTIVITY 3: EC NOVEMBER 2022 P1

LULU TRADERS

The following information relates to the financial year ended 30 June 2023.

REQUIRED:

Calculate the missing figures denoted by (i) to (iv) on the fixed asset note (14)

INFORMATION:

A. **FIXED ASSET NOTE:**

	LAND AND BUILDINGS	**EQUIPMENT**	**VEHICLES**
Carrying value on 1July 2022	3 000 000	**(ii)**	800 000
Cost	3 000 000	420 000	1 080 000
Accumulated depreciation		(160 000)	(280 000)
Additions at cost	760 000	160 000	
Disposal at carrying value			**(iv)**
Depreciation for the year		**(iii)**	
Carrying value on 30 June 2023			
Cost	**(i)**	580 000	720 000
Accumulated depreciation			

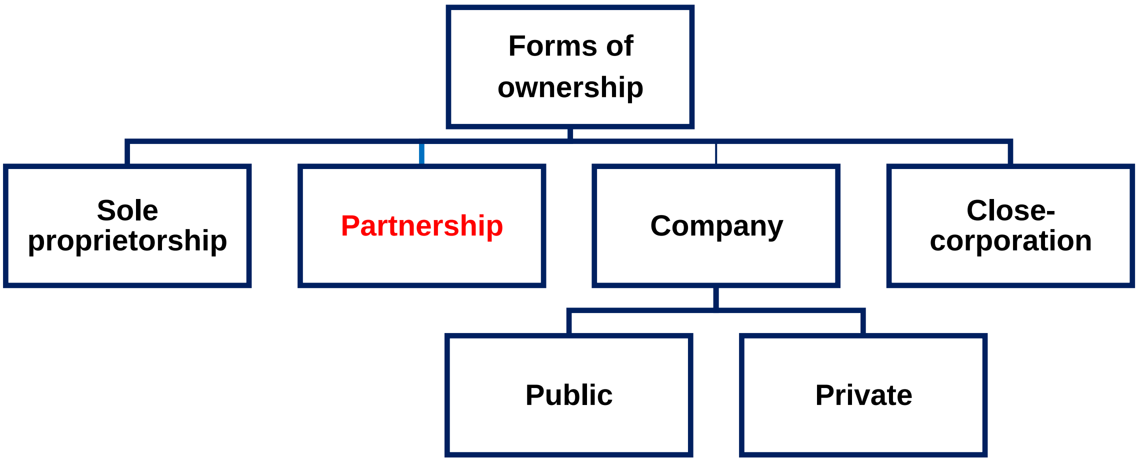
B. **Information from the fixed asset register:**

- Depreciation on equipment is calculated at 10% p.a. on the diminishing balance.
- New equipment was purchased on 1 October 2022.
- Depreciation on vehicles is calculated at 15% p.a. on cost.
- A delivery vehicle was sold for R112 000 cash on 1 March 2023. The cost price was R360 000 and accumulated depreciation on 1 July 2022 amounted to R216 000.

Calculate the missing figures in the fixed asset note:		
	Workings	**Answer**
i		
ii		
iii		

iv		

SESSION 5: PARTNERSHIP LEDGER ACCOUNTS FORMS OF OWNERSHIP



Forms of ownership	
Sole proprietorship /Trader	It is the simplest form of ownership that is owned by **one person**. It is suitable for businesses that require little capital and can be managed by one person, examples are coffee shop, bakery, printers etc.

Partnership	It is a legal agreement between **two** or **more** persons **not exceeding twenty**, in a commercial or professional environment whereby skills, assets are combined with the aim of earning and sharing profit or losses.
Public company	Is formed by an association of people with a common profit motive, It has a **legal status** and it is formed by shareholders **not fewer than seven.**
Private company	Is formed by an association of people with a common profit motive, It has a **legal status** and it is formed by **one** or **more** shareholders **not exceeding fifty.**
Close corporation	It is a simple and inexpensive form of business that has a **legal status** .It is suitable for **one** or **more** entrepreneurs but **not exceeding ten** members.

Reasons for converting Sole proprietorship to Partnership

- The sole proprietorship may become too big for one person to manage or handle.
- More capital can be needed and a new partner may provide such capital.
- Additional skills and expertise may be required.
- The costs of the sole trader will be reduced or shared with the partner. Expand the business and maximise profits.

Partnership Agreement

Is the contract between the partners. The partnership agreement can be **verbal or in writing.** The written agreement is preferable to prevent any future differences of opinion between the partners.

The following information is contained in the partnership agreement:

- The name of the business and the names of partners.
- The nature and objective of the business, e.g. a product or service to be provided.
- The amount and type of capital contributed by the business.
- Will stipulate the amount of drawings which can be taken by each partner.
- The ratio or way profits and losses are shared between the partners.
- The right of the partner to a salary, bonus, commission, interest on capital contributed, and the amounts payable in respect of these expenses.
- Admission of new partners or withdrawal, retirement or death of existing partner.
- Whether the financial statements of the partnership will require an audit. Control or authority each partner has (managerial status) Internal control measures such as

safeguarding of assets.

NOTE: When forming a partnership its preferable to get a lawyer to draw up a contract or partnership agreement

Legal status of a partnership

Legally a partnership agreement binds the partners, but a partnership is not a legal person. It cannot sue or be sued, only the partners will be sued.

Advantages and disadvantages of sole trader and partnership

Sole proprietorship	
Advantages	**Disadvantages**
• It is easy and inexpensive to set up. • The owner is entitled to all the profits. • The owner makes decisions concerning the business. • The owner has personal interest in the business.	• The owner has unlimited liability, he is responsible for all the debts of the business. • Their capital and assets is usually limited, they can't borrow large sums of money from the banks or other lenders. • It lacks continuity, normally when the owner dies or declared insolvent the business dissolves. • It's difficult to attract competent employees because prospects for promotion or personal growth are restricted or limited.

Partnership	
Advantages	**Disadvantages**

• Easy and inexpensive to establish. • Partners may possess specific assets and expertise that can be used to the benefit the business. • Responsibilities are spread among two or more partners. • The business risks are shared, that increases the security for partners.	• The partners have **unlimited liability** to their capital contributions. • It **lacks continuity**, in the event of death, resignation, insolvency of a partner the partnership is dissolved. • Disagreements may have the effect of delaying the decision-making. • The partnership has greater capacity to expand but the contributions are limited to the funds that can be raised by each partner. • All partners are bound by contracts entered into by one partner, an incapable partner can cause financial loss to the business.

EXAMPLE 1

KWA- MANINGI STORES

The following information is extracted from the financial records of Kwa-Maningi stores the partners are K.Kubheka and S.Sibanda, the end of the financial year is 28 February 2023.

REQUIRED

- Open the accounts in the General ledger
- Journalise the year –end adjustments and post to the General ledger
- Journalise the closing entries and post to the General ledger [No need to balance the Capital account]

Information from General Ledger of Kwa-Maningi Stores on 28 February 2023	
Capital: Kubheka	100 000
Capital: Sibanda	50 000
Current account: Kubheka (01 March 2022)	Cr 5 500
Current account : Sibanda (01 March 2022)	Cr 2 600
Drawings :Kubheka	30 000
Drawings :Sibanda	28 000

The net profit for the year amounts to R120 000.

The partnership agreement stipulates the following:

1. Salary allowance to Kubheka amounts to R42 000.
2. Salary allowance to Sibanda amounts to R21 000.
3. Profits and losses are to be shared between Kubheka and Sibanda in the ratio 2:1

EXPECTED SOLUTION

GENERAL JOURNAL OF KWA-MANINGI STORES: FEBRUARY 2023					
Doc	**Date**	**Details**	**Fol**	**Debit**	**Credit**
V1	28	Salary: Kubheka	N7	42 000	
		Current account: Kubheka	B5		42 000
		Salary due according to partnership agreement			
V2		Salary: Sibanda	N8	21 000	
		Current account: Sibanda	B6		21 000
		Salary due according to partnership agreement			
		Closing transfers			
		Appropriation	F3	63 000	
		Salary account: Kubheka	N7		42 000
		Salary account: Sibanda	N8		21 000

		Transfer of salaries			

GENERAL JOURNAL OF KWA-MANINGI STORES: FEBRUARY 2023

Doc	Date	Details	Fol	Debit	Credit
		Appropriation	F3	57 000	
		Current account :Kubheka	B5		***38 000**
		Current account :Sibanda	B6		***19 000**
		Transfer income in profit sharing ratio			
		Profit and loss account	F2	120 000	
		Appropriation account	F3		120 000
		Net profit transferred to Appropriation account			
		Current account: Kubheka	B5	30 000	
		Drawings :Kubheka	B3		30 000
		Transfer of drawings to current account			
		Current account: Sibanda	B6	28 000	
		Drawings :Sibanda	B4		28 000
		Transfer of drawings to current account			

Calculation for remaining profit :
120 000 – 42 000- 21 000 = 57 000

Kubheka :57 000 x 2/3 = 38 000	*Sibanda :57 000 x 1/3 = 19 000*

GENERAL LEDGER OF KWA-MANINGI STORES

BALANCE ACCOUNTS SECTION

Dr					CAPITAL : KUBHEKA		B1		Cr
					2022 March	01	Balance	b/d	100 000

Dr					CAPITAL : SIBANDA		B2		Cr
					2022 March	01	Balance	b/d	50 000

NOTE: There were no changes to capital contributed during the accounting period.

Dr		DRAWINGS ACCOUNT: KUBHEKA					B3		Cr
2023 Feb	28	Balance	b/d	30 000	2023 Feb	28	Current a/c : Kubheka	GJ	30 000

Dr		DRAWINGS ACCOUNT : SIBANDA					B4		Cr
2023 Feb	28	Balance	b/d	28 000	2023 Feb	28	Current a/c : Kubheka	GJ	28 000

Dr		CURRENT ACCOUNT : KUBHEKA					B5		Cr
2023 Feb	28	Drawings: Kubheka	GJ	30 000	2022 March	01	Balance	b/d	5 500
		Balance	c/d	55 500	2023 Feb	28	Salary :Kubheka	GJ	42 000
							Appropriation	GJ	38 000
				85 500					85 500
					2023 March	01	Balance	c/d	55 500

Dr		CURRENT ACCOUNT : SIBANDA					B6		Cr
2023 Feb	28	Drawings: Sibanda	GJ	28 000	2022 March	01	Balance	b/d	2 600
		Balance	c/d	14 600	2023 Feb	28	Salary :Sibanda	GJ	21 000
							Appropriation	GJ	19 000
				42 600					42 600
					2023 March	01	Balance	c/d	14 600

Interest on Capital

- It is compensation to partners for capital contributed to the partnership.
- Provision made for the interest on capital should be made according to the partnership agreement.
- The interest on Capital is not classified as an operating expense, it is an appropriation of the profit.
- The provision for interest on capital will be made even if the business can run at a loss.

EXAMPLE 2

The financial year of Kwa-Maningi stores ends on 31 December 2023.The rate of interest is 12% p.a.

REQUIRED

- Calculate the interest on capital for partners Joe and Sam and record in the General Journal.

INFORMATION

Capital: Joe (01January 2023)	150 000
Capital: Sam (01January 2023)	100 000

EXPECTED ANSWER

Calculation of interest on capital	
Joe	**Sam**
150 000 X12% = 18 000	100 000 x 12% = 12 000

GENERAL JOURNAL OF KWA-MANINGI STORES: 31 DECEMBER 2023

Doc	Date	Details	fol	Debit	Credit
V1	31	Interest on Capital	N9	18 000	
		Current account: Joe	B5		18 000
		Current account: Sam	B6		12 000
		Provision for interest on capital at 12% p.a.			
		Appropriation	F3	30 000	
		Interest on Capital	N9		30 000
		Closing transfer			

Bonus to partners

Bonus is an extra payment made to the employee by the management usually as:

- Reward for outstanding/good work
- Compensation for something (Dangerous work)
- Share out profits of a good year's trading
- Improve in the skills by employees – improve service delivery.
- The business can give a bonus to the employee who rendered the service that will save money to the business.

- Partners can receive a bonus for good services rendered to the partnership in addition to their share of the profit.
- Bonuses are not regarded as operating expenses, but they are distribution from the profits.
- Bonuses to partners should be stipulated in the partnership agreement.

Calculation of Bonuses

The following methods are applied when the bonus is calculated:

- Expressed as a percentage of the net profit.
- A fixed amount.
- A percentage of salaries of partners.

EXAMPLE 3

The following information is extracted from the financial records of ABC Traders with partners A.Sekele and N.Mbatha on 29 February 2024, the end of the financial year. **REQUIRED**

1. Draw up the following accounts in the general ledger, balance and close them off properly:
   - Current Account: A. Sekele
   - Current Account: N. Mbatha
   - Appropriation Account
2. Prepare note 7 and note 8

Information from General Ledger of ABC Traders on 29 February 2024	
Capital: A. Sekele	300 000
Capital: N. Mbatha	200 000
Current account: A. Sekele (01 March 2023)	Dr 9 500
Current account: N. Mbatha (01 March 2023)	Cr 12 000
Drawings: A. Sekele	60 000
Drawings: N. Mbatha	70 000

The net profit for the year amounts to 190 500.

The partnership agreement stipulates the following:

4. Salary allowance to A. Sekele amounts to R45 000 p.a.
5. Salary allowance to N. Mbatha amounts to R45 000 p.a.
6. Both partners are entitled to a bonus of 90% of their monthly salaries.
7. The interest on capital amounts to 12 % p.a.
8. Profits and losses are to be shared between A. Sekele and N. Mbatha in the ratio 2

EXPECTED ANSWER

GENERAL LEDGER OF ABC STORES

BALANCE SHEET SECTION

Dr		**CURRENT ACCOUNT: SEKELE**						**B6**	**Cr**
2023 March	01	Balance	b/d	9 500	2024 Feb	29	Salary: Sekele	GJ	45 000
2024 Feb	29	Drawings a/c: Sekele	GJ	60 000			Bonus: Sekele **[45 000 ÷ 12] x 90%**	GJ	3 375
		Balance	c/d	37 375			Interest on capital	GJ	36 000
							Appropriation	GJ	22 500
				106 875					106 875
					2024 March	01	Balance	c/d	37 375

Dr		**CURRENT ACCOUNT: MBATHA**						**B5**	**Cr**
2024 Feb	29	Drawings: Mbatha	GJ	70 000	2023 March	01	Balance	b/d	12 000
		Balance	c/d	25 625	2024 Feb	29	Salary: Mbatha	GJ	45 000
							Interest on capital	GJ	24 000
							Bonus: Mbatha **[45 000 ÷ 12] x 90%**	GJ	3 375
							Appropriation	GJ	11 250
				95 625					95 625

					2024 March	01	Balance	c/d	25 625

FINAL ACCOUNTS SECTION

Dr		APPROPRIATION ACCOUNT					F3		Cr
2024 Feb	29	Salary: Sekele	GJ	45 000	2024 Feb	29	Profit and loss	GJ	190 500
		Salary: Mbatha	GJ	45 000					
		Bonus: Sekele	GJ	3 375					
		Bonus: Mbatha	GJ	3 375					
		Interest on capital **[24 000+ 36 000]**	GJ	60 000					
		Current a/c: Sekele	GJ	22 500					
		Current a/c: Mbatha	GJ	11 250					
				190 500					190 500

CALCULATIONS

Sharing of profits	
190 500 – 45 000 - 45 000 - 3 375- 3 375 -24 000-36 000 = 33 750	
Share the remaining profit	
Sekele	**Mbatha**
(33 750 x 2) ÷ 3 = 22 500	(33 750 x 1) ÷ 3 11 250

Primary distribution

- **Salary**
- **Interest on capital**
- **Bonus**

NOTES TO THE BALANCE SHEET ON 29 FEBRUARY	2024		
	R	R	R
7.Capital Accounts	**Sekele**	**Mbatha**	**Total**
Balance on 01 March 2023	300 000	200 000	500 000
Contribution of capital during the financial year	xxxx	xxxx	xxxx
Withdrawal of capital during the year	(xxxx)	(xxxx)	(xxxx)
Balance on 29 February 2024	300 000	200 000	500 000
8.Current Accounts	**Sekele**	**Mbatha**	**Total**
Appropriation of net profit			
Salaries	45 000	45 000	90 000
Interest on capital	36 000	24 000	60 000
Bonus	3 375	3 375	6 750
Primary division of profits	84 375	72 375	156 750
Final division of profits	22 500	11 250	33 750
Profit per income statement	106 875	83 625	190 500
Drawings during the year	(60 000)	(70 000)	(130 000)
Retained income for the year	46 875	13 625	60 500
Balance on 01 March 2023	(9 500)	12 000	2 500
Balance on 29 February 2024	**37 375**	**25 625**	**63 000**

Final distribution of profit: R33 750

- **Sekele: R22 500**
- **Mbatha: R11 250**

ACTIVITY 1

REXEL STORES

The following balances /totals appeared in the books of Rexel Stores on 29 February 2024, the end of the financial year. The partners are Alex and Rex.

REQUIRED

1. Draw up the following accounts in the general ledger, balance and close them off properly:
    - Current Account: Alex
    - Current Account: Rex
    - Appropriation Account

2. Prepare note 7 and note 8

All the calculations must be converted to the nearest rand.

INFORMATION A:

Information from General Ledger of Rexel Stores on 29 February 2024		
	Alex	**Rex**
Capital (01 March 2023)	160 000	100 000
Current account: (01 March 2023)	Cr 7 000	Cr 6 500
Drawings	250 800	157 500
Profit and loss		427 000

INFORMATION B:

No entries have been made for the following transactions:

- Rex registered his personal Van worth R40 000 in the same partnership on 01 September and requested that this be regarded as an additional contribution. His partner Alex agreed.
- A salary cheque of R14 000 for February 2024 issued to Rex was erroneously posted into the Drawings account of Alex.

INFORMATION C:

The partnership agreement stipulates the following:

- The partners are entitled to the monthly salaries, Alex R14 500, and Rex R14 000.The salary of Alex was increased by R60 000 per annum on 01 December 2023.
- The interest on capital must be provided for at 15% p.a.
- The balance of the profit and loss is to be shared in proportion to capital balances on 29 February 2024

ACTIVITY 1

GENERAL LEDGER OF REXEL STORES: 29 FEBRUARY 2024

BALANCE SHEET ACCOUNTS SECTION

Dr		CURRENT ACCOUNT: ALEX						B5	Cr

Dr		CURRENT ACCOUNT: REX						B6	Cr

FINAL ACCOUNTS SECTION

Dr		APPROPRIATION ACCOUNT						F3	Cr

NOTES TO THE BALANCE SHEET ON 29 FEBRUARY 2024			
	R	**R**	**R**
7.Capital Accounts	**Alex**	**Rex**	**Total**
8.Current Accounts	**Alex**	**Rex**	**Total**

ACTIVITY 2

SG TRADERS

You are provided with the information relating to SG Traders. The partners are Grey and Simon.

REQUIRED

1. Calculate the correct Net Profit
2. Prepare the following accounts in the ledger for the financial year ended 28 February 2023.
   - Current Account: Grey
   - Current Account: Simon
   - Appropriation Account

INFORMATION

1. The following balances appeared in the Ledger on 28 February 2023
   - Capital: Grey, R500 000
   - Capital: Simon, R300 000
   - Current Account: Grey (on 01 March 2022) R22 000 (favourable)
   - Current Account: Simon (on 01 March 2022) R14 000 (unfavourable)
   - Drawings: Grey (R110 000)
   - Drawings: Simon (R100 000)
   - Equipment R150 000
   - Accumulated depreciation on equipment (on 01 March 2022), R65 000

2. The bookkeeper calculated the net profit to be R420 000, but the following adjustments had not been recorded.
   - Bank charges per the February 2023 bank statements, R800
   - Interest on fixed deposit per February statement, R1 300
   - Depreciation of equipment at 10% on the diminishing balance method.
   - Trading stock taken by partner Grey on 28 February 2023, the selling price was R2 400 and the cost price was R1 800.

3. The partnership agreement provides the following:
   - Salary to Grey, R11 000 per month
   - Salary to Simon, R10 000 per month
   - Interest on capital at 10% p.a., Simon had increased his capital by R80 000 halfway through the financial year, this has not been recorded.
   - The remaining profits are to be shared between Grey and Simon in the ratio 3:2

ACTIVITY 2

GENERAL LEDGER OF SG TRADERS :28 FEBRUARY 2023

Dr		CURRENT ACCOUNT: GREY						B5	Cr

Dr		CURRENT ACCOUNT: SIMON						B6	Cr

FINAL ACCOUNTS SECTION

Dr		APPROPRIATION ACCOUNT						F3	Cr

CALCULATION OF THE CORRECT NET PROFIT	

GAAP CONCEPTS

GAAP – Accounting principles that businesses should follow when preparing the financial statements and financial information. The purpose is to provide accurate information to the users of the Financial statements.

CONCEPT	EXPLANATION
Going Concern	The concept is based on the assumption that the business **will continue to operate** in the foreseeable future. The financial statements assume no intention to liquidate or close the business.
Matching or Accrual concept	Income earned during a particular financial period and expenses incurred in generating the income, must be brought into account (matched) during the specific financial period **when they occur** not when the cash for the transaction is paid or received.
Prudence	Losses must be provided for as soon as they are anticipated, but profits are not recognised until they are realised. In simple words, it is safer to understate than to overstate profits. An accountant must report in the most pessimistic or conservative manner.
Historic cost	The concept covers the valuation of tangible assets that have been purchased or acquired by the business. The tangible assets are to be valued at historical cost, i.e., the amount paid on acquisition.
Materiality	Financial statements should **disclose all items that are material or important enough** to affect evaluation or decisions.
Business entity	The financial affairs of a business must be **kept separate** from the financial affairs of the affairs of the owners.

ACTIVITY 3

The information given below is extracted from the books of Simunye Traders, a partnership business with Neo and Rocks as partners. The financial period ends on the last day of February each year.

Balances / totals on 29 February 2024	
Capital: Neo	R208 000
Capital: Rocks	184 000
Current account: Neo (01 March 2023)	(Cr) 2 500
Current account: Rocks (01 March 2023)	(Dr)11 200
Drawings: Neo	87 500
Drawings: Rocks	91 000

The net profit for the year, ***before*** the transactions below have been taken into account, amounted to R208 000.

The following entries must still be taken into account:

- Neo made cash contribution on 29 February 2024, the proportion of his capital balance to Rocks is 3:2 ***after*** the contribution. No entry was made for this transaction in the books. The capital contribution of Rocks remains unchanged.
- Rocks returned the merchandise which was unsuitable for his personal use, before the stocktaking was completed, the cost price is R500.The records were not updated on goods returned.
- The salary of 6 500 paid to Neo for February 2024 was posted to the salaries and wages account by mistake and treated as a business expense. The error must be corrected.

The partnership agreement provides for the following:

A. Each partner is entitled to the salary of R6 500 per month.
B. Interest on capital balances at the beginning of the financial year amounts to 8% p.a. On 01 December 2023 the partners increased the interest on capital to 12 % p.a.
C. The remaining profits and losses must be shared in proportion to their capital balances at the beginning of the year.

ACTIVITY 3

Notes to the Balance Sheet on 29 February 2024			
	R	**R**	**R**
CAPITAL ACCOUNT	**Neo**	**Rocks**	**Total**
Balance on 01 March 2023			
Contribution of capital during the financial year			
Withdrawal of capital during the year			
Balance on 29 February 2024			
CURRENT ACCOUNTS	**Neo**	**Rocks**	**Total**

Appropriation of net profit			
Salaries			
Interest on capital			
Primary division of profits			
Final division of profits			
Profit per income statement			
Drawings during the year			
Retained income /loss for the year			
Balance on 01 March 2023			
Balance on 29 February 2024			

Dr		**APPROPRIATION ACCOUNT**					**F3**		**Cr**