GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

REMOTE LEARNING ACTIVITY BOOK

(RELAB)

ACCOUNTING

GRADE: 11

TERM 1- 4

LEARNER'S GUIDE

GGT2030
GROWING GAUTENG TOGETHER

A. TABLE OF CONTENTS

B. INTRODUCTION AND PURPOSE OF THE RELAB

The pandemic has forced schools to resort to the implementation of rotational timetables-where learners who are at home during normal schooling must continue learning. Hence RELAB as a strategy towards the deployment of remote learning.
The RELAB is underpinned by the following Legislative demands:

a) Responding to GDE Strategic goal 2 promoting quality education across all classrooms and schools
b) **DBE Circular S13 of 2020** the requires the GDE to support the implementation of the Recovery Annual Teaching Plan (RATP)
c) **GDE Circular 11 of 2020** requiring districts to issue Learning Activity Packs to support schools for lockdown learning. Understanding learning constraints at home as majority of learners do not have access to devices or data to use for online learning. Many households are depending on schools to provide them with learning resources packs

RELAB is designed in a study guide format, where the content is briefly explained with related concepts as revision, in the form of e.g. notes, mind-maps, concept progression from the previous grade/s followed by exemplar exercises then practice exercises/problems. The exercises are pitched at different cognitive levels to expose learners at Grade 10 & 11 to these different cognitive levels of questioning. The NSC diagnostic reports in different subjects have revealed that learners fail to analyse questions and as a result fail to respond accordingly.

The RELAB is intended to ensure that learners work on exercises as per topics taught while at school. These exercises must be completed at home, fully and learners will receive feedback as groups or individually at school. It is therefore of paramount importance that teachers mark the work with learners in class, as a way of providing feedback. Educators must diagnose learner responses, remediate where necessary and plan further intervention.

Educators are encouraged to create WhatsApp groups to remind learners on what is expected of them in a particular week/ day(s). There shouldn't be a backlog on curriculum coverage as content will be covered simultaneously. Feedback from learners at home will confirm usage of the RELAB material.

RELAB further prepares learners for formal assessment.

1. BANK RECONCILIATION

BASIC EXPLANATION

- Bank reconciliation is the process by which the bank account balance in an entity's books is reconciled to the balance in the most recent bank statement. Any difference between the two figures needs to be examined and, if appropriate, be rectified to bring the two records into agreement.

Reasons for preparing the Bank Reconciliation

- To ensure that all entries relating to cash transactions are accurately recorded.
- Fraudulent transactions can be detected.
- Errors or omissions can be detected

It also enables the business or individual to keep track of the following:

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

CONCEPTS UNIQUE TO BANK RECONCILIATION	
Current Bank account	An account from which money can be drawn immediately without notice, payments can be made by cheque, electronic transfers or debit card.
Bank charges	Amounts deducted by the bank as payment for the services it provides. This is reflected on the statement.
Bank overdraft	The business has withdrawn more money than was deposited in the bank account.
Interest on overdraft	Represents a payment (expense) to the bank for an overdraft bank balance.
Interest on current account	A receipt (income) from the bank for reflecting a favourable bank balance.
Credit card	This is used to buy goods or services from suppliers, and the amounts used is paid back to the bank at a later date.
Debit card	This is used to buy goods/services and the amount is immediately deducted from your bank account balance.
Deposit slip	This form is used to record the total cash and cheques received for the day and is proof of the amount deposited in the current account.
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 RECORDS OF THE BUSINESS

Records of the business	Records of the bank
• Cash transactions recorded in the **CRJ** and **CPJ** and ultimately posted to the **Bank Account**. • Cash received and deposited is reflected on the **DEBIT** side of the Bank Account. • Payments made by the business are reflected on the **CREDIT** side of the bank account.	• A **statement** sent by bank to the business reflects all the transactions affecting the balance of the business. • The Bank will **CREDIT** all **deposits** made by the business. • **Payments, withdrawals, debit orders** made by the business are recorded on the **DEBIT** side of the bank statement.

FAVOURABLE AND UNFAVOURABLE BANK BALANCE

Favourable

Business Records

A favourable balance is reflected on the **DEBIT** side of the Bank account

Bank Records

A favourable bank balance is reflected on the **CREDIT** side of the Bank statement.

Unfavourable

Business records

An unfavourable bank balance (bank overdraft) is reflected on the **CREDIT** side of the Bank account.

Bank Records

An unfavourable bank balance is reflected on the **DEBIT** side of the Bank statement.

Favourable balance

- is an asset to the business
- is a liabilty to the bank

Unfavourable balance

- is a liability to the business
- is an asset to the Bank

STEPS TO FOLLOW WHEN COMPLETING THE BANK RECONCILIATION:

Steps		***Action and Reconciliation***	
Step	**1:**	Compare the CRJ with the Credits (+) entries on the bank statement. Compare the CPJ with the Debits (-) entries on the bank statement.	Tick off (√) all the entries that agree in the Journals and the Bank statement and, *circle* *entries* that only appear in a journal or that only appear on the bank statement.
		The above action will be classified as step one only when the entity has just opened the current bank account or just started to operate as a business.	
Step	**2.1**	*The entries circled in the Bank statement*	*Record those entries in CRJ OR CPJ* ***(except errors made by the bank)***
	2.2	Entries circled in the CRJ and CPJ	Record entries in Bank Reconciliation ***(except errors made by the business)***
	2.3	Total the CRJ and CPJ	
Step	**3:**	Draw up the Bank account and balance it.	
Step	**4:**	Draw up the Bank Reconciliation Statement ***Assume that the above records are completed at the end of February 2021***	

NOTE THE FOLLOWING:

- Errors made by the business will be corrected in the Cash Journals
- Errors made by the Bank will be corrected in the Bank Reconciliation statement

Steps		***Action and Reconciliation for the end of March 2021***	
Step	**1:**	Compare Bank Reconciliation Statement for February 2021 with Bank statement of March 2021.	*If the entries appear in the Bank Statement, only tick it off.* *If the entry does not appear on the bank statement, circle and record the entry again in the current month's BRS.*
Step	**2.1**	*Entries circled in the Bank reconciliation statement for February 2021.*	*Record those entries again in Bank Reconciliation – March 2021* *Entries could involve the outstanding deposit if it the business has not taken the decision to write the amount off.*
		These steps will be followed by the steps that were followed In February, check the information above.	

EXAMPLE : BANK RECONCILIATION

The bookkeeper of Majozi Stores received the Bank Statement from the First Rand Bank on 31 January 2021.

REQUIRED:

1. Compare the Bank Statement with the CRJ and the CPJ.
2. Supplement (add the relevant extra entries to Cash Journals and total the Bank columns only)
3. Post the bank totals in the CRJ and CPJ to the bank account in the general ledger
4. Draw up the Bank Reconciliation Statement on 31 January 2021
5. Explain one reason why it is important for a business to prepare a monthly Bank Reconciliation Statement

INFORMATION:

A. Majozi Stores
Cash Receipt Journal for January 2021

Doc	Day	Details	Bank	Sales	Cost of sales	Sundry Accounts	
						Amount	**Details**
CRT	10	S. Marray	2 500			2 500	Debtors control
28	17	DF Malan	2 800			2 800	Debtors control
CRT	30	Sales	7 500	7 500	5 000		
			12 800	**7 500**	**5 000**	**5 300**	

B. Cash Payment Journal for January 2021

Doc	Day	Details	Bank	Sundry Accounts	
				Amount	**Details**
EFT91	19	Mino Stores	3 750	3 750	Equipment
EFT92	20	CNA	350	350	Stationery
EFT93	26	Faff Traders	1 200	1 200	Creditors control
EFT94	30	Karl Motors	2 300	2 300	Repairs
			7 600	**7 600**	

C. Bank Statement received from First Rand Bank

Date	Transaction details	Debit	Credit	Balance
1 Jan	Opening balance			9 200
10 Jan	Deposit: S Marray		2 500	11 700
15 Jan	Debit order: OBE Insurers	1 400		10 300
17 Jan	DF Malan		2 800	13 100
19 Jan	EFT (Mino Stores)	3 750		9 350
20 Jan	EFT (CNA)	350		9 000
21 Jan	Deposit (EFT by tenant: S Omar)		1 500	10 500
25 Jan	Debit order: Multi choice	1 000		9 500
26 Jan	EFT (Faff Traders)	1 200		8 300
29 Jan	Cash deposit fee	95		8 205
31 Jan	Service fee	70		8 135
31 Jan	Interest income		240	8 375

ADDITIONAL INFORMATION:

1. The bank account in the General ledger has a favourable balance of R9 200 on 1 January 2021
2. The Bank Statement is received on the 28th of each month.

EXPECTED ANSWER

Majozi Stores

1. Cash Receipt Journal for January 2021

Doc	Day	Details	Fol	Bank	Sundry Accounts	
					Amount	**Details**
	1	Totals		12 800		
B/S	31	S Omar		1 500	1 500	Rent Income
B/S	31	First Rand bank		240	240	Interest Income
				14 540		

2. Cash Payment Journal for January 2021

Doc	Day	Details	Fol	Bank	Sundry Accounts	
					Amount	**Details**
	1	Totals		7 600		
B/S	31	OBE Insurers		1 400	1 400	Insurance
B/S		Multi Choice		1 000	1 000	DSTV fees
B/S		First Rand Bank		165	165	Bank charges
				10 165		

3. Bank account

Jan	1	Balance	b/d	9 200	Jan	31	Total payments	CPJ	10 165
	31	Total Receipts	CRJ	14 540			Balance	c/d	13 575
				23 740					23 740
Feb	1	Balance	b/d	13 575					

4. **Bank Reconciliation Statement on 31 January 2021**		
	Debit	**Credit**
Cr Balance as per bank statement		8 375
Cr Outstanding deposit		7 500
Dr Outstanding EFT's		
EFT 94	2 300	
Dr Balance as per bank account	13 575	
	15 875	15 875

5. **Explain ONE reason why it is important for a business to prepare a monthly Bank Reconciliation Statement.**
• To confirm the accuracy of the bank balance in the business books with external source, the bank statement. • To identify errors and timeously do corrections • To follow up on outstanding deposits and EFT's • To update the bank balance with the amounts that were directly deducted or deposited to your account. e.g. bank charges, interest, debit orders etc.

ACTIVITY 1

Use the following Cash Journals of Chloe Traders and the Bank Statement received from AJ Bank to complete the following:

REQUIRED:

1.1 Complete the Cash Journals for January 2021. Enter the provisional totals first.

1.2 Post to the Bank account in the General ledger.

1.3 Prepare the Bank Reconciliation Statement on 31 January 2021

INFORMATION:

Chloe Traders

Cash Receipt Journal for January 2021						
Doc	**Day**	**Details**	**Fol**	**Bank**	**Sundry Accounts**	
					Amount	**Details**
CRT	2	Sales		1 900		
23	8	H Lene		4 800		
CRT	11	Sales		2 500		
				9 200		

Cash Payment Journal for January 2021						
Doc	**Day**	**Details**	**Fol**	**Bank**	**Sundry Accounts**	
					Amount	**Details**
EFT115	5	Icon Traders		2 200		
EFT116	7	City Treasurer		1 900	1 900	Water & Electricity
EFT117	11	S Sly		1 680		
EFT118	20	V Batim		6 400		
				10 280	1 900	

Bank Statement (Extract)				
Date	**Transaction details**	**Debit**	**Credit**	**Balance**
1 Jan	Balance b/f			13 890
2 Jan	Deposit		1 900	15 790
5 Jan	Electronic transfer (Icon Traders)	2 200		13 590
11 Jan	Deposit		2 500	16 090
	Electronic transfer (S Sly)	1 680		14 410
14 Jan	Cash deposit fee	29		14 381
20 Jan	Electronic transfer (V Batim)	6 400		8 981
28 Jan	Service fee	56		8 925
	Electronic transfer(tenant: S Mart)		2 400	11 325

ADDITIONAL INFORMATION:

1. The bank account in the General ledger has a favourable balance of R13 890 on 1 January 2021

2. EFT payment 118 on the 20 January 2021 appeared on the January bank statement with the correct amount of R5 400. Payment was made to a creditor in settlement of our account.

3. The Bank Statement is received on the 25th of each month.

ACTIVITY 2

2.1 Indicate whether the following statements are TRUE or FALSE: (3)

2.1.1 A payment made by EFT, must be recorded in the Cash payment journal when it reflects on the bank statement.

2.1.2 A business must record cash losses immediately when suspected according to the materiality concept of GAAP.

2.1.3 A debit balance on the bank statement indicates a bank overdraft.

2.2 Bank Reconciliation

Lucky Jimmy, the cashier of Franco's Deli, is in charge of collecting, receipting and banking all cash receipts as well as all payments done via EFT. He feels that there is no need to prepare a bank reconciliation statement because the bank keeps accurate records of all transactions as reflected on the bank statement.

REQUIRED:

2.2.1 Calculate the correct bank account balance in the General Ledger on 31 July 2020. (9)

2.2.2 Prepare a Bank Reconciliation Statement on 31 July 2020. (7)

2.2.3 Provide ONE reason why the internal auditor expressed concern about Lucky's job description. (2)

2.2.4 Explain to Lucky why it was necessary to prepare a bank reconciliation statement each month. Provide TWO points (4)

INFORMATION:

A
- Favourable balance as per bank account on 31 July 2020 was R11 743 before receipt of the bank statement from Money Bank.
- Balance as per bank statement on 31 July 2020. R?

B Items on the July bank statement but not shown in the Cash Journals:

	RAND
Service fees	45
Cash deposit fees	132
Interest income	23
Debit order payment for insurance to Xi Insurers. This amount appeared twice on the statement in error	800
Commission income from LUVLI Pastries	522
Direct deposit by debtor, Y Knot	189

C EFT payments made on 31 July 2016, were not on the bank statement:
EFT 1 for R675 and
EFT 2 for R2 010

D Deposit on 31 July 2016 for R3 935 was not on the bank statement.

ACTIVITY 3

The information was extracted from the records of Hilton Traders for June 2020.

REQUIRED:

3.1	Complete the Cash Journals for June 2020. (**Note**: The information from the Bank Statement was not taken into account)	(31)
3.2	Prepare the Bank Account on 30 June 2020.	(6)
3.3	Prepare the Bank Reconciliation Statement on 30 June 2020.	(9)
3.4	Provide TWO suggestions that the business can use to prevent a situation like the one experience on 26 May 2020 in the future.	(4)
3.5	Identify the problem that is revealed by the previous reconciliation, and list TWO internal control measures to solve this problem.	(5)
3.6	Refer to the debit order for R2 244. Provide a possible explanation how this may have occured, and provide advise on how this can be rectified.	(4)

INFORMATION:

A. Extract from the Bank Reconciliation statement on 31 May 2020:

Outstanding deposits: 17 May 2020	R32 100
26 May 2020	7 300
Outstanding EFT: No. 123	17 600
Unfavourable balance as per bank account	3 456

NOTE:

- The outstanding deposit of R32 100 appeared on the June 2020 bank statement.
- The outstanding deposit on the 26 May 2020 was reflected as R5 700 on the April statement. Upon enquiry, the bank confirmed that it was because of counterfeit notes included in the total deposit. This was cash received for repair services rendered. It was decided to write-off this difference.
- EFT 123 appeared on the Bank Statement for June 2020.

B. Provisional totals from the Cash Journals on 30 June 2020:

- Cash Receipt Journal, R56 200
- Cash Payment Journal, R67 400

C. The following information on the June 2020 Bank Statement from XXZ Bank did not appear in the June 2020 Cash Journals:

- Debit orders:

Pro Insurers	R5 890	Monthly insurance premium
Matjhabeng Metro	R6 000	R4 500 is for the business' rates and taxes and the balance is for the owner's private property.
Yen Bank	R5 300	Monthly repayment of loan

- EFT Fees, R189
- Cash handling fee, R112
- Service Fees, R292
- Interest on bank overdraft, R317
- A deposit from P. Nel, R11 600 for his monthly rent.
- A debit order for R2 244 appeared on the business bank statement, on 29 April 2020. This was not an account of the business and fortunately, the owner was able to instruct the bank to cancel this entry. This reversal will be reflected on the next statement.
- A direct deposit of R16 300 was wrongly reflected on the business Bank Statement. The bank will rectify the error.
- A deposit from N. Botha for R3 400 in settlement of his account of R3 500.

E. The following information in the June 2020 Cash Journals did not appear on the Bank Statement for June 2020:

- Outstanding deposit, R17 800
- EFT 654 for R5 555 to BP Suppliers for sanitizing supplies purchased.

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

Credit Purchases of goods

- **Credit purchase** happens when the business purchase goods or services and make the payments later.
- When goods are purchased on credit the supplier (creditor) will send us an **original invoice** and he keeps the copy of the invoice.
- The **invoice** will indicate the items that have been bought, the total amount owing and the **trade discount** if any.
- The transaction is now entered into the **Creditors' Journal** and posted to the creditor's personal account in the **Creditors' Ledger**

Return of goods to the supplier

- When goods are returned to the supplier the debit note is completed by the business, the original copy is sent to the creditor and the business keep the copy or duplicate.
- The debit note will also be sent to the supplier if the business has been overcharged or if the trading discount has been omitted.
- If the supplier approve the returns they will send to us the original credit note and they will keep the duplicate.
- This transaction will be recorded in the **Creditors Allowances Journal** ,the **Creditors Ledger** will be **debited** (reduced)

Goods Purchased
- Source document is original invoice.
- Source document of supplier is duplicate invoice

Goods returned
- Source document is duplicate debit note
- Original credit note from supplier is a supporting document

BASELINE ACTIVITY

Match the Column A with Column B

	COLUMN A	**COLUMN B**
1	Creditor	Book of first or original entry for credit purchases
2	Original Invoice	Discount allowed to traders
3	Creditors Ledger	List of amounts owed to creditors
4	Trade discount	An entity or a person who supplies goods or services and receive payment at a later date.
5	Creditors list	Items bought are not paid for in full at the time of purchase
6	Credit purchases	Source document used to record credit purchases
7	Creditors Control account	A creditors' account that records all the credit purchases, payments and discounts.
8	Creditors Journal	A summary of all transactions with creditors.

SOLUTION

COLUMN A		**COLUMN B**
1	Creditor	An entity or a person who supplies goods or services and receive payment at a later date.
2	Original Invoice	Source document used to record credit purchases
3	Creditors Ledger	A creditors' account that records all the credit purchases, payments and discounts.
4	Trade discount	Discount allowed to traders
5	Creditors list	List of amounts owed to creditors
6	Credit purchases	Items bought are not paid for in full at the time of purchase
7	Creditors Control account	A summary of all transactions with creditors.
8	Creditors Journal	Book of first or original entry for credit purchases

PROCEDURE FOLLOWED WHEN GOODS ARE PURCHASED ON CREDIT

Step 1	An **order form** will be submitted to the supplier, indicating exactly which goods are required.***(It must be authorised by the senior personnel)***
Step 2	The supplier will make up the order and send it to the business together with a **delivery note/invoice.**
Step 3	The goods delivered will be checked against the delivery note to make sure that the order is complete.
Step 4	If the invoice is correct it will be stamped and sent to the accounts department.
Step 5	The invoice will be checked against the order form to make sure that the order has been correctly completed. If it has not, then a follow-up must be made with creditors.
Step 6	Record the invoice in the **Creditor's journal**.
Step 7	The Creditor's journal will be posted to the: - General ledger - Creditor's ledger
Step 8	At the end of the month a **statement will be received** from the supplier (creditor) indicating how much money is owed by the business.
Step 9	- The statement will be checked against the records of the Creditor's account. - If they are the same, an amount will be transferred /paid to the creditor. - If they are differences between the statement and the Creditors Ledger that are resulting from errors ,omissions etc,they will be corrected or reconciled

Reconciliation of Creditors Control account and the Creditors List

- **Creditors Control Account –** is the General Ledger account that contains all related totals from the relevant Subsidiary Journals.
- The account balance verifies the accuracy of Creditors lists total.

Possible reasons for differences in the control account balance and the list of creditors are:

- Errors made on source documents
- Incorrect additions in the journal (casting errors)
- Posting incorrect amounts to the ledgers
- Posting to the incorrect side in the ledgers
- Incorrect balancing of accounts in the ledgers

BASELINE ACTIVITY

REQUIRED

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

- Prepare the Creditors' Control account on 31 March 2021
- Reconcile the Creditors' List of balances with the balance of the Creditors' Control account.

INFORMATION

A. Balances on 1 March 2021:		
Creditors' control		28 700

B. Totals on 31 March 2021		
List of creditors		28 860
C. Totals from Journals on 31 March 2021		
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**
Overcast /overstated	○ The Creditors Journal has been closed off ,the amount will be corrected in the General Journal ○ The List of creditors is not affected by this transaction
Error in posting	○ Calculate the difference and correct only the account of the creditor.
Incorrect entry	○ Correct only the area affected by the error.

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	

The Creditors control and the creditors list are generated by the business.

Reconciliation of Creditors' statement and the Creditors' Ledger Account

- The supplier keeps record of all the transactions done with the business in his books.
- The supplier sends the monthly statement to the business showing the record of transactions.
- Each month the supplier's statement is compared to the books of the business.
- When the statement is compared against the Creditors' Ledger account the differences in entries is normally due to the following:

Outstanding invoices	Outstanding payments	Discounts not recorded
Outstanding credit notes	Errors	Omissions

BOOKS OF THE BUSINESS

CREDITORS LEDGER OF LANGA TRADERS

WW WHOLESALERS					CI	
Date		Details	Fol	Debit	Credit	Balance
Mar	1	Account rendered				6 500
	15	Invoice 363			2 000	8 500
	27	Receipt 642		5 700		800
		Discount received		800		0

Payments: Debit account of the creditor

Purchases: Credit the account of the creditor

STATEMENT FROM THE SUPPLIER

WW WHOLESALERS
100 Day Road, Rosettenville, 0112

STATEMENT OF ACCOUNT

LANGA TRADERS
PO BOX 5550
JOHANNESBURG

Date		Details / Doc no	Debit	Credit	Balance
Feb	25	Account rendered			9 400
	28	Invoice 098	1 100		10 500
Mar	2	Invoice 110	2 000		12 500
	18	Receipt R642		5 700	6 800
	25	Invoice 309	2 250		9 050

90 days	60 days	30 days	Current
		5 950	3 100

Terms – 5% discount if paid within 14 days

- The **DEBIT** side of the statement is compared with the **CREDIT** side of the Creditors Ledger (**sales** by the supplier compared to **purchases** made by a business)
- The owner of the business (Langa Traders) is regarded as a **DEBTOR** by the supplier (WW Wholesalers)

Steps followed when reconciling the statement of account and the Creditors' Ledger

STEP ONE	Compare the Creditor's statement with the items in the Creditor's Ledger account.
STEP TWO	**Tick off all similar items** appearing in the Creditor's Ledger account and the Creditor's Statement.
STEP THREE	**Circle** the amounts on the Creditor's statement that are not appearing in the Creditor's Ledger account.
STEP FOUR	Draw a **square** next to the amounts in the Creditor's Ledger account that are not appearing in the Creditor's statement.
STEP FIVE	Refer to **additional information** to record differences
STEP SIX	Record the differences in the Creditors Ledger account or Creditors Reconciliation Statement
STEP SEVEN	**Calculate the closing Balance** -The Creditors' ledger and Creditors' statement will have similar balances at the end of month.

***NOTE:** No changes can be made by a business on the statement to address any transactions that are not appearing in the creditors' statement, it can be purchases or discount omitted etc. The business can only inform the supplier through the **Creditors reconciliation statement**.*

Remember that creditors statement is treated the same way as the bank statement, these are external documents, and corrections to the documents can only be effected by the creditor or the bank. The reconciliation statements are prepared to direct attention to the bank or creditor to the items that should be corrected.

EXAMPLE

CREDITORS RECONCILIATION

REQUIRED

Reeva Traders has received the statement from Moodley Wholesalers, a creditor.
The balance on their statement does not agree with the balance of their account in the Creditors Ledger.

- Reconcile the statement with the ledger account of Moodley Wholesalers

INFORMATION

MOODLEY WHOLESALERS
300 Blue Road
Klip River
2090

STATEMENT OF ACCOUNT

REEVATRADERS
PO BOX 2540
TSHWANE

Date		Details / Doc no	Debit	Credit	Balance
May	1	Account rendered			21 480
	5	Receipt 702		12 000	**9 480**
		Discount		600	8 880
	7	Invoice 945	3 700		12 580
	11	Invoice 1014	8 200		20 780
	17	Credit note 419		810	19 970
	19	Invoice 1323	7 800		27 770
	22	Invoice 1495	4 700		32 470
	25	Invoice 1509	5 280		37 750
Terms – 60 days					
- 5% discount if paid within 30 days					
Credit limit: R25 000					

CREDITORS' LEDGER O FREEVA TRADERS

MOODLEY WHOLESALERS

Date		Details	Fol	Debit	Credit	Balance
May	1	Balance				**9 480**
	7	Invoice 945			3 700	13 180
	11	Invoice 1014			8 200	21 380
	15	Debit note 334		900		20 480
	22	Invoice 1323			7 800	28 280
	23	Debit note 424		780		27 500
	27	Invoice 1509			5 280	32 780
		Debit note 518		1 280		31 500
	30	EFT 222		8 436		23 064
		Discount		444		22 620

ADDITIONAL INFORMATION

1. Reeva Traders issued debit note 334 on 15 May, the amount was subject to trade discount of 10%, but the trade discount was not deducted. Received credit note 419 from Moodley Wholesalers.

2. Debit Note 424 was for goods returned to Moodley Wholesalers.

3. Invoice 1495 was erroneously charged to Reeva Traders. These goods were not ordered or received by Reeva Traders.

4. Invoice 1509 include the amount of goods which were not delivered to Reeva Traders they amount to R1 280.Issued Debit Note 518 to Moodley Traders.

MOODLEY WHOLESALERS
300 Blue Road
Klip River
2090

REEVA TRADERS

Date		Details / Doc no	Debit	Credit	Balance
May	1	Account rendered			21 480
	5	Receipt 702		12 000	**9 480**
		Discount		600	8 880
	7	Invoice 945	**1✓** 3 700		12 580
	11	Invoice 1014	**2✓** 8 200		20 780
	17	Credit note 419		** 810	19 970
	19	Invoice 1323	**3✓** 7 800		27 770
	22	Invoice 1495	4 700		32 470
	25	Invoice 1509	**4✓** 5 280		37 750
Terms – 60 days					
- 5% discount if paid within 30 days					
Credit limit: R25 000					

CREDITORS' LEDGER OF REEVA TRADERS

MOODLEY WHOLESALERS

Date		Details	Fol	Debit	Credit	Balance
May	1	Balance				**9 480**
	7	Invoice 945			**1✓** 3 700	13 180
	11	Invoice 1014			**2✓** 8 200	21 380
	15	Debit note 334		** 900		20 480
	22	Invoice 1323			**3✓** 7 800	28 280
	23	Debit note 424		780		27 500
	27	Invoice 1509			**4✓** 5 280	32 780
		Debit note 518		1 280		31 500
	30	EFT 222		8 436		23 064
		Discount		444		22 620

Take note of the following :

- *Reconciliation/comparison will consider entries that took place after determining the balance of R9 480.*

- *R12 000 reflected on the Creditors Statement does not have to be reconciled, it must be ignored, it was posted before the calculation of R9 480 (balance).*

CREDITORS' LEDGER ACCOUNT: REEVA TRADERS				
	Debit	**Credit**	**Balance**	*Take the closing Balance from the creditors ledger*
Balance			22 620	
Discount	600		22 020	
Credit Note 419 (adjustment)		90	**22 110**	

- ***R600*** *- discount omitted will reduce our debt*
- *The debit note of* ***R900*** *did not take into consideration the 10% trade discount, the creditor reduced our debt by R810 when he received our debit note, and we exceeded the amount written in debit note by R90.*

Explain why did we credit R90 in our Creditors Ledger??

Incorrect entry in our Creditors Ledger			Correction		
	Debit	**Credit**		**Debit**	**Credit**
Debit note	900		Credit note		90

The R90 recorded on the credit side will reduce our balance of R900 to R810.

CREDITORS RECONCILIATION STATEMENT: MOODLEY WHOLESALERS				
	Debit	**Credit**	**Balance**	*Take the closing Balance from the creditors statement*
Balance			37 750	
Debit Note 424		780	36 970	
Debit Note 518		1 280	35 690	
EFT 222		8 436	27 254	
Discount		444	26 810	
Invoice 1495 (goods not received)		4 700	**22 110**	

Reeva Traders is regarded as debtor in Moodleys'books, any payments, discounts, returns will reduce the debt and all this transactions will be ***CREDITED*** *in Moodleys' books or creditors' statement.*

OR

CREDITORS RECONCILIATION STATEMENT: MOODLEY WHOLESALERS		*All the credit entries are bracketed , they reduce the amount owing by the business (Reeva)*
Balance	37 750	
Debit note 424	(780)	
Debit note 518	(1 280)	
Payment not reflected	(8 436)	
Discount not reflected	(444)	
Invoice 1495 incorrectly debited	(4 700)	
Balance as per Creditors Ledger account	**22 110**	

NOTE: *This activity is reconciling the Ledger of* ***One Creditor*** *against the statement issued by the supplier (Creditor).*
The baseline activity is reconciling the ***Creditors Control*** *and the* ***list of our creditors.***

ACTIVITY 1

REQUIRED

Mogashoa Traders has received the statement from Bogatsu Suppliers, a creditor.
The balance on their statement does not agree with the balance of their account in the Creditors Ledger.

- Reconcile the statement with the ledger account of Bogatsu Suppliers.

INFORMATION

BOGATSU SUPPLIERS
110 New Road
Midrand
2022

STATEMENT OF ACCOUNT
MOGASHOA TRADERS
PO BOX 5550
JOHANNESBURG

Date		Details / Doc no	Debit	Credit	Balance
Feb	25	Account rendered			28 140
	26	Invoice 061	4 560		32 700
	28	Invoice 098	11 100		**43 800**
Mar	2	Invoice 110	22 200		66 000
	8	Invoice 208	6 300		72 300
	18	Receipt R880		41 610	30 690
	25	Invoice 309	2 250		32 940

90 days	**60 days**	**30 days**	**Current**
		2 190	27 960
Terms – 5% discount if paid within 14 days			

CREDITORS LEDGER OF MOGASHOA TRADERS

BOGATSU SUPPLIERS

Date		Details	Fol	Debit	Credit	Balance
Mar	1	Balance				**43 800**
	4	Invoice 110	CJ		20 220	64 020
	10	EFT	CPJ	41 610		22 410
		Discount (43 800 x 5%)	CPJ	2 190		20 220
	11	Invoice 208	CJ		5 670	25 890
	27	Invoice 401	CJ		9 000	34 890

ADDITIONAL INFORMATION

1. The funds transferred by Mogashoa Traders on 10 March to settle the account was not received by Bogatsu Suppliers within 14 days and therefore they did not allow the discount.
2. Refer to Invoice 110, the amount was correctly recorded in Mogashoa books.
3. Refer to Invoice 208, Suppliers did not deduct 10% trade discount as per agreement. Mogashoa Traders send a debit note 405 to request for the discount omitted on the statement of Bogatsu Suppliers
4. The bookkeeper has not yet entered Invoice 309 in the Creditors Journal of Mogashoa Traders.

ACTIVITY 2

2 CREDITORS' RECONCILIATION

Dibe Stores received a statement of account from creditor, Khumalo Suppliers.

REQUIRED:

2.1 Reconcile the account of Khumalo Suppliers in the Creditors Ledger of Dibe Stores, with the statement received. Show negative amounts in brackets. (16)

2.2 Invoice 780 on the 12 July 2018, was for goods purchased by the owner for his personal use. What advice would you offer him about this transaction? Quote a relevant GAAP principle in your response. (3)

2.3 The internal auditor wants to improve the internal control of stock and creditors. Provide TWO control measures that he may consider. (4)

INFORMATION:

A. CREDITORS LEDGER OF DIBE STORES
KHUMALO SUPPLIERS (CL2)

DATE		DETAILS	FOL	DEBIT		CREDIT		BALANCE	
July	1	Account rendered/Balance	b/d					18 710	
	5	Invoice No. 154	CJ			3 915		22 625	
	8	Debit Note No. 43	CAJ			260		22 885	
	12	Invoice No. 780	CJ			1 250		24 135	
	16	EFT No. 887	CPJ	6 250				17 885	
		Discount received	CPJ	313				17 573	
	27	Invoice No. 991	CJ			1 780		19 353	

B Statement of account received from Khumalo Suppliers

KHUMALO SUPPLIERS

No: 1215

To : Dibe Stores
Peddie

25 July 2018

DATE		DETAILS	AMOUNT	BALANCE
July	1	Balance		18 710
	5	Invoice No. 154	4 365	23 075
	8	Credit Note No. 90	(260)	22 815
	16	Receipt No. 6651	(6 250)	16 565
	24	Credit Note 112	(188)	16 378
	25	Interest on overdue account	124	16 502
E&OE				

Statement includes transactions up to 25 July 2018

C. **ADDITIONAL INFORMATION:**

(i) Invoice No. 154 was recorded incorrectly on the statement.

(ii) The goods returned on the 8th was posted incorrectly in the creditors' ledger account.

(iii) Invoice No. 780 in the creditors' ledger was for goods purchased from another supplier, Dobe Stores.

(iv) Khumalo Suppliers did not grant a discount for the payment on the 16th stating that the payment was too late to qualify for the discount.

(v) Credit Note No. 112 on the statement was an error on the statement. Goods were not returned by the business.

(vi) Interest on overdue account must still be taken into account

ACTIVITY 3

CREDITORS' RECONCILIATION

Amber Traders purchase goods on credit from Mongi Suppliers.

REQUIRED:

3.1 The bookkeeper, Walker, says it is not necessary for her to prepare a Creditors' Reconciliation Statement because the creditors send monthly statements at the end of each month. What would you say to her? State TWO points. (4)

3.2 Use the table in the ANSWER BOOK to indicate how the relevant balances will change when preparing the creditors' reconciliation. Indicate the figure as well as a **+** for increase and a **–** for decrease. (16)

INFORMATION

The following balances are provided:

In the account of Mongi Suppliers in the Creditors' Ledger of Amber Traders on 30 September 2019:	R110 170	Credit
On the statement received from Mongi Suppliers on 25 September 2019:	R111 600	Debit

Errors and Omissions

A. An invoice for goods bought for R18 200 was reflected on the statement from Mongi Suppliers but was not recorded by Amber Traders.

B. Returns recorded as R280 in the creditors ledger account of Amber Traders was shown as R820 on the statement received. The amount on the statement was correct.

C. A payment by Amber Traders of R9 000 was omitted from the Creditors' Ledger and the statement

D. Amber Traders entered a discount of R370 relating to a payment of R5 000 on 15 September 2019.Mongi Suppliers did not approve this discount stating that the payment was received late.

E. The statement reflects interest of R630 on the overdue account. Mongi Suppliers acknowledged that an error had been made and promised to reverse the entry in the October 2019 statement.

F. A debit note for R2 130 issued to Mango Distributors was incorrectly recorded in the account of Mongi Suppliers by Amber Traders.

G. A credit note for R5 250 received from Mongi Suppliers for goods returned was incorrectly recorded as an invoice by Amber Traders

H. Goods purchased from Mongi Suppliers on 30 September 2019 for R4 600 were recorded by Amber Traders. The statement from Mongi Suppliers is dated 25 September 2019.

3. TANGIBLE ASSETS

EXPLANATION

- Tangible or Fixed assets acquired by the business are not intended for resale but to be used for daily operations of the business in order to generate profit.
- The examples of fixed assets are listed below :
  - Land and buildings
  - Vehicles
  - Equipment
- The value of Tangible assets such as vehicles and equipment depreciate because of wear and tear resulting from daily use.
- The value of land and buildings appreciates if the property is well maintained.

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.

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

A FIXED ASSET REGISTER FORMAT

D M TRADERS NO.1

Asset register

General ledger account:	Vehicle account (B 6)		
Item:	Nissan delivery van 2 litre	Date purchased:	1 March 2021
From whom purchased:	Nissan Monument	Cost price:	R180 000
Percentage Depreciation:	20 % p.a. at cost price/straight line method		

Details of depreciation

Dates	Annual depreciation Calculations	Accumulated depreciation	Book value or known as "Carrying value"

NOTE : only one asset will be recorded in this register

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 of depreciation on the **carrying value** at a fixed percentage (e.g. 15% p.a.) ➨ Writing off takes place over a longer period.

BASELINE ACTIVITIES

ILLUSTRATIVE ACTIVITY 1

INFORMATION
The financial year ends on the last day of February each year.
Bought a delivery van for R180 000 on 1 March 2020.

REQUIRED
Calculate depreciation on 28 February 2021 at 20% p.a. on cost price

ANSWER

180 000 x 20% = 36 000

ACTIVITY 1

INFORMATION
The financial year ended on 31 December 2020.
Balance of the Equipment account in the General Ledger on 1 January 2020: R90 000.
Bought a new cash register for R5 000 on 1 July 2020.

REQUIRED
Calculate depreciation on 31 December 2020 at 10% p.a. on cost price.

ANSWER SHEET

ILLUSTRATIVE ACTIVITY 2

INFORMATION

The following balances appear on 1 March 2020 as follows:

Equipment	R40 000
Accumulated depreciation on equipment	R4 000.

REQUIRED

Calculate depreciation on 28 February 2021 at 10% p.a. on the diminishing balance method.

ANSWER

Cost price –Accumulated Depreciation = Carrying Value
40 000 – 4 000 = 36 000
36 000 x 10% =3 600

ACTIVITY 2

INFORMATION

- Balances appear in the books on 1 March 2020 as follows:
    - Equipment R40 000
    - Accumulated depreciation on equipment R7 600
- Bought new equipment for R96 000 on 1 November 2020.

REQUIRED

Calculate depreciation on 28 February 2021 at 10% p.a. on the diminishing balance method.

ANSWER SHEET

AN EXAMPLE OF HOW THE ASSET REGISTER APPEARS IN THE FINANCIAL STATEMENTS:

NOTE: The financial year ends on the last day of February each year.

ASSET REGISTER

Mzansi Traders
Item : Delivery Vehicle STV 565 GP
Date of purchase : 2017 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
2018-02-28	24 000	24 000	96 000$$
2019-02-28	24 000	48 000	72 000
2020-02-29	24 000	72 000 #	48 000
2021-02-28	24 000***	96 000	24 000##

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

NOTE 3: TANGIBLE_ASSETS

		Vehicles
Cost		120 000
Accumulated depreciation	**Check Asset Register**	(72 000)#
Carrying value **(2020-02-29)**		**48 000**
MOVEMENTS		
Additions at Cost		
Depreciation for the year		(24 000)***
Carrying value **(2021-02-28)**	**Check Asset Register**	**24 000##**
Cost		120 000
Accumulated depreciation		(96 000)

(24 000) Depreciation for the current year***

EXAMPLE 4

RECORDING DEPRECIATION

INFORMATION

The financial year ends on 30 June each year.
The balances appear in the General Ledger on 1 July 2019 as follows:

Vehicles	R98 000
Accumulated depreciation on vehicles	R 19 600

REQUIRED

1 Calculate depreciation on 30 June 2020 at 20% p.a. on cost price
2 Show the depreciation section of the asset register
3 Record the information in the following ledger accounts:
  Vehicles
  Accumulated depreciation
  Depreciation
4 Show the Tangible Asset Note to the Financial statements
5 Show how the information will appear in the Balance sheet /Statement of Financial position

1 Calculation of depreciation on 30 June 2020

$$\frac{98\,000}{1} \times \frac{20}{100} \times \frac{12}{12} = R19\,600$$

2 ASSET REGISTER

Date	Cost	Depreciation	Accumulated depreciation	Book value
1 Jul 2018	**98 000**			**98 000**
30 Jun 2019		**19 600**	**19 600**	**78 400**
30 Jun 2020		19 600	39 200	58 800

GENERAL LEDGER
VEHICLES

2019 Jul	1	Balance	b/d	98 000					

ACCUMULATED DEPRECIATION ON VEHICLES									
					2019 Jul	1	Balance	b/d	19 600
					2020 Jun	30	Depreciation		19 600

DEPRECIATION									
2020 Jun	30	Accumulated depreciation on vehicles		19 600					

4 NOTE TO FINANCIAL STATEMENTS

Note 3 – Tangible / Fixed assets	
	Vehicles
Cost	98 000
Accumulated depreciation	(19 600)
Carrying value (01 July 2019)	78 400
Movements	
Additions at cost	
Disposals at carrying value	
Depreciation for the year	(19 600)
Carrying value end of current year	58 800
Cost	98 000
Accumulated depreciation	(39 200)

Acc dep at beginning PLUS depreciation 19 600 +19 600 = 39 200

STATEMENT OF FINANCIAL POSITION :30 JUNE 2020	
ASSETS	
CURRENT ASSETS	
Fixed assets	58 800

Carrying value at end of current year , from note 3

ACTIVITY 3

INFORMATION

The financial year ends on 31 December each year.
The following balances appeared in the General Ledger on 1 January 2020 as follows:

- Equipment R90 000
- Accumulated depreciation R 9 000

REQUIRED

1 Calculate depreciation on 31 December 2020 at 10% p.a. on the diminishing balance method.
2 Show the depreciation section of the asset register
3 Record the information in the following ledger accounts:
   - Vehicles
   - Accumulated depreciation
   - Depreciation
4 Show the Tangible Asset Note to the Financial statements
5 Show how the information will appear in the Balance sheet

FULLY DEPRECIATED ASSETS (ASSETS WITH CARRYING VALUE OF R1)

EXAMPLE 5

REQUIRED

- Calculate the depreciation for the current year
- Indicate how the information provided below will appear in the Financial Statements

INFORMATION

Cost	R100 000
Accumulated depreciation at the beginning of the year	95 000

NOTE **–**depreciation on vehicles is calculated at 10% using the cost price method**.**

DEPRECIATION

100 000 x 10% = 9 000	This amount cannot be regarded as depreciation it is above the Carrying value of R5 000 (R100 000 – 95 000)

The correct calculation for depreciation is :Book Value LESS R1 (R5 000 – R1) = R4 999

NOTE *–Assets cannot be depreciated at an amount above their cost price*

CHECK- *the balances provided above ,there's a small difference between the cost price and the accumulated depreciation.R100 000 – R95 000 = R5 000*

Amount that will be recorded in the income statement :

Income Statement at the end of current year		Income Statement at the end of following yr.	
Operating expenses		**Operating expenses**	
Depreciation	R4 999	Depreciation	None

Amount that will be recorded in the Note on Tangible Assets:

Note on Tangible Assets –Current year		
Cost		100 000
Accumulated Depreciation		(95 000)
Carrying Value		5 000
Movements		
Depreciation		4 999
Carrying Value	***This amount is transferred to the Balance sheet***	1
Cost		100 000
Accumulated Depreciation		(99 999)

Note on Tangible Assets - Following year		
Cost		100 000
Accumulated Depreciation		(99 999)
Carrying Value		1
Movements		
Depreciation		0
Carrying Value	***This amount is transferred to the Balance sheet***	1
Cost		100 000
Accumulated Depreciation		(99 999)

NOTE: *According to Historical Concept, the actual cost price of an asset will always be reflected in the note irrespective of the decline in the value.*

Balance Sheet –Current year	
Assets	
Non- Current Assets	
Tangible Assets	R1
Financial Assets	

Balance Sheet - Following year	
Assets	
Non- Current Assets	
Tangible Assets	R1
Financial Assets	

The asset will be reflected at R1 in the Balance sheet until the business decides to sell or dispose the asset (in the next activities you will be introduced to asset disposal)

NOTE *in most activities the business will have more than one vehicle, therefore it is unlikely for a large business to have a carrying value of R1, this figure will be combined with the carrying value of other vehicles.*

ACTIVITY 4

REQUIRED

Complete the following :

1. Calculate the depreciation for the current year (on 31 December 2020)
2. Record the information in the following ledger accounts:
   - Vehicles
   - Accumulated depreciation
   - Depreciation
3. Indicate how the information provided below will appear in the Financial Statements

INFORMATION

- A new vehicle was bought for cash on 1 April 2020 at the cost price of R300 000
- Depreciation on vehicles is calculated at 20% p.a. using the cost price method.

INFORMATION ON VEHICLE A				
Cost price	**Date**	**Depreciation**	**Accumulated depreciation**	**Carrying value**
200 000	31 Dec 2016	40 000	40 000	160 000
	31 Dec 2017	40 000	80 000	120 000
	31 Dec 2018	40 000	120 000	80 000
	31 Dec 2019	40 000	160 000	40 000
	31 Dec 2020	**?**	**?**	**?**

INFORMATION ON VEHICLE B				
Cost price	**Date**	**Depreciation**	**Accumulated depreciation**	**Carrying value**
250 000	31 Dec 2018	50 000	50 000	200 000
	31 Dec 2019	50 000	100 000	150 000
	31 Dec 2020	**?**	**?**	**?**

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.

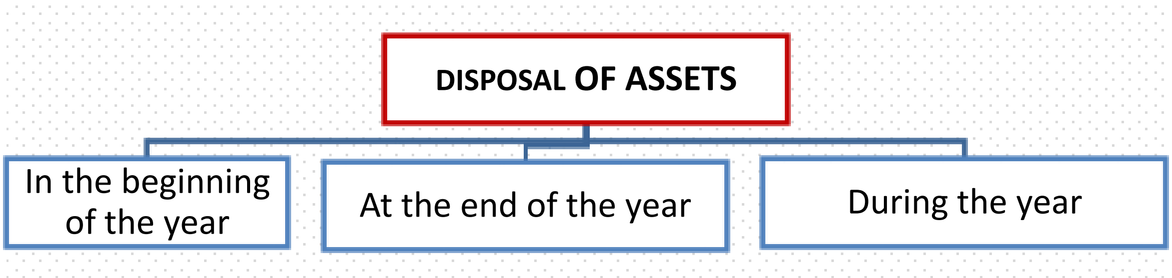
What are the reasons for disposing Tangible Assets?

- 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

When are the Tangible Assets disposed?



Assets are disposed at a:

- Carrying Value (No profit or loss incurred)
- Profit (Above the carrying value)
- Loss (Below the carrying value)

NOTE : Carrying Value is the difference between the Cost Price and the Accumulated Depreciation

FORMAT OF AN ASSET DISPOSAL ACCOUNT AND ASSET ACCOUNT

DR		Asset Disposal					CR
Mar	1	Equipment / Vehicle	xxxx	Mar	31	Accumulated depreciation on equipment	xxx
						Bank /Debtors Control/Creditors Control / Donation/Drawings	xxx
						Loss on sale of asset	xx
			xxxx				xxxx

Profit on sale of asset is recorded on the debit side

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

NOTE: *When assets are bought, the transaction will be recorded on the debit side and when the sales will be recorded on the credit side.*

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

STEPS TO BE FOLLOWED WHEN ASSET DISPOSING ASSET

	STEPS	**TRANSACTION**	**ACCOUNT DEBITED**	**ACCOUNT CREDITED**
1	Depreciation	Calculate the current depreciation	Depreciation	Accumulated depreciation
2	Accumulated depreciation	Calculate the total accumulated depreciation at date of disposal ***Balance at the beginning of the year PLUS depreciation up to date of sale***	Accumulated depreciation	Asset disposal
3	Cost price	Transfer the **cost price** of the asset	Asset disposal	Asset account (e.g. Vehicle account)
4	Disposal of asset (selling of the asset)	Transfer the cost to the asset disposal when an asset is:		
		• Sold for cash	Bank	Asset disposal
		• Sold on credit	Debtors control	Asset disposal
		• Taken by owner	Drawings	Asset disposal
		• Donated	Donations	Asset disposal
5	Calculate Profit / loss	Determine the profit/ loss		
		• Record the profit	Asset disposal	Profit on sale of asset
	Check the figures illustrated below	• Record the loss	Loss on sale of asset	Asset disposal

ASSET SOLD AT :					
Carrying value		**PROFIT**		**LOSS**	
Cost	20 000	Cost	20 000	Cost	20 000
Acc dep	(15 000)	Acc dep	(15 000)	Acc dep	(15 000)
Book value	**5 000**	Book value	**5 000**	Book value	**5 000**
Selling price	*Sold at R5 000 No profit or loss*	Selling price	7 000	Selling price	4 000
		Profit	2 000	*Loss*	1 000

NOTE: *The Asset Disposal Account is a nominal account that will be opened specifically for disposal of the asset, after the disposal it will be closed off and profit or loss will be transferred to the income statement.*

DISPOSAL OF TANGIBLE ASSETS

EXAMPLE 3 – Last day of Accounting period

INFORMATION
On 1 March 2020 (the beginning of the accounting period) the following balances appeared in the books of Gauteng Traders:

- Vehicles at cost R385 200
- Accumulated depreciation on vehicles R129 000

On 28 February 2021, a delivery vehicle was sold on credit to Manyaka for R53 000. The cost price was R90 000 and accumulated depreciation on vehicles on 1 March 2020 was R32 400.

Depreciation is calculated at 20% p.a. on the diminishing balance method.

REQUIRED
Show how the transaction will be recorded in the :
- General Journal
- General Ledger

SOLUTION – ASSET SOLD AT END OF YEAR

GENERAL JOURNAL OF GAUTENG TRADERS- 28 FEBRUARY 2021			
		Debit	**Credit**
STEP ONE	Asset disposal	90 000	
	Vehicles		90 000
	Transfer equipment at cost price		
STEP TWO			
	Depreciation	51 240	
	Accumulated Depreciation on vehicles		51 240
	Depreciation is calculated at 20% -diminishing balance		
STEP THREE			
	Accumulated depreciation on vehicles	43 920	
	Asset disposal		43 920
	Transfer of accumulated depreciation		
STEP FOUR			
	Debtors control / P.Manyaka	53 000	
	Asset disposal		53 000
	Asset sold on credit		
STEP FIVE			
	Asset disposal	6 920	
	Profit on sale of asset		6 920
	Profit on sale of vehicle		

GENERAL LEDGER OF GAUTENG TRADERS

Vehicles									
2020 Mar	1	Balance	b/d	385 200	2021 Feb	28	Asset disposal	GJ	90 000
							Balance	c/d	295 200
				385 200					385 200
2021 Mar	1	Balance	b/d	295 200					

(90 000 - 32 400) x 20% = 11 520

32 400 +11 520 = 43 920

(385 200 -129 000) x 20%

Accumulated depreciation on vehicles									
2021 Feb	28	Asset disposal	GJ	***43 920	2020 Mar	1	Balance	b/d	129 000
		Balance	b/d	136 320	2021 Feb	28	Depreciation	GJ	51 240
				180 240					180 240
					2021 Mar	1	Balance	b/d	136 320

Depreciation									
2021 Feb	28	Accumulated depreciation on vehicles	GJ	51 240	2021 Feb	28	Profit and Loss	GJ	51 240

Debtors control									
2021 Feb	28	Asset disposal	GJ	53 000					

Asset disposal									
2021 Feb	28	Vehicles	GJ	90 000	2021 Feb	28	Accumulated depreciation on vehicles	GJ	***43 920
		Profit on sale of asset	GJ	6 920			Debtors control	GJ	53 000
				96 920					96 920

Profit on sale of assets									
2021 Feb	28	Profit and Loss	GJ	6 920	2021 Feb	28	Asset disposal	GJ	6 920

Closing transfer

STEPS INVOLVED WHEN SELLING ASSETS			
Steps	**Type of record**	**Account debited**	**Account credited**
One	Transfer cost price	Asset Disposal	Asset Account
Two	Calculate Depreciation	Depreciation	Acc Depreciation
Three	Transfer Accumulated Depreciation	Acc Depreciation	Asset Disposal
Four	Record/calculate Selling price	Bank/Debtors	Asset Disposal
Five	Determine loss	Loss on sale	Asset Disposal
	Determine profit	Asset Disposal	Profit on sale

EXAMPLE 7 – SALES DURING ACCOUNTING PERIOD

INFORMATION

The financial year of Zizzy Traders ends on 28 February 2021.

The following balances appeared on 1 March 2020:

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

On 31 August 2020 Zizzy Traders sold an old typewriter on credit to George for R1 050. The original cost 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									
2020 Mar	1	Balance	b/d	40 000	2021 Feb	28	Asset disposal	GJ	2 200
							Balance	c/d	37 800
				40 000					40 000
2021 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

2020 Aug	31	Asset disposal	GJ	***1 020	2020 Mar	1	Balance	b/d	11 200
2021 Feb	28	Balance	b/d	17 960	Aug	31	Depreciation	GJ	220
					2021 Feb	28	Depreciation	GJ	7 560
				18 980					18 980
					2021 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

2021 Feb	28	Accumulated depreciation on equipment	GJ	7 780	2021 Feb	28	Profit and Loss	GJ	7 780

Debtors control

2020 Aug	31	Asset disposal	GJ	1 050					

Asset disposal

2020 Aug	31	Equipment	GJ	2 200	2020 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

2020 Aug	31	Asset disposal	GJ	130	2020 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*

EXAMPLE 8 - Assets bought and sold during the year

INFORMATION

The financial year of BBB Traders ends on 28 February 2021.

The following balances appeared on 1 March 2020:

- Vehicles R312 000
- Accumulated depreciation on vehicles R104 000

TRANSACTIONS

- On 31 August 2020 BBB Traders sold an old vehicle to Zee Traders for R47 200 on credit. This vehicle originally cost R76 000. The total amount of depreciation at the beginning of the year amounted to R34 200.
- On 1 December 2020 a new delivery vehicle was bought for cash R200 000, the funds were transferred electronically to the motor dealer.

NOTE: Depreciation is calculated at 20% per annum on the diminishing balance method.

REQUIRED

1.Prepare the following accounts in the General Ledger:

- Equipment Account
- Accumulated depreciation
- Asset Disposal
- Note on Tangible Assets

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

2020 Mar	1	Balance	b/d	236 000	2021 Feb	28	Asset disposal	GJ	76 000
2020 Dec	1	Bank		200 000			Balance	c/d	360 000
				436 000					436 000
2021 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

2021 Feb	28	Asset disposal	GJ	**38 380	2020 Mar	1	Balance	b/d	104 000
					Aug	31	Depreciation	GJ	4 180
		Balance	b/d	113 040	2021 Feb	28	Depreciation	GJ	43 240
				151 420					151 420
					2021 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

2020 Aug	31	Vehicle	GJ	76 000	2020 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**	
Cost	436 000	***312 000 -76 000 + 200 000 = 436 000***
Accumulated depreciation	(113 040)	***104 000 + 47 420-34 200 – 4 180 =113 040***

ACTIVITY 5

ASSETS TRADED- IN

INFORMATION

On 1 March 2020, the following balances appeared in the financial records of Norway Traders:

- Vehicles, R 264 000
- Accumulated depreciation on vehicles , R86 000

.
The following transactions took place on 1 October 2020:

- A new delivery vehicle was purchased on credit for R150 000 from Raboroko Motors.
- An old delivery vehicle was traded in at Raboroko Motors for R51 000. The original cost price of this vehicle was R84 000, it was bought on 1 January 2018.

Note: Depreciation is calculated at 15% p.a.using the cost price.

REQUIRED
1.Complete the following Accounts in the General Ledger of Norway Traders on 28 February 2021:

- Equipment Account
- Accumulated depreciation
- Asset Disposal

ACTIVITY 6

TANGIBLE ASSETS

The following information was extracted from the books of Tumi Traders. Their financial year ends on 29 February 2020.

REQUIRED

6.1.1 Calculate depreciation for Vehicles and Equipment. Show all calculations. (15)

6.1.2 Complete the Asset Disposal account. (6

6.1.3 Prepare the Tangible Asset note to the financial statements on 29 February 2020. (12)

6.1.4 Provide a suitable reason for the equipment being disposed (sold). (2)

INFORMATION

A. Balances on 28 February 2019	
Land and Buildings	?
Vehicles	600 000
Accumulated depreciation on vehicles	570 000
Equipment	320 000
Accumulated depreciation on equipment	65 000

B.ADDITIONAL INFORMATION

(i) On 01 July 2019 extensions of R200 000 were completed to the office building. A further R10 000 was spent to repair a leaking roof in the store room. An amount of R210 000 has been transferred electronically to Rapid Builders. The amounts have been debited to the repairs account.

(ii) An extra vehicle costing R180 000 was bought on 30 April 2019.

(iii) On 01 September 2019, equipment which was bought on 30 November 2017, with an original cost price of R40 000, was traded in at profit of R3 400 against a new equipment bought on credit for R 90 000. The transactions have not been entered in the accounting records of the business.

(vi) Depreciation on Fixed Assets must be provided for as follows:

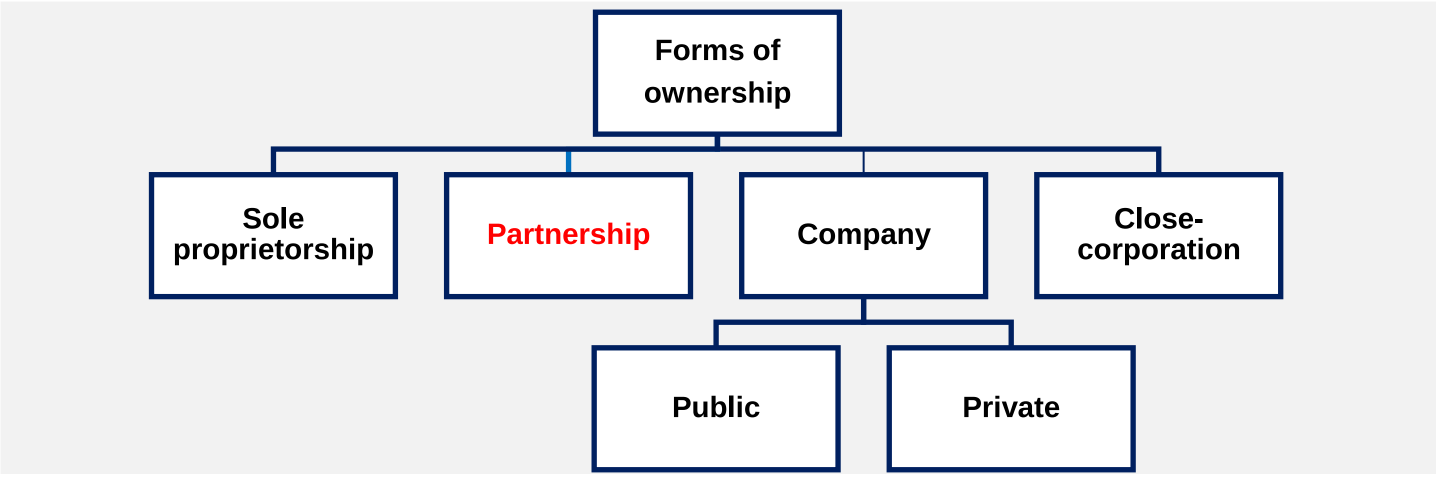
- Vehicles: at 15% p.a. on cost.
- Equipment: at 20% p.a. on the diminishing balance method.

Management 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.
- 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 log book, e.g. vehicles
- All fixed assets must be insured against fire, theft, etc.

4. 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 in order 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 manner in which 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.

Salaries to partners

Salaries to partners – one or more partners might be required to work more hours for the business because of certain skills or expertise they possess. The partnership agreement will make a provision for the salary allowance to one or more partners rendering services to the business.

Different services provided by partners


Lawyer

A partner who has a legal background can assist with drawing up and interpretation of business of contracts ,the services of lawyer will also be needed to draw up the partnership agreement.The lawyer may not provide legal services daily ,therefore he will get a service fee.In a law firm type of partnership he will get a salary.


Accountant

The financial expert will assist the business with financial records, advice the business on internal control systems. The accountant is expected to provide continuous service, and will qualify for a salary allowance.

Always keep in mind that: Other partners will only contribute their capital towards the business and they are called anonymous or sleeping partners.

Payments of monthly salaries

The cash withdrawals by partners and their monthly salaries will be debited to the partners drawings account, and the bank account will be credited. The salary account of the partner is only created at the end of the accounting period.

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 2021.

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 2021	
Capital: Kubheka	100 000
Capital: Sibanda	50 000
Current account: Kubheka (01 March 2020)	Cr 5 500
Current account : Sibanda (01 March 2020)	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 2021					
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 2021					
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
					2020 March	01	Balance	b/d	100 000

Dr					CAPITAL : SIBANDA			B2	Cr
					2020 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
2021 Feb	28	Balance	b/d	30 000	2021 Feb	28	Current a/c : Kubheka	GJ	30 000

Dr		DRAWINGS ACCOUNT : SIBANDA						B4	Cr
2021 Feb	28	Balance	b/d	28 000	2021 Feb	28	Current a/c : Kubheka	GJ	28 000

Dr		CURRENT ACCOUNT : KUBHEKA						B5	Cr
2021 Feb	28	Drawings: Kubheka	GJ	30 000	2020 March	01	Balance	b/d	5 500
		Balance	c/d	55 500	2021 Feb	28	Salary :Kubheka	GJ	42 000
							Appropriation	GJ	38 000
				85 500					85 500
					2020 March	01	Balance	c/d	55 500

Dr		CURRENT ACCOUNT : SIBANDA						B6	Cr
2021 Feb	28	Drawings: Sibanda	GJ	28 000	2020 March	01	Balance	b/d	2 600
		Balance	c/d	14 600	2021 Feb	28	Salary :Sibanda	GJ	21 000
							Appropriation	GJ	19 000
				42 600					42 600
					2021 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 2020.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 2020)	150 000
Capital: Sam (01January 2020)	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 2020

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 2020, 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 2020	
Capital: A. Sekele	300 000
Capital: N.Mbatha	200 000
Current account: A. Sekele (01 March 2019)	Dr 9 500
Current account: N. Mbatha (01 March 2019)	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**
2019 March	01	Balance	b/d	9 500	2020 Feb	29	Salary: Sekele	GJ	45 000
2020 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
					2020 March	01	Balance	c/d	37 375

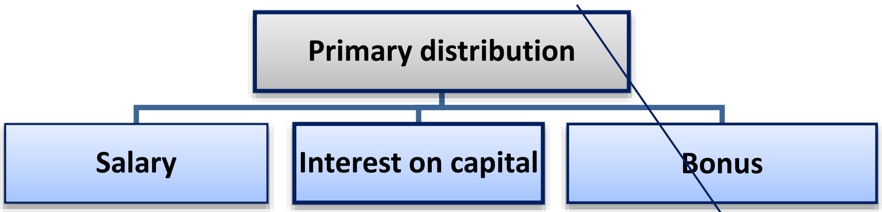
Dr			**CURRENT ACCOUNT: MBATHA**				**B5**		**Cr**
2020 Feb	29	Drawings: Mbatha	GJ	70 000	2019 March	01	Balance	b/d	12 000
		Balance	c/d	25 625	2020 Feb	29	Salary: Mbatha	GJ	45 000
							Interest on capital	GJ	24 000
							Bonus: Mbatha **[45 000 ÷ 12] x 90%**	GJ	3 375
							Appropriation	GJ	11 250
				95 625					95 625
					2020 March	01	Balance	c/d	25 625

FINAL ACCOUNTS SECTION

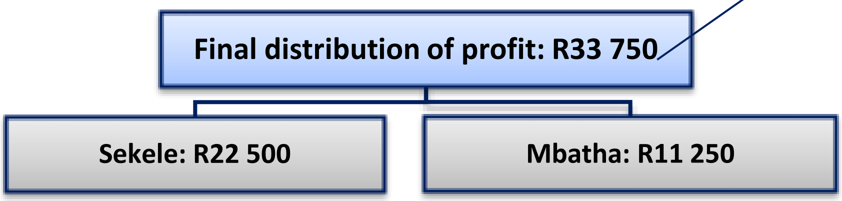
Dr			**APPROPRIATION ACCOUNT**				**F3**		**Cr**
2020 Feb	29	Salary: Sekele	GJ	45 000	2020 Feb	29	Profit and loss	GJ	190 500
		Salary: Mbatha	GJ	45 000					
		Bonus: Sekele	GJ	3 375					
		Bonus: Mbatha	GJ	3 375					
		Interest on capital **[24 000+ 36 000]**	GJ	60 000					
		Current a/c: Sekele	GJ	22 500					
		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



NOTES TO THE BALANCE SHEET ON 29 FEBRUARY	2020		
	R	R	R
7.Capital Accounts	**Sekele**	**Mbatha**	**Total**
Balance on 01 March 2019	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 at 29 February 2020	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 2019	(9 500)	12 000	2 500
Balance at 29 February 2020	**37 375**	**25 625**	**63 000**



ACTIVITY 1

REXEL STORES

The following balances /totals appeared in the books of Rexel Stores on 29 February 2020, 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 2020		
	Alex	**Rex**
Capital (01 March 2019)	160 000	100 000
Current account: (01 March 2019)	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 2020 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 2019.
- 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 2020

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 2021.
   - Current Account: Grey
   - Current Account: Simon
   - Appropriation Account

INFORMATION

1. The following balances appeared in the Ledger on 28 February 2021
   - Capital : Grey ,R500 000
   - Capital : Simon ,R300 000
   - Current Account : Grey (on 01 March 2020) R22 000 (favourable)
   - Current Account : Simon (on 01 March 2020) R14 000 (unfavourable)
   - Drawings :Grey (R110 000)
   - Drawings :Simon (R100 000)
   - Equipment R150 000
   - Accumulated depreciation on equipment (on 01 March 2020),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 2021 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 2020, 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 half way 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

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: GAAP CONCEPTS

Indicate the GAAP concepts applicable to the following statements

STATEMENT	CONCEPT
A. Interest on overdraft is shown as a separate amount in the Income Statement.	
B. The lotto ticket of partner Mr.Manzini wins R100 000.This is not reflected in the Income Statement.	
C. The damages payable to a client will be finalised next year, an estimated amount of R10 000is recorded this year.	
D. The trading stock is shown in the Balance sheet at R20 000, even though the business will get R17 000 if the business was to sell the stock at the flea market the following day.	
E. Land and buildings are shown in the Balance sheet as R300 000 even though the estate agent say they could be sold for R750 000.	
F. Whenever the debtor settles an account the discounts should be recorded at the same time.	

ACTIVITY 4

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 2020	
Capital: Neo	R208 000
Capital: Rocks	184 000
Current account: Neo (01 March 2019)	(Cr) 2 500
Current account: Rocks (01 March 2019)	(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 2020, 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 2020 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 2019 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.

YEAR –END AJUSTMENTS AND FINAL ACCOUNTS

REQUIRED

Use the information extracted from the records of Ngwenya Traders to prepare the following :

- Journal entries of adjustments and post to the General ledger
- Trading Account and Profit and Loss Account

EXTRACT FROM TRIAL BALANCE - 30 JUNE 2021			
Balance Sheet Accounts Section		**Debit**	**Credit**
Trading stock		75 000	
Creditors control			10 100
South African Revenue Services:(PAYE)			
Creditors for salaries			
Pension fund			
Medical Aid Fund			
Nominal Accounts Section			
Sales			540 000
Debtors allowances		8 000	
Cost of sales		310 000	
Salaries		80 000	
Wages		35 000	
Pension Fund contribution		4 000	
Medical Fund contribution		2 700	
Packing material		1 000	
Insurance		1 600	
Bank charges		5 300	

GRADE 10 ADJUSTMENTS

1. The claim for the stolen stock of R6 000 has been submitted to PIX Insurance, they have agreed to pay R4 500.
2. Trading stock according to stock taking, R68 500.
3. An employee was left out of the salaries Journal, his salary amounts to R7 000 and the deductions are provided below:

Deductions	
PAYE deduction	(R1 000)
Pension deduction	(R450)
Medical aid	(R400)

The owner contributed to the medical fund and pension fund Rand for Rand basis.

4. Packing material on hand amounted to R300.

SOLUTION

<table>
<tr><th>Adjustment</th><th colspan="3"></th><th colspan="2">General ledger</th></tr>
<tr><td rowspan="4">Insurance claim
The claim for the stolen stock is R6 PIX Insurance, agreed to pay R4 500.</td><td>General journal</td><td>Debit</td><td>Credit</td><td colspan="2">Trading Stock B</td></tr>
<tr><td>Loss on stock stolen
Trading stock</td><td>1 500</td><td>
1 500</td><td>Bal b/d 75 000</td><td>Loss on stock 1 500
Insurance claim 4 500</td></tr>
<tr><td>Insurance claim
Trading stock</td><td>4 500</td><td>
4 500</td><td colspan="2">Insurance claim B
Trading stock 4 500 |</td></tr>
<tr><td colspan="3">Stock loss is an expense
Stock claimed but not paid by the insurance is an asset, the amount will be recorded in the Balance Sheet</td><td colspan="2">Loss to stolen stock N
Trading stock 1 500 | Profit and loss 1 500</td></tr>
</table>

<table>
<tr><th>Adjustment</th><th colspan="3"></th><th colspan="2">General ledger</th></tr>
<tr><td rowspan="3">Trading stock deficit:
Trading stock according to stock taking, R68 500.</td><td>General journal</td><td>Debit</td><td>Credit</td><td colspan="2">Trading stock B</td></tr>
<tr><td rowspan="2">Tr. stock deficit
Trading stock</td><td rowspan="2">500</td><td rowspan="2">
500</td><td>Bal b/d 75 000

75 00</td><td>Loss on stock 1 500
Insurance claim 4 500
T.stock deficit 500
Bal c/d 68 500
75 000</td></tr>
<tr><td colspan="2">Trading stock deficit N
Trading stock 500 | Profit and loss 500</td></tr>
</table>

<table>
<tr><th>Adjustment</th><th colspan="3"></th><th colspan="2">General ledger</th></tr>
<tr><td rowspan="5">Consumable stores on hand:
Packing material, R300</td><td>General journal</td><td>Debit</td><td>Credit</td><td colspan="2">Consumable stores on hand B</td></tr>
<tr><td rowspan="4">Cons. stores on hand
Packing material</td><td rowspan="4">300</td><td rowspan="4">
300</td><td>Packing material 300</td><td></td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">Packing material N</td></tr>
<tr><td>Total 1 000</td><td>Consumable stores on hand 300
Profit and loss 700
1 000</td></tr>
</table>

Salaries **[80 000 + 7 000]**	87 000	R7 000 will increase the expenses and will be recorded in the Income statement.
Pension contribution **[4 000 +450]**	4 450	R450 contributed by the owner is regarded as an expense The amount deducted from the employee will be recorded under trade and other payables as Pension Fund.
Medical contribution **[2 700 + 400]**	3 100	R400 contributed by the owner is regarded as an expense The amount deducted from the employee will be recorded under trade and other payables as Medical Aid Fund.
NOTE :PAYE (Pay as you earn) will be recorded under trade and other payables note as SARS-PAYE		

GENERAL LEDGER OF NGWENYA TRADERS: 30 JUNE 2021

Dr		TRADING ACCOUNT						F1	Cr
2021 June	30	Cost of sales	GJ	310 000	2021 June	30	Sales [540 000 – 8 000]	GJ	532 000
		Profit and Loss	**GJ**	**222 000**					
				532 000					532 000

Dr		PROFIT AND LOSS ACCOUNT						F2	Cr
2021 June	30	Stock stolen [Check ledger a/c]	GJ	1 500	2021 June	30	**Trading Account**	**GJ**	**222 000**
		Trading stock deficit [Check ledger a/c]	GJ	500					
		Stock stolen [Check ledger a/c]	GJ	1 500					
		Salaries **[80 000 + 7 000]**	GJ	87 000					
		Pension contribution **[4 000 +450]**	GJ	4 450					
		Medical contribution **[2 700 + 400]**	GJ	3 100					
		Packing material **[1 000 -300]**	GJ	700					
Partnership Sole trader		Appropriation a/c Capital Account	GJ	xxxx					
				xxxxx					xxxxx

Dr		APPROPRIATION ACCOUNT						F3	Cr
					2021 June	30	Profit and loss	GJ	xxxx

CAPITALISED INTEREST ON LOAN

REQUIRED

Use the loan statement provided to calculate the interest on loan in the books of Rexel Traders on 30 June 2021

YARONA BANK		
Loan statement on 30 June 2021		
Balance on 1 July 2020	R120 000	
Interest charged	**?**	
Total payments to Yarona in terms of the loan agreement	R40 000	**This is a negative figure**
Balance on 30 June 2021	R110 000	

EXPECTED SOLUTION

GENERAL LEDGER OF REXEL TRADERS

Balance Sheet Accounts Section

Dr		**LOAN : YARONA BANK**					**B6**		**Cr**
2021 June	30	Bank **step 2**	CPJ	40 000	2020 Jul	01	Balance **step 1**	b/d	120 000
		Balance **step 3**	c/d	110 000			Interest on loan **step 5**	GJ	30 000
		step 4		150 000					150 000
					2021 Jul	01	Balance **step 3**	b/d	110 000

(110 000 + 40 000) – 120 000 = 30 000 Bottom up calculation

> **Note:** *40 000 for repayments is a negative figure or bracketed, it indicates payment. When you apply the Bottom up calculations the negative sign for 40 000 will be positive and 120 000 will be a negative figure.*

Nominal Accounts Section

Dr		**INTEREST ON LOAN**					**N13**		**Cr**
2021 June	30	Loan:Mzansi bank	GJ	30 000	2021 June	30	Profit and loss	GJ	30 000

EFFECT OF INTEREST ON THE ACCOUNTING EQUATION				
Account Debited	**Account credited**	**Assets**	**Owner's Equity**	**Liabilities**
Interest on loan	Loan:Yarona Bank	0	- 30 000	+ 30 000

5. PARTNERSHIP: FINANCIAL STATEMENTS AND NOTES

In Grade 10 you have lready been introduced to the financial statements of the sole trader namely Income statement (Statement of comprehensive income)and Balance sheet (statement of financial position)

Income statement –It is the financial statement that shows the income and expenditure of the business. It indicates if the business has made a profit or loss during the financial period.

Balance sheet - The Balance Sheet is a Financial Statement that is usually prepared at the end of an accounting period (a financial year) to show the financial position of a business in terms of its assets, liabilities and equity.

The Components of the Balance Sheet are listed below:

- Assets
- Liabilities
- Equity

Preparing of balance sheet of a sole trader and partnership is the same but the difference is the Equity Section.

Sole trader

Partnership

Grade 10

Owner' Equity		***100 000***
Capital	7	100 000

Grade 11

Partners' Equity		*200 000*
Capital	7	100 000
Current Account	8	100 000

FORMATS OF FINANCIAL STATEMENTS

A. INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME) FOR 30 JUNE 2021		Note	
		Note	
Sales			xxx
Cost of sales			xxx
Gross Profit			xxxx
Other Operating Income			xxxx
Rent Income			xxx
Profit on sale of an asset	***New adjustment-loss incurred when asset is sold ABOVE the carrying value***		xxx
Discount received			xxx
Provision for bad debts adjustment	***New adjustment, it can also entered under expenses.***		xxx
Gross Operating income			xxxx
Operating Expenses			(xxxx)
Trading stock deficit			xxx
Loss on sale of an asset	***New adjustment-loss incurred when asset is sold BELOW the carrying value***		
Salaries			xxx
Pension fund contribution	***Contributions made by the owner will affect expenses, the business can alternatively use one account to record contributions called "employer's contribution account". The employer can also contribute towards UIF*****		xxx
Medical aid contribution			xxx
Packing material			xxx
Bad debts			xxx
And other expenses			xxx
Operating Profit			xxxx
Interest Income		**1**	xxx
Profit Before Interest Expense			xxxx
Interest Expense		**2**	(xxx)
Net Profit for the year		**8**	xxxx

***NOTE:** the format of the sole trader and partnership is the same, the only difference is that all the expenses and income to partners are entered in the appropriation account and their personal accounts.*

*UIF** – Unemployment Insurance Fund*

FORMAT OF BALANCE SHEET

RAVE STORES:PARTNERSHIP
BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 30 JUNE 2021

	Note		
ASSETS			
Non-current assets			XXXX
Tangible/Fixed assets	3	XXX	
Financial Assets - Fixed Deposit		XXX	
Current assets			XXXX
Inventories	4	XXX	
Trade and other receivables	5	XXX	
Cash and cash equivalents	6	XXX	
Total assets			**XXXX**
EQUITY AND LIABILITIES			
Capital and Reserves /Owners' Equity			XXXX
Capital	7	XXX	
Current Accounts	8	XXX	
Non-current liabilities			XXXX
Mortgage loan		XXX	
Current liabilities			XXXX
Trade and other payables	9	XXX	
Bank overdraft (if applicable)		XXX	
Total Equity and Liabilities			**XXXX**

NEW ACCOUNTS

NGWENYA TRADERS :SOLETRADER
EXTRACT OF BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 30 JUNE 2021

EQUITY AND LIABILITIES	
Owners' Equity	

The difference is equity section only

NOTE: The relationship between BASIC Accounting Equation (A = OE + L) and the Balance Sheet is that Assets is **equal** to Equity **plus** Liabilities.

EXAMPLE
SUPA STORES

You are provided with the Pre-Adjustment trial balance of Supa Stores, a partnership with Chauke and Nkosi

REQUIRED

Prepare the following :

- Income Statement
- Balance Sheet
- Notes to Financial Statements

INFORMATION

PRE- ADJUSTMENT OF SUPA STORES TRIAL BALANCE ON 28 FEBRUARY 2021			
BALANCE SHEET ACCOUNTS SECTION		**DEBIT**	**CREDIT**
Capital : Chauke	B1		600 000
Capital : Nkosi	B2		300 000
Current A/c : Chauke	B3	24 000	
Current A/c : Nkosi	B4		33 000
Drawings :Chauke	B5	91 000	
Drawings :Nkosi	B6	109 000	
Loan from Mzansi Bank	B7		240 000
Land and buildings	B8	820 000	
Equipment (at cost)	B9	80 000	
Accumulated depreciation on equipment	B10		30 000
Fixed Deposit :Mzansi Bank	B11	80 800	
Savings account	B12	13 000	
Trading stock	B13	209 000	
Debtors control	B14	20 000	
Provision for bad debts	B15		1 400
Bank	B16	5 600	
Cash float	B17	1 000	
Creditors control	B18		25 100
NOMINAL ACCOUNTS SECTION			
Sales	N1		935 000
Debtors allowances	N2	5 000	
Cost of sales	N3	550 000	
Salaries and wages	N4	218 000	
Fee income (for services rendered)	N5		92 000
Advertising	N6	15 000	
Interest on fixed deposit	N7		3 800
Interest on current bank account	N8		700
Commission income	N9		36 200
Insurance	N10	7 000	
Bad debts	N11	2 400	
Interest on loan	N12	28 800	
Consumable stores	N13	4 800	
Sundry expenses	N14	12 800	
		2297 200	2297 200

ADJUSTMENTS AND ADDITIONAL INFORMATION

1. The following amounts are owed at year-end: Advertising R200; Sundry expenses R350.
2. Interest on fixed deposit has not been received, R300.
3. Three quarters of the fixed deposit will mature in June 2021.
4. Consumable stores on hand at year-end ,R800
5. The following amounts were prepaid at year –end: Insurance R400, Wages R650.
6. Commission owed to the business at year–end ,R1 400
7. Trading stock counted physically at the end of the year, R205 000.
8. The partners bought the computer on 01 September 2020, for R10 000.The transaction was properly recorded.
9. Provide for depreciation on equipment at 10% p.a.
10. The provision for bad is adjusted to 5% of debtors.
11. Each partner increased his capital contribution by R10 000 at the end of the year. (This entry has been recorded)
12. **The partnership agreement stipulates the following:**
    - Salary of R60 000 per year to Chauke and Nkosi
    - Bonus of R10 000 to Nkosi
    - Interest on capital at 8% p.a.
    - Remaining profits to be in the ratio 2:1 between Chauke and Nkosi

SUPA STORES INCOME STATEMENT FOR 28 FEBRUARY 2021		
	Note	
Sales **(935 000- 5 000)**		930 000
Cost of sales		(550 000)
Gross Profit		380 000
Other Operating Income		130 000
Commission Income **(36 200 + 1 400)**		37 600
Provision for bad debts adjustment ***(1 400 -1 000)**		400
Fee income		92 000
Gross Operating income		510 000
Operating Expenses		(270 200)
Advertising **(15 00 +200)**		15 200
Sundry expenses **(12 800 +350)**		13 150
Consumable stores **(4 800 -800)**		4 000
Insurance **(7 000 -400)**		6 600
Salaries and wages **(218 000 - 650)**		217 350
Trading stock deficit **(209 000 - 205 000)**		4 000
Depreciation (**70 000 x10%) + (10 000 x 6/12 x10%)** **7 000 + 500**		7 500
Bad debts		2 400
Operating Profit		239 800
Interest Income **(3 800 + 300 +700)**	**1**	4 800
Profit Before Interest Expense		244 600
Interest Expense	**2**	(28 800)
Net Profit for the year	**8**	215 800

PROVISION FOR BAD DEBTS
20 000 x5% = 1 000

NOTE : our provision for this year is R1 000 and in the previous year it amounted to R1 400 the difference of R400 will increase our income.

- In the Note for trade and other receivables R1 000 (ACTUAL PROVISION) will reduce debtors control
- When calculating the provision for bad debts always take into account all the year-end adjustments affecting the Debtors and the approach below is recommended:
  - Debtors Control LESS bad debts less returns LESS discount that was omitted etc.
- The net amount will be multiplied by the percentage provided to get provision.

NOTES TO THE FINANCIAL STATEMENTS

1 Interest income	
Interest on fixed deposit [3 800 + 300]	4 100
Interest on current account	700
	4 800

2 Interest Expense /Finance cost	
Interest on loan	28 800

NOTE 3

TANGIBLE ASSETS	Land and Buildings	Equipment	Total
Carrying Value (beginning of the year)	**820 000**	**40 000**	**860 000**
Cost	820 000	70 000	890 000
Accumulated Depreciation		(30 000)	(30 000)
Movements	-	**2 500**	**2 500**
Additions at Cost	-	10 000	10 000
Disposal at Carrying Value	-	-	-
Depreciation for the year	-	(7 500)	(7 500)
Carrying Value (end of the year)	**820 000**	**42 500**	**862 500**
Cost	820 000	80 000	900 000
Accumulated Depreciation	-	(37 500)	(37 500)

4 Inventories		
Trading stock	***The stock on hand is recorded in the note. The consumable stores used are recorded in the I/S and the stock sold is recorded in the I/S at cost.***	205 000
Consumable stores on hand		800
		205 800

5 Trade and other receivables	
Net trade debtors	19 000
Trade debtors	20 000
Provision for bad debts	(1 000)
Income receivable or accrued **(1 400 + 300)**	1 700
Expenses prepaid **(400 + 650)**	1 050
	21 750

6 Cash and cash equivalents	
Fixed Deposits (maturing within 12 months) **[80 800 x 3 / 4]**	60 600
Savings accounts	13 000
Bank	5 600
Cash float	1 000
	80 200

7.Capital Accounts		Chauke	Nkosi	
Balance at the beginning of the year		590 000	290 000	880 000
Contribution of capital during the financial year		10 000	10 000	20000
Withdrawal of capital during the year		-	-	-
Balance at the end of the year		**600 000**	**300 000**	**900 000**
8.Current Accounts		**Chauke**	**Nkosi**	
Appropriation of net profit				
Salaries		60 000	60 000	120 000
Interest on capital	***Opening balances used to calculate interest.***	47 200	23 200	70 400
Bonus		-	10 000	10 000
Primary division of profits		107 200	93 200	200 400
Final division of profits		10 267	5 133	15 400
Profit per income statement		117 467	98 333	215 800
Drawings during the year		(91 000)	(109 000)	200 000
Retained income /loss for the year		26 467	(10 667)	15 800
Balance at the beginning of the year		(24 000)	33 000	9 000
Balance at the end of the year		**2 467**	**22 333**	**24 800**

9 Trade and other payables	
Trade creditors	25 100
Expenses payable / accrued **(200+350)**	550
	25 650

SUPA STORES **BALANCE SHEET ON 28 FEBRUARY 2021**	**Note**	
ASSETS		
Non-current assets		**882 700**
Tangible/Fixed assets	**3**	862 500
Financial Assets - Fixed Deposit :Mzansi bank **[80 800 x 1/4]**		20 200
Current assets		**307 750**
Inventories	**4**	205 800
Trade and other receivables	**5**	21 750
Cash and cash equivalents	**6**	80 200
Total assets		**1190 450**
EQUITY AND LIABILITIES		
Capital and Reserves /Owners' Equity		**924 800**
Capital	**7**	900 000
Current Accounts	**8**	24 800
Non-current liabilities		**240 000**
Loan:Mzansi Bank		240 000
Current liabilities		**25 650**
Trade and other payables	**9**	25 650
Total Equity and Liabilities		**1190 450**

ACTIVITY 1

You are provided with the Pre-Adjustment trial balance of Jozi Tiles, a partnership with Mogashoa and Mokotedi as partners.

REQUIRED

1. Prepare the Income Statement
2. Notes to the Financial statements (refer to the work sheet)

INFORMATION

JOZI TILES PRE- ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2021			
BALANCE SHEET ACCOUNTS SECTION		**DEBIT**	**CREDIT**
Capital :Mogashoa	B1		600 000
Capital : Mokotedi	B2		400 000
Current A/c : Mogashoa	B3	41 000	
Current A/c : Mokotedi	B4		50 000
Drawings : Mogashoa	B5	185 000	
Drawings : Mokotedi	B6	175 000	
Vehicles	B7	666 000	
Equipment (at cost)	B8	230 000	
Accumulated depreciation on vehicles	B9		299 700
Accumulated depreciation on equipment	B10		95 000
Loan : Bank of Africa	B11		205 000
Fixed Deposit : Bank of Africa	B12	150 000	
Trading stock	B13	667 000	
Debtors control	B14	265 000	
Provision for bad debts	B15		16 500
Bank	B16	66 000	
Creditors control	B19		281 500
SARS –(PAYE)	B20		19 600
Medical Aid Fund	B21		6 200
UIF	B22		900
NOMINAL ACCOUNTS SECTION			
Sales	N1		3000 000
Debtors allowances	N2	500 000	
Cost of sales	N3	1810 000	
Fee income (for services rendered)	N4		1105 000
Rent expense	N5	95 400	
Salaries and wages	N6	765 176	
Employer’s contribution to UIF and Medical Aid	N7	78 500	
Vehicles expenses	N8	95 000	
Bank charges	N9	28 600	
Bad debts	N10	4 800	
Electricity and water	N11	17 600	
Discount allowed	N12	3 500	
Telephone	N13	19 100	
Insurance	N14	28 800	
Printing and stationery	N15	17 200	
Consumable stores	N16	132 500	
Interest income (on current bank account)	N17		1 100
Sundry expenses	N18	34 824	

ADJSUTMENTS AND ADDITIONAL INFORMATION

A. The water and electricity account for February has not been paid, R1 300.

B. A cash customer Mzizi paid R2 800 for installation fees in February but the job will be done in March 2021.

C. The following items were stolen in February :

- Trading stock (tiles) R56 000
- Consumable stores R2 500

ABI Insurers has agreed to pay out 90% of the loss, but this has not been received.

D. A debtor B.White complained about the defective tiles that were fitted in his house ,Jozi Tiles issued a credit note for the following ,but this has not been recorded in the books :

JOZI TILES **2021** **Mr. White** **4544 Parkhurst** **2061**	**CN 2200** **28 February**
Tiles returned (cost price R 13 000)	R 21 500
Unsatisfactory fitting (Fee income)	2 500
	24 000

On closer inspection of the stock it was discovered that tiles costing R49 000 were damaged. These tiles were returned to Imported Tiles Ltd, but no entry has been made.

E. The following appeared in the bank statement of Bank of Africa on 28 February 2021, the information has not been entered in the books:

Bank charges	R2 000
Interest on current account	R250
Stop order for insurance for February 2021	R2 500

F. A physical stock count at the end of the year reflects the following on hand at cost price :

- Trading stock, R570 000
- Consumable stores, R18 000

G. Further bad debts of R3 000 are to be written off and the provision for bad debts is to be adjusted to 5% of trade debtors.

H. New equipment costing R54 000 was bought on 01 January 2021.This has been properly recorded. Depreciation is to be calculated at 10% p.a. on a diminishing balance method

I. The business owned three identical vehicles which were all purchased on the same date. Depreciation is calculated at 20% p.a. on cost.
On 30 November 2019 one of the vehicles was taken over by a partner Mokotedi at the market value of R96 300.No entry has been made to record depreciation or the sale of the vehicle

J. The loan statement from the Bank of Africa reflects the following:

Balance at the beginning of the year: 01 March 2020	R 275 000
Interest capitalized	?
Repayments during the year including interest	70 000
Balance at the end of the year: 28 February 2021	230 000

K. The interest of R9 000 has been earned on fixed deposit, but no entry has been made. The interest is not capitalised.

L. **The partnership agreement provides for the following :**

- Salary to Mogashoa, R108 000 p.a.
- Salary to Mokotedi, R84 000 p.a.
- Interest on capital at 7% p.a.
- Remaining profits to be in the ratio 3:2 between Mogashoa and Mokotedi.

ACTIVITY 2

MAGIX TRADERS

The following information was taken from the books of Magix Traders, owned by Naidoo and Williams. Their financial year ends on the 28 of February 2021.

REQUIRED

- Prepare the Balance sheet
- Prepare the following notes:
  - Tangible assets
  - Trade and other receivables
  - Cash and cash equivalents
  - Trade and other payables
  - Capital and Current accounts

INFORMATION

LIST OF BALANCES ON 28 FEBRUARY 2021	
Capital :Naidoo (28 February 2021)	150 000
Capital : Williams (28 February 2021)	300 000
Current A/c : Naidoo (01 March 2020)	Cr 11 500
Current A/c : Williams (01 March 2020)	Dr 17 400
Drawings :Naidoo	170 000
Drawings :Williams	105 000
Vehicles at cost	332 000
Equipment (at cost)	164 000
Accumulated depreciation on vehicles (28 February 2021)	149 400
Accumulated depreciation on equipment (28 February 2021)	39 900
Mortgage bond: Future bank (15% p.a.)	50 000
Fixed Deposit :Future Bank	110 000
Trading stock	75 400
Consumable stores on hand	1 660
Debtors control	35 200
Provision for bad debts	1 770
Creditors control	45 000
Savings account	34 000
Bank overdraft	3 000
Petty cash	1 000
Accrued income	10 450
Income received in advance	900
Accrued expenses	1 590
Prepaid expenses	7 800
Creditors for salaries	12 050
SARS –PAYE	2 800

ADJUSTMENTS AND ADDITIONAL INFORMATION

1. A debtor with a credit balance of R 1 200 must be transferred to the creditors ledger.
2. 40% of the fixed deposit with Future Bank will mature on 31 May 2021.
3. A vehicle sold on 28 February 2021, was properly recorded, details were: cost price, R112 000 and accumulated depreciation to date of sale, R50 400.
4. Depreciation for the year on vehicles ,R66 600 and equipment,R12 540
5. On 1 September 2020 Naidoo increased his capital by R30 000 and Williams reduced his capital by R20 000.
6. The amount of R12 000 on mortgage bond is payable on 30 June 2021.
7. **The net profit of R296 000 was appropriated as follows:**
   - Salaries: Naidoo is R13 000 per month, and Williams R7 000 per month.
   - Interest on capital at 8% p.a.
   - Remaining profits to be shared in the ratio of their capital balances at the end of the year.

ACTIVITY 3: CONCEPTS AND INCOME STATEMENT **(27 Marks)**

3.1 CONCEPTS

Describe the difference between the sole trader and partnership in terms of their unique accounts. (Refer to the answer book.) (9)

3.2 INCOME STATEMENT

EXCLUSIVE CARPETS

Kgatle and Manyaka are in a partnership business that sells, fit and repair carpets. The name of the business Exclusive Carpets. Their bookkeeper is inexperienced in preparing financial statements and recording of certain adjustments, they need your assistance in correcting and recording certain adjustments presented in the information. The financial period ended on 28 February 2021.

NOTE:

- Installation and repair fees are reflected as fee income
- A mark up of $33\frac{1}{3}$ is applied on all carpets sold

REQUIRED

Calculate the correct Net Profit for the year ended 28 February 2021. (18)

INFORMATION

A. Extract from Pre-Adjustment trial balance on 28 February 2021

	Debit	**Credit**
Trading stock	338 500	
Debtors Control	127 500	
Provision for Bad Debts		8 000

B. The net profit amounted to R852 765, the bookkeeper did not take all the adjustments into account.

C. ADJUSTMENTS

(i) Received the water and electricity account for February 2021, R1 260 this amount has not been paid.

(ii) A cash customer paid R2 250 for a carpet and installation, the selling price of the carpet is R1 500. The payment was recorded but the carpet will only be delivered and installed in March 2021.

(iii) Rent has been paid up to 30 April 2021, rent increased by 10% on 1 January 2021. The rent expense account currently has a total of R57 600.

(iv) During February 2021 a fire broke out in the storage for expensive carpets, a carpet worth R40 000 was damaged. The insurance policy states that the excess payable on all claims made by the business is R5 000, claims are deposited into the business bank account after payment of the excess. The insurance company approved the claim. The amount will be transferred during March 2021.

(v) Further bad debts of R3 000 are to be written off and the provision for bad debts is to be adjusted to 5% of book debts.

(vi) A physical stock take at the end of the year reflects that trading stock on hand amounted to R302 100.

(vii) The loan statement received from SVB Bank reflected the following:

Balance on 1 March 2020	142 000
Interest capitalised	?
Repayments during the year (including capitalised interest)	37 000
Balance on 28 February 2021	119 700

All repayments have been debited to the loan account, but no entry has been made to record the interest. According to the loan agreement the capital portion of the loan will be reduced by R2 250 per month for the next financial year.

ACTIVITY 4: BALANCE SHEET, INTERNAL CONTROL AND ETHICS (73 Marks)

4.1 BALANCE SHEET AND NOTES

JV Television Shop is owned by Jele and Vuyi. Their bookkeeper fell sick before he could process all the year-end adjustments, he is currently on sick leave. The owners have requested you to prepare the Balance sheet, their financial period ends on 28 February 2021.

REQUIRED

4.1.1 Prepare the Balance sheet on 28 February 2021. Where notes are not required, show working in brackets, (38)

4.1.2 Complete the Note on Current Accounts (22)

INFORMATION

Extract of the Trial Balance on 28 February 2021	
Capital: Jele	R400 000
Capital: Vuyi	300 000
Drawings: Jele	55 000
Drawings: Vuyi	100 000
Current account: Jele	Cr 130 500
Current account: Vuyi	Dr 17 500
Cash Float	6 000
Bank overdraft	51 750
Loan from partner: Jele (to be repaid in 2023)	150 000
Fixed Asset @ carrying value (1 March 2020)	779 500
Mortgage loan: Tshwane Bank	180 000
Fixed deposit: Tshwane Bank	55 000
Saving account: Tshwane Bank	35 000
Debtors control	45 500
Creditors control	82 500
Trading stock	362 500
Income receivable (accrued)	11 500
Expense payable (accrued)	3 500
Expense prepaid	7 500
Deferred income (received in advance)	4 500
Consumable stores on hand	7 000

ADJUSTMENTS AND ADDITIONAL INFORMATION

A. The following items are reflected in the bank statement for February 2021 but have not yet been recorded:

- Direct transfer of rent from tenant, R5 500
- Paid R16 500 to Shoba Software by EFT.

B. Interest for February 2021 on the mortgage loan from Tshwane Bank has not been recorded. The interest is capitalised, the rate of interest is 15% p.a. The mortgage loan is expected to decrease by R21 000 over the next financial year.

C. Depreciation for the year amounted to R27 500.

D. A debtor's debit balance of R 7 000 in the Debtors Ledger must still be transferred to his account in the Creditors Ledger.

E. JV Televisions had 4 outdated television sets worth R12 000, they were all bought by Vuyi at a reduced price of R6 000, Jele was not consulted and the transaction has been properly recorded.

F. The correct net profit after processing all adjustments is R242 000.

G. **The partnership agreement provides for the following:**

- A salary paid to Jele is R10 000 per month. Jele's salary is 20% above Vuyi's salary.
- Jele earned a bonus of R40 000 for extra time worked during the year.
- Interest on capital is calculated at 8% p.a. The financial records reflect that Jele increased his capital contribution by R50 000 on 31 August 2020, while Vuyi decreased his capital by R100 000 on the first day of the financial year.
- Vuyi's share of the remaining loss is R25 500. The profit - sharing ratio between Jele and Vuyi is 5:3.

4.2. INTERNAL CONTROL AND ETHICS (13 Marks)

Read the following statements and respond to the questions provided.

4.2.1 Jele feels that the partners have not been controlling their cash resources well. Support your explanation by quoting relevant figures from the information provided in 2.1. Provide **TWO** points. (6)

4.2.2 Jele feels that he is bearing an unfair financial burden in this business. In **TWO** points explain why do you agree with him and provide figures to support your answers. (4)

4.2.3 Do you think Vuyi's decision of buying the television sets at the reduced price was fair? Explain in **ONE POINT** how best this transaction could have been handled to benefit both partners. (3)

6. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

The purpose of drafting the financial statements is to determine the profitability of the business, liquidity and if the business is financially sound.

Analysis of the financial statements is important to any business, correct decisions can be taken by the owners after analysing the statements. The business might also have to adjust or review the policies, but that that will be in line with GAAP (Accounting Principles).

The table provided below reflects the financial indicators that are covered in grade 10 and 11.

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS			
CLASSIFICATION	**GRADE 10**	**GRADE 11**	
	SOLE TRADER	**PARTNERSHIP**	
PROFITABILITY	Gross profit on sales	Gross profit on sales	
	Gross profit on cost of sales	Gross profit on cost of sales	
	Net profit on sales	Net profit on sales	
	Operating expenses on sales	Operating expenses on sales	
	Operating profit on sales	Operating profit on sales	
Solvency	Solvency ratio	Solvency ratio	
Liquidity	Current ratio	Current ratio	
	Acid test ratio	Acid test ratio	
		Stock turnover rate	New
		Stock holding period	New
		Average debtors collection period	New
		Average creditors payment period	New
Return	Return on equity **IS/BS**	Return on <u>partners'</u> equity	
		Partners' earnings	New
Financial Risk/ Gearing		Debt -equity ratio (gearing)	New

Strategy in answering analysis and interpretation of financial statements

(recommended steps)

- Calculate the financial indicators (if they are not given on the table of indicators).
- Identify the appropriate financial indicators necessary to answer the question**.**
- Comment on the financial indicators given or calculated
- Quote the figures and show the trend. Do some comparison (increased/decreased)
- Comparisons would include:
  - Information of the same business (previous financial year)
  - Other businesses in the same industry (competitors)
  - Targets set by the business (such as mark-up percentage)
  - An alternative action (such as an investment in a fixed deposit)

SUMMARY OF INDICATORS COVERED IN GRADE 11

Classification	Financial Indicators	Formulae	Answer	Integration
Profitability	Gross profit on sales	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	%	**Income Statement**
	Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	%	
	Operating profit on sales	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	%	
	Operating expenses on sales	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	%	
	Net profit on sales	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$	%	
Solvency	Solvency ratio	Total assets : Total liabilities	Ratio $x : 1$	**B.Sheet**
Liquidity	Current ratio	Current assets : Current liabilities	Ratio $x : 1$	**B.Sheet**
	Acid test ratio	Current assets - inventories : Current liabilities	Ratio $x : 1$	**B.Sheet**
	Stock turnover rate	$\frac{\text{Cost of sales}}{\text{Average Stock}}$	Times	**IS/BS**
	Stock holding period	$\frac{\text{Average Stock}}{\text{Cost of sales}} \times \frac{365}{1}$	Days / months	**IS/BS**
	Average debtors collection period	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times \frac{365}{1}$	Days / months	**IS/BS**
	Average creditors payment period	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times \frac{365}{1}$	Days / months	**IS/BS**
Return	Return on Partners Equity	$\frac{\text{Net profit}}{\text{Average Partners Equity}} \times \frac{100}{1}$	%	**IS/BS**
	% Return earned by each partner	$\frac{\text{Partners earnings}}{\text{Average Partners Equity}} \times \frac{100}{1}$	%	**APP/BS**
Financial risk/Gearing	Debt -equity ratio (gearing)	Non-current liabilities : Partners' equity	Ratio $x : 1$	**BS**
B.Sheet/BS =Balance sheet	I/S =Income statement	APP-Appropriation		

Example one

Use the information below to calculate and comment on the following ratios:

- gross profit % on sales
- gross profit % on cost of sales
- operating profit % on sales
- operating expenses % on sales
- net profit % on sales
- current ratio
- acid test ratio
- stock turnover rate
- stock holding period
- debtors collection period
- creditors payment period
- solvency ratio
- % return on partners' equity

INFORMATION
The following information relates to the financial records of Bigfoot Traders with partners B Big and F Foot.

INCOME STATEMENT OF BIGFOOT TRADERS- FEBRUARY		
	2021	**2020**
Sales	1 828 000	1 650 000
Cost of sales	(1 040 000)	(860 000)
Gross profit	788 000	790 000
Other operating income	206 560	193 120
Rent income	204 000	190 000
Provision for bad debt adjustment	2 560	3 120
Gross operating profit	994 560	983 120
Operating expenses	(530 800)	(493 600)
Advertising	25 000	19 600
Insurance	13 700	11 000
Bad debts	5 800	7 000
Water and electricity	24 000	22 800
Salaries and wages	360 000	328 000
Stationery	2 000	1 600
Sundry expenses	84 300	89 600
Trading stock deficit	2 000	0
Depreciation	14 000	14 000
Operating profit	463 760	489 520
Interest income	7 300	5 000
Profit before interest expense	471 060	494 520
Interest expense	(34 000)	(30 000)
Net profit for the year	437 060	464 520

BALANCE SHEET ON 28 FEBRUARY			
		2021	**2020**
ASSETS			
NON-CURRENT ASSETS		2 062 000	1 996 000
Tangible Assets		1 986 000	1 922 000
Financial Assets			
Fixed Deposit		76 000	74 000
CURRENT ASSETS		732 660	665 600
Inventory		420 800	398 600
Trade and other receivables		159 660	156 600
Cash and cash equivalents		152 200	110 400
TOTAL ASSETS		**2 776 660**	**2 661 600**
EQUITY AND LIABILITIES			
EQUITY		2 247 060	2 008 000
Capital		2 200 000	2 000 000
Current accounts		47 060	8 000
NON-CURRENT LIABILITIES		400 000	424 000
Mortgage loan		400 000	424 000
CURRENT LIABILITIES		129 600	229 600
Trade and other payables		129 600	229 600
TOTAL EQUITY AND LIABILITIES		**2 776 660**	**2 661 600**

ADDITIONAL INFORMATION

1 The following were totals for 2019:

	2019
Trading stock	360 000
Trade and other receivables	169 400
Trade and other payables	230 400

2. The following were balances for 2021 and 2020

	2021	**2020**
Total earnings: B Big	243 036	206 040
Total earnings: F Foot	194 024	258 480
Average equity: B Big	1 897 518	1 708 000
Average equity: F Foot	830 012	760 000

3. All purchases and sales are on credit.
4. The mark-up used by the business is 100% on cost price.
5. The business sells bedroom furniture.
6. Interest on alternative investment is 8%

SUGGESTED SOLUTION

Percentage gross profit on sales	
2021	**2020**
$\frac{\text{Gross profit}}{\text{sales}} \times \frac{100}{1}$ $\frac{\text{R788 000}}{\text{R1 828 000}} \times \frac{100}{1}$ = **43,1%**	$\frac{\text{Gross profit}}{\text{sales}} \times \frac{100}{1}$ $\frac{\text{R790 000}}{\text{R1 650 000}} \times \frac{100}{1}$ = **47,2%**

- There is a decline from 47, 2% to 43,1%.
- It can be due to sales prices incorrectly marked.
- Too much trade discount or goods sold for less than mark-up (no adherence to policy).

Percentage gross profit on cost of sales (mark-up %)	
2021	**2020**
$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$ $\frac{\text{R788 000}}{\text{R1 040 000}} \times \frac{100}{1}$ **= 75,8%**	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$ $\frac{\text{R790 000}}{\text{R860 000}} \times \frac{100}{1}$ **= 91,9%**

- The mark-up has decreased from 91, 9% to 75, and 8%.
- The business does not meet their mark-up of 100% on cost price
- Too much trade discount or goods sold for less than mark-up (no adherence to policy).
- Could be resulting from stock losses or theft.

Percentage operating profit on sales	
2021	**2020**
Operating profit / Turnover x 100 / 1	Operating profit / Turnover x 100 / 1
R463 760 / R1 828 000 x 100 / 1 **= 25,4%**	R489 520 / R1 650 000 x 100 / 1 **= 29,7%**

- There is a decline from 29,7% to 25,4%. Sales have increased yet operating profit has decreased.
- A large amount of the income is used to pay for expenses, expenses are not well managed.

The business should increase the control over expenses (Recommendation)

Percentage operating expenses on sales	
2021	**2020**
Operating exp / Turnover x 100 / 1	Operating exp / Turnover x 100 / 1
R530 800 / R1 828 000 x 100 / 1 **= 29%**	R493 600 / R1 650 000 x 100 / 1 **= 29,9%**

- It decreased from 29,9% to 29%.
- Costs have slightly increased, they should be controlled.

Percentage net profit on sales	
2021	**2020**
Net profit / Turnover x 100 / 1	Net profit / Turnover x 100 / 1
R437 060 / R1 828 000 x 100 / 1 **= 23,9%**	R464 520 / R1 650 000 x 100 / 1 **= 28,2%**

- The indicator has declined from 28,2% to 23,9%.
- Increase or poor control in expenses.

Solvency ratio	
2021	**2020**
Total assets : Total liabilities R2 776 660 : R529 600 = 5,2 : 1	Total assets : Total liabilities R2 661 600 : R653 600 = 4,1 : 1

- Ratio improved from 4, 1:1 to 5, 2:1.
- For every R1 liabilities there are R5, 20 assets to pay for it, the business is solvent.

Current ratio	
2021	**2020**
Current assets : Current liabilities R732 660 : R129 600 = 5,7 : 1	Current assets : Current liabilities R665 600 : R229 600 = 2,9 : 1

- Ratio increased from 2, 9:1 to 5,7:1, for every R1 owing the business has R5,70 to pay for it.
- The high ratio is likely to indicate high stock levels and that means cash is tied up in stock.

Acid-test ratio	
2021	**2020**
Current assets - inventories : Current liabilities (R732 600 – R420 800) : R129 600 = R311 800 : R129 600 = 2,4 : 1	Current assets - inventories : Current liabilities (R665 600 – R398 600) : R229 600 = R267 000 : R229 600 = 1,2 : 1

- Ratio increased from 1,2:1 to 2,4:1.
- This means that the business can pay its short term debts without having to sell stock.

Average debtors collection period	
2021	**2020**
$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times \frac{365}{1}$ $\frac{½(R156\ 600 + R159\ 660)}{R1\ 828\ 000} \times \frac{365}{1}$ = 31,6 days	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times \frac{365}{1}$ $\frac{½(R156\ 600 + R169\ 400)}{R1\ 650\ 000} \times \frac{365}{1}$ = 36,1 days

- The period decreased from 36,1 days to 31,6 days which is an improvement.
- Debtors are paying their accounts quicker.
- Encourage debtors by offering discount for early payments and charge interest on debtors who take more than 30 days to settle their accounts.

Average creditors payment period	
2021	**2020**
$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times \frac{365}{1}$ $\frac{½(R229\ 600 + R129\ 600)}{R1\ 040\ 000} \times \frac{365}{1}$ = 63 days	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times \frac{365}{1}$ $\frac{½(R230\ 400 + R229\ 600)}{R860\ 000} \times \frac{365}{1}$ = 97,6 days

- The period decreased from 97,6 days to 63 days.
- Business is paying their creditors quicker.
- The business receives payments from debtors before they pay the creditors which is good for the cash flow of the business.
- Paying within the credit term result to creditworthiness and they will not be charged interest for overdue accounts.

Rate of stock turnover	
2021	**2020**
Cost of sales / Average inventories R1 040 000 / ½(R398 600 + R420 800) = 2,5 times per year	Cost of sales / Average inventories R860 000 / ½(R398 600 + 3R60 000) = 2,3 times per year

- There is an improvement of 2,3 to 2,5 times per year.
- This is satisfactory as the business sells furniture, their stock is moving faster.

Stock holding period	
2021	**2020**
Average inventories / Cost of sales x 365 / 1 ½(R398 600 + R420 000) / R 1 040 000 x 365 / 1 = 143,6 days	Average inventories / Cost of sales x 365 / 1 ½(R398 600 + R360 000) / R860 000 x 365 / 1 =161 days

- The period has improved from 161 to 143,6 days.
- 143 is a long period for a business to keep stock, they should review their purchasing policy and the market strategies.

Debt / Equity ratio (gearing ratio)	
2021	**2020**
Non-current liabilities : Owners' equity = R400 000 : R2 274 060 = 0,18 : 1	Non-current liabilities : Owners' equity = R424 000: R2 008 000 = 0,21 : 1

- The ratio improved from 0,21:1 to 0,18:1.
- The business is at low risk / lowly geared.
- The business is creditworthy, the business can obtain an additional loan in future.

Partners' earnings	
2021	**2020**
B Big $\frac{\text{Partner's earnings}}{\text{Average partner's equity}} \times \frac{100}{1}$ $\frac{R243\ 036}{R1\ 897\ 518} \times \frac{100}{1}$ =12,8%	**B Big** $\frac{\text{Partner's earnings}}{\text{Average partner's equity}} \times \frac{100}{1}$ $\frac{R206\ 040}{R1\ 708\ 000} \times \frac{100}{1}$ = 12,1%
F Foot $\frac{\text{Partner's earnings}}{\text{Average partner's equity}} \times \frac{100}{1}$ $\frac{R194\ 024}{R830\ 012} \times \frac{100}{1}$ = 23,4%	**F Foot** $\frac{\text{Partner's earnings}}{\text{Average partner's equity}} \times \frac{100}{1}$ $\frac{R258\ 400}{R760\ 000} \times \frac{100}{1}$ =34%

- The percentage earnings of Big increased from 12,1% to 12,8%.
- The percentage earnings of Foot decreased from 34% to 23,4%.
- Partners' earnings are higher than the interest rate (8%) on other investments, the partners can be satisfied with the returns.

EXAMPLE OF FORMULA SHEET ATTACHED TO THE EXAM PAPER

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$

$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Total earnings by partner}}{\text{Partner's average equity}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Average owners 'equity}} \times \frac{100}{1}$
Current assets : Current liabilities	
(Current assets – Inventories) : Current liabilities	
(Trade and other receivables + Cash and cash equivalents) : Current liabilities	
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
Non-current liabilities: Owners' equity	Total assets: Total liabilities

NOTE: The name of indicators are not provided, sufficient practice activities is recommended to improve the understanding of the analysis and interpretation of financial information

ACTIVITY 1

Golden Traders is a partnership business owned by partners David and Moses.
The financial year ended on 29 February 2020.

REQUIRED:

1.1 Calculate the following:

- 1.1.1 The total current liabilities
- 1.1.2 Percentage return earned by David
- 1.1.3 Debt equity ratio
- 1.1.4 Acid-test ratio

1.2 Comment on the liquidity of the business. Quote TWO financial indicators (with figures) in your answer.

1.3 Do you think that David is satisfied with his return on investment? Explain. Quote TWO relevant financial indicators (with figures) to support your answer

1.4 The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures).

INFORMATION:

A. GENERAL LEDGER OF GOLDEN TRADERS
APPROPRIATION ACCOUNT

2020 Feb 29	Salary: David	165 000	2020 Feb 29	Profit and loss	491 040
	Salary: Moses	200 640			
	Interest on capital: David	46 200			
	Interest on capital: Moses	30 800			
	Bonus: Moses	13 200			
	Current account: David	21 120			
	Current account: Moses	14 080			

B. BALANCES AND OTHER INFORMATION:

	29 Feb 2020	28 Feb 2019
Capital: David	577 500	440 000
Capital: Moses	385 000	440 000
Current account: David	10 010 (Dr)	16 940
Current account: Moses	11 660	13 420
Loan: Mia Bank (11% p.a.)	440 000	440 000
Trade debtors	300 520	156 200
Cash and cash equivalents	40 480	40 260
Trading stock	194 700	55 000
Current liabilities	?	139 700
Current ratio	2.5:1	1.8:1
Acid test ratio	?	1.2:1
Debt equity ratio	?	0.5:1
Return earned by David	?	48%
Return earned by Moses	61%	57%

ACTIVITY 2 :ANALYSIS AND INTEPRETATION OF FINANCIAL STATEMENTS

(MARKS : 30)

DESIGNER TRADERS

Fiona and Themba are partners in a business called Designer Traders. The following information was taken from the financial statements for the year ended 29 February 2020.

Debtors are given 30 days to pay their accounts and creditors are paid in 60 days.

REQUIRED:

Use the information given below to answer the following questions.
(Round off to1 decimal place)

2.1 Calculate the Acid Test Ratio for February 2020. (4)

2.2 Calculate the Debtors collection period for the year ended 29 February 2020. (6)

2.3 Calculate the Debt-Equity ratio for the year ended 29 February 2020. (4)

2.4 Comment on the liquidity position of the business. Quote at least **TWO** financial indicators and figures in your answer. (6)

2.5 Based on your calculations in 3.2, should the business be happy with payments received from debtors? (6)
- Provide **TWO** points to support your answer
- Advice the partners on how to **resolve** this problem or how to **maintain** the financial results in **ONE** point.

2.6 The partners are considering to take an additional loan of R300 000 in the next financial year at the same interest rate .Do you think this is a wise decision? Explain and quote **ONE** financial indicator to support your answer. (4)

INFORMATION

The following figures have been taken from the books of Designer Traders for the financial year ended on 29 February 2020.

A. INFORMATION EXTRACTED FROM INCOME STATEMENT

	29 February 2020
Total Sales (70% credit)	434 000
Cost of sales	135 000

B. INFORMATION EXTRACTED FROM BALANCE SHEET

	29 February 2020	28 February 2019
Capital :Fiona	550 000	500 000
Capital :Themba	700 000	600 000
Current Account :Fiona	145 000 CR	120 000 CR
Current Account :Themba	175 000 CR	135 000 CR
Long term loan	250 000	320 000
Current assets	95 200	71 000
Current liabilities	48 000	49 000
Inventories (all trading stock)	38 000	40 000
Debtors Control	75 000	45 000

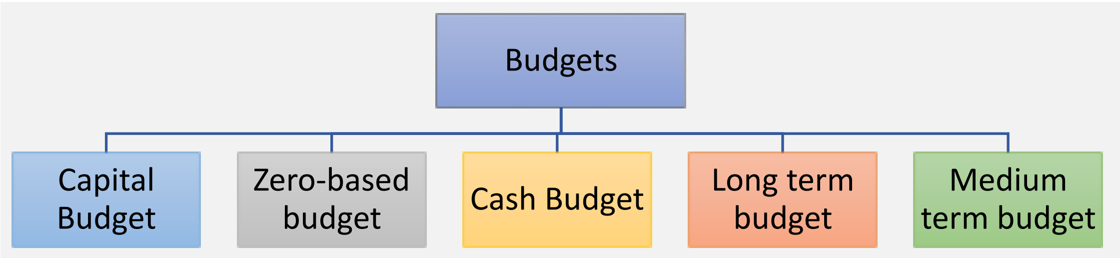
C. THE FOLLOWING FINANCIAL INDICATORS WERE CALCULATED:

	29 February 2020	28 February 2019
Debtors collection period	?	68 days
Creditors payment period	58 days	62 days
Stock turnover rate	9 times	7 times
Return on Partners Equity	57%	39%
Current Ratio	1.9:1	1.4:1
Acid test Ratio	?	0.63 :1
Debt Equity ratio	?	03.1
Interest on loan	12%	12.5%
Interest on fixed Deposit	9.5%	10%

7. BUDGETS

INTRODUCTION

In grade 10 you have been introduced to different types of budgets and basic calculations. The types of budgets discussed in the previous grade are:



This module will introduce you to the following :

- Projected Debtors Collection Schedule
- Projected Creditors Payment Schedule
- Cash Budget
- Projected Income Statement

The business can achieve maximum profits through effective planning and by placing effective controls. The following actions among others should be considered by a business if they want to plan effectively :

- Reliable records of past transactions
- Consider external factors such as economic conditions, inflation, etc.
- Investment in fixed assets
- Purchasing of stock
- Financing methods and sources of funding
- Collection from debtors and payments to creditors

Importance of a Budget

- The cash budget is an essential tool used to plan and monitor the liquidity of the business enterprise .The management can ascertain whether the enterprise will have enough cash:
  - To meet the short term commitments such as paying creditors and repaying loans
  - To purchase stock
  - Purchase additional fixed assets
  - Budgets will assist the enterprise to **predict shortfalls** and arrangements can be made with the banks, and other sources of funding in advance.
  - Many potential funders will require you to provide a budget in addition to a business plan, particularly if you are new in business.

Points to consider when drawing the Budget

- The budget must be conservative i.e. it must be achievable and realistic
- Budgeted expenditure should not exceed budgeted income
- After the budget period the budgeted income and expenditure must be compared with the actual figures.

Debtors' collection schedule

Reflects the amounts expected to be owed by debtors and as well as receipts from debtors. The following information is used to prepare the debtors schedule:

- Expected credit sales to debtors
- Actual credit sales
- Credit policy that **determines period for collecting debtors accounts**, the trader must clearly indicate the credit terms to be allowed e.g.30 days, 60 days, 90 days etc.
- The cash discount, the customer can be entitled to when he pays before the stipulated date.

EXAMPLE 1

Naidoo Store's credit sales were as follows:

REQUIRED

Calculate the expected collections from debtors during the budgeted months of September, October and November.

Month	Actual	Budgeted
July	80 000	
August	90 000	
September		96 000
October		100 000
November		110 000

Debtors usually settle their accounts as follows

- 50% during the month of sales (transaction month)
- 30% during the month following the month of sales (one month after sales / 30 days)
- 18% during the second month after sales (two months after sale / 60 days)
- 2% irrecoverable debts (bad debts/ 90 days)

EXPECTED ANSWER

Debtors collection schedule					
			Collection period		
Month	**Credit sales**	**Terms**	**September**	**October**	**November**
July	80 000	× 50 % (July) same month	*50% and 30% are not collected within the budget period*		
		× 30 % (Aug) 30 days			
		× 18 % (Sept) 60 days	**14 400**		
Aug	90 000	× 50 % (Aug)			
		× 30 % (Sept)	**27 000**		
		× 18 % (Oct)		**16 200**	
Sept	96 000	**× 50 % (Sept)**	**48 000**		
		× 30% (Oct)		**28 800**	
		× 18 % (Nov)			**172 80**
Oct	100 000	**× 50 % (Oct)**		**50 000**	
		× 30 % (Nov)			**30 000**
		× 18 % (Dec)			
Nov	110 000	**× 50% (Nov)**			**55 000**
		× 30% (Dec)			
		× 18% (Jan)			
Receipts from debtors			**89 400**	**95 000**	**102 280**

Show only the amounts to be collected from debtors
Total receipts is recorded in the Cash Budget

Always start with the Actual sales when preparing the debtors collection schedule

R80 000 and R90 000

ACTIVITY 1 : DEBTORS COLLECTION SCHEDULE

REQUIRED

Make use of the information provided below to draw up the Debtors collection period for the three month period 01January 2021 to 31 March 2021.

INFORMATION

Month	Actual	Budgeted
November	60 000	
December	80 000	
January		50 000
February		52 000
March		60 000

Debtors usually settle their accounts as follows:

- 60 % of debtors pay one month after the date of sale
- 20 % of debtors pay two months after the date of sale
- 15 % of debtors pay three months after the date of sale
- 5 % irrecoverable debts (bad debts)

Note: Cash sales is 40% of total sales

EXAMPLE 2 : DEBTORS COLLECTION SCHEDULE

REQUIRED

Use the information provided below to prepare the Debtors collection schedule of Zizzy Stores for October, November, and December 2021.

INFORMATION

1. Actual sales and expenses			
Month	**July**	**August**	**September**
Cash Sales	40 000	41 000	43 000
Credit sales	38 000	38 000	41 000
Salaries	23 000	23 000	23 000
Depreciation	7 000	7 000	7 000

2. Budgeted sales and expenses			
Month	**October**	**November**	**December**
Cash sales	43 000	45 000	52 000
Credit sales	40 000	42 000	50 000
Salaries	23 000	23 000	28 000
Depreciation	7 000	7 000	7 000

3. The enterprise encourages the debtors to pay early by allowing a 5% discount for accounts settled within 30 days.
4. Debtors are expected to pay as follows**:**
   - 50% in the same month as transactions (receive 5 % discount)
   - 30% in the following month
   - 15% after two months
   - 5% is written off as irrecoverable

EXPECTED ANSWER

	Debtors Collection Schedule of Zizzy Stores				
			Collection period		
Month		**Credit Sales**	**October**	**November**	**December**
August	(38 000× 15 %)	38 000	5 700		
September	(41 000 × 30 %)	41 000	12 300		
	(41 000 × 15 %)			6 150	
October	**Check calculations**	40 000	19 000		
	(40 000× 30%)			12 000	
	(40 000× 15 %)				6 000
November	**Check calculations**	42 000		19 950	
					12 600
December	**Check calculations**	50 000			23 750
Receipts from debtors			**37 000**	**38 100**	**42 350**

Extract from the Cash Budget of Zizzy Stores			
	October	**November**	**December**
Cash Receipts			
Cash Sales	43 000	45 000	52 000
Receipts from debtor **(From debtors collection)**	37 000	38 100	42 350
Total Cash Receipts	**80 000**	**83 100**	**94 350**
Cash Payments			
Salaries	23 000	23 000	28 000

Extract from Projected Income Statement of Zizzy Stores			
	October	**November**	**December**
Sales **(Budgeted cash sales and credit sales)**	83 000	87 000	102 000
Operating expenses			
Salaries	23 000	23 000	28 000
Depreciation	7 000	7 000	7 000

Credit sales + Cash sales
40 000 + 43 000

NOTE: *Depreciation does not affect our Cash Budget because there's no outflow of cash only recorded in our Projected Income Statement.*

Calculations		
October	**November**	**December**
40 000 × 50 % = 20 000 *20 000 × (100 % – 5 %)* *20 000 × 95 %* *= 19 000*	*42 000 × 50 % = 21 000* *21 000 × (100 % - 5 %)* *21 000 × 95 %* *=19 950*	*50 000 × 50% = 25 000* *25 000 × (100 % - 5 %)* *25 000 × 95 %* *= 23 750*

Creditors Payment Schedule

- A business usually negotiates with its creditors **how much time** it is allowed **to pay back** the amount owed to the creditors
- When preparing the Cash Budget the enterprise must calculate cash expected to be paid to the creditors.
- These payments are set out in the Creditors payment schedule.

EXAMPLE 3

REQUIRED

Use the information provided below to draw the creditors payment schedule of Nozzy Traders for April and May 2021.

INFORMATION

Actual Purchases		Budgeted Purchases	
January	50 000	April	65 000
February	52 000	May	70 000
March	60 000		

ADDITIONAL INFORMATION

- 60% of the purchases are done on credit
- Creditors are paid after 60 days (i.e. two months after the purchases are made)

EXPECTED ANSWER

Creditors payment schedule of Nozzy Traders for April and May 2021		
Credit purchases	**April**	**May**
February (52 000 × 60%)	31 200	
March (60 000 × 60%)		36 000
Payments to creditors	**31 200**	**36 000**

Extract from the Cash Budget Nozzy Traders for 2021		
Cash Payments	**April**	**May**
Cash purchases [65 000 × 40%] [70 000 × 40%]	26 000	28 000
Payments to creditors	31 200	36 000

EXAMPLE 4

Use the information in respect of Mandisa Traders to prepare the creditors payment schedule for the first quarter of 2021.

INFORMATION

Balance at 31 December 2020		Budgeted Purchases for 2021	
Creditors	R53 000	January	R80 000
Trading stock	R45 000	February	R70 000
		March	R84 000

- Cash purchases of trading stock amount to 50% of all purchases.
- Credit purchases are paid in the month following the month of sales to obtain a discount of 5%.
- Stock replenishment takes place on monthly basis and the opening balance will be maintained as the base stock

EXPECTED ANSWER

Creditors payment schedule of Mandisa Traders for 2021			
Credit purchases	**January**	**February**	**March**
December	53 000		
January		38 000	
February			33 250

Extract of the Cash Budget –Mandisa Traders for 2021			
	January	**February**	**March**
Cash Payments			
Cash purchases	40 000	35 000	42 000
Payments to creditors	53 000	38 000	33 250

Workings

Credit purchases

January

80 000 × 50% = 40 000

40 000 × (100% - 5%)

40 000 × 95%

= 38 000

February

70 000 × 50% = 35 000

35 000 × (100% - 5%)

35 000 × 95%

= 33 250

Cash purchases:

January

80 000 × 50% = 40 000

February

70 000 × 50% = 35 000

March

84 000 × 50% = 42 000

Trading stock					
1Jan 2021	Balance b/d	45 000	31 Jan 2021	Cost of sales	80 000
	Creditors Control	40 000		Balance c/d	45 000
	Bank	40 000			
		125 000			125 000

80 000 x 50% = (cash sales/credit sales)

45 000 will be the opening and closing balance **(Base stock)**
All the stock bought in January is sold in the same month.
Therefore the cost of sales is equal to purchases.

CASH BUDGET

- A cash budget shows estimates of future cash receipts and payments .Budgets are drawn up to help management identify potential shortages or surpluses of cash resources that could occur.
- A cash budget deals only with transactions involving movement of cash, non –cash expenses are not included.

Items that are not included in the cash budget :	
• Bad debts • Discount received • Discount allowed • Depreciation	• Loss on sale of an asset • Profit on sale of an asset • Drawings of trading stock

Expected cash receipts (inflow)	**Expected cash payments (outflow)**
• Cash sales	• Cash purchases of trading stock & fixed assets
• Receipts from debtors	• Payments to creditors
• Rent income	• Cash withdrawals by the owner
• Interest received (on investments)	• Cash invested
• Investments matured	• Loans repaid
• Sale of fixed assets	• Cash payments of operating expenses e.g. rent, salaries, telephone etc.
• Loans receivable	

Components of the Budget	
Cash Receipts	Prediction of cash receipts (Inflow) for the budget period.
Cash Payments	Prediction of cash payments (Outflow) for the budget period
Cash Surplus /shortfall	Total cash receipts less total cash payments
Bank opening balance	The bank balance at the beginning of the budget period
Bank closing balance	The expected bank balance at the end of the budget period.

EXAMPLE 5

BEAUTY TRADERS

The following information was extracted from the records of Beauty Traders. Use the information provided to draw up the:

- Debtors Collection schedule for the three months ending 30 September 2021
- Cash budget for the three month period ending 30 September 2021

INFORMATION

	Actual Amounts		Budgeted Amounts		
	May	**June**	**July**	**August**	**September**
Cash sales	20 000	26 000	34 000	37 000	40 000
Credit sales	24 000	29 000	28 000	30 000	24 000
Wages	10 000	10 000	10 000	11 000	11 000
Rent income	5 000	5000	5 000	5 500	5 500
Cash purchases	17 000	16 000	11 000	10 000	14 000
Credit purchases	20 000	26 000	25 000	28 000	26 000
Other expenses	17 000	17 000	17 000	19 000	19 000

ADDITIONAL INFORMATION

(a) New computer will be bought on 1 August 2021, R6 000 will be transferred electronically.

(b) Beauty Traders had a favourable balance of R28 000 on 01 July 2021

(c) Debtors normally pay their accounts as follows :

- 60 % one month after the date of sale
- 40% two months after the date of sale

(d) Creditors are paid in full one month after the purchase of goods.

(e) Other expenses are paid in the month they occur.

EXPECTED ANSWER

DEBTORS' COLLECTION SCHEDULE – BEAUTY TRADERS				
		Debtors collection		
Month	**Credit sales**	**July**	**August**	**September**
May	24 000 × 40%	9 600		
June	29 000 × 60%	17 400		
	× 40%		11 600	
July	28 000 × 60%		16 800	
	× 40%			11 200
Aug	30 000 × 60%			18 000
Expected receipts		**27 000**	**28 400**	**29 200**

CASH BUDGET OF BEAUTY TRADERS – 01JULY 2021 - 30 SEPTEMBER 2021			
RECEIPTS	**July**	**August**	**September**
Cash sales	34 000	37 000	40 000
Receipts from debtors	27 000	28 400	29 200
Rent income	5 000	5 500	5 500
	66 000	70 900	74 700
PAYMENTS			
Cash purchases	11 000	10 000	14 000
Creditors	26 000	25 000	28 000
Wages	10 000	11 000	11 000
Expenses	17 000	19 000	19 000
Equipment		6 000	
	64 000	71 000	72 000
Cash surplus /Deficit	**2 000**	**(100)**	**2 700**
Bank opening balance	28 000	30 000	29 900
Bank closing balance	30 000	29 900	32 600

Receipts less Payments = Surplus /Deficit
66 000 – 64 000 = 2 000

ACTIVITY 2

PHAKISO TRADERS

You are provided with the information from Phakiso Traders. You are required to complete the following for January and February 2021:

- Debtors Collection schedule
- Cash budget for January and February

INFORMATION

A. EXTRACT FROM THE LIST OF BALANCES ON 01 DECEMBER 2020	
Fixed Deposit (8 % p.a.)	24 000
Loan: Future Bank (14 % p.a.)	36 000

B. ACTUAL AND BUDGETED FIGURES				
	Actual		**Budgeted**	
	November	**December**	**January**	**February**
Credit sales	45 000	48 000	60 000	54 000
Cash sales	50 000	55 000	40 000	36 000
Credit purchases	22 000	23 000	30 000	25 000

ADDITIONAL INFORMATION

1. It is expected that the amounts owed by debtors will be collected as follows:
   - 30 % in the same month in which the transaction took place
   - 50% in the month after the sales take place
   - 15% in the second month after the sales took place
   - 5% is to be written off in the third month after the sales take place
2. The Fixed deposit matures on the 31 January 2021. Interest on Fixed Deposit is received at the end of each month.
3. The business will sell the old equipment on 31 January 2021 for R3 000 cash. New equipment will be purchased on credit for R34 000 in February .The supplier will require a deposit of R4 000 and the balance will be paid over six months commencing in March 2021.
4. Depreciation will increase from R6 700 to R7 000 from January 2021.
5. Credit purchases are paid in full in the month following the purchases transaction month. A discount of 5% is received for this payment.
6. The loan from Mayibuye Bank was made on 01 November .Half of the loan will be repaid on 31 January 2021 .Interest on loan must be paid monthly.
7. The business employs three shop assistants at a salary of R4 000 each per month. On 31 January one of the assistants will leave the business. The other two assistants will receive the increase R1 000 each per month with effect from 01 February.
8. Part of building is let at R2 500 per month .The rent received will increase by 15% on 01 February.
9. Phakiso Traders has an unfavourable bank balance of R6 200.

Note: The interest on **Fixed deposit** and **Loan Account** is not capitalised

ACTIVITY 3

The information provided is extracted from the books of Baloyi Traders.

REQUIRED

- Complete the Debtors' collection schedule of Baloyi Traders for April 2021 and May 2021.
- Prepare the Cash Budget of Baloyi Traders for April 2021 and May 2021.

INFORMATON

1. Cash in the Bank on 31 March 2021, R 18 400
2. Summary of transactions:

	ACTUAL			**BUDGETED**	
	January	**February**	**March**	**April**	**May**
Cash sales	R 27 500	R 24 500	R 21 500	R 27 500	R 36 000
Credit sales	R 28 400	R 29 500	R 32 500	R 28 500	R 34 500
Cash purchases of stock	R 12 000	R 15 800	R 16 100	R 12 400	R 14 700
Credit purchases of stock	R 16 850	R 16 250	R 15 450	R 14 800	R 17 900
Operating expenses	R 6 600	R 7 000	R 7 600	??	??

3. Credit sales are to be collected as follows:
   - 20% in the month of sale (5% settlement discount is allowed for prompt settlement)
   - 60% after 30 days (first month after sale)
   - 18% after 60 days (second month after sale)
   - 2% is to be written off after 90 days (third month after sales)
4. Creditors are paid one month after purchases.
5. Operating expenses are paid in cash one month after the expense occurred. It is expected that the operating expenses would increase by 5% per month over the budget period.
6. The following withdrawals are made monthly by the owner:
   - Cash to pay for owners' personal telephone R 300
   - Trading stock R 700
7. Fixed deposit of R 45 000 with an interest of R 4 000 is due to mature on the 15 of May 2021.
8. Depreciation is calculated at R 3 500 per month.
9. A new vehicle costing R 53 000 will be purchased and paid in April 2021.

ACTIVITY 4 : BUDGETS **(55 marks; 33 minutes)**

4.1 From the list below, choose the words that best suit the description given. Only write the words next to the questions (4.1.1 – 4.1.5) in the ANSWER BOOK.

Cash budget; Debtors collection schedule; Creditors payment schedule; Projected income statement; Proceeds from sale of asset; Discount allowed

4.1.1 Estimated future receipts from customers are calculated.

4.1.2 An item that appears in the projected income statement but not in the cash budget.

4.1.3 Indication of whether there will be sufficient inflow of cash to be able to support expected payments.

4.1.4 Indication of future revenue and expenditure.

4.1.5 Expected future payments to suppliers. (5)

4.2 **THUMAMINA TRADERS**

The information relates to the budget period: 1 September - 31 October 2021.

REQUIRED:

4.2.1 Prepare the Debtors collection schedule. (14)

4.2.2 Complete the Cash budget. (26)

4.2.3 Name TWO items from the cash budget in question 4.2.2 that will not appear in the projected income statement. (2)

4.2.4 Give TWO reasons why it is important to compare actual figures with budgeted figures. (4)

4.2.5 You have noticed that the actual motor vehicle expense for August 2021 was R5 000 more than the budgeted amount. Suggest TWO possible explanations for this overspending. (4)

INFORMATION:

A Sales

	ACTUAL	**PROJECTED**
June	98 000	
July	95 200	
August	89 600	
September		112 000
October		82 880

- 25% of total sales is cash sales
- Although debtors are expected to pay within 30 days, payment trends show that:

- 30% pay in the month of sales
- 55% pay in the following month
- 12% pay two months after the sale
- The balance is written off as bad debt after two months

B Trading stock

- The business uses a constant profit mark-up of 40% on cost.
- A fixed base of stock is maintained.
- 50% of all stock is paid cash.
- Creditors allow credit of 60 days, but allow a 5% discount if outstanding balances are settled after 30 days. The business always take advantage of this discount.

C Sundry expenses amount to R8 600 per month and are expected to increase by 5% from 1 October 2021.

D Salaries and wages total R384 000 per annum. Employees are entitled to a 6% increase commencing in October 2021.

E Motor vehicle expenses are allocated R12 500 per month. This includes depreciation which amount to R2 500 per month.

F The business has a loan of R240 000 at VW Bank at an interest rate of 12% p.a. The monthly interest is paid on the 25th of every month. Take into account that R40 000 of the loan is due to be paid on 1 October 2021.

G An investment is due to mature on 1 September 2021. The business is expected to receive this amount together with interest at 15% p.a. for the last two months, in September.

H The bank had a credit balance of R4 288 on 31 August 2021.

55

ACTIVITY 5 : BUDGETS,ETHICS AND FINANCIAL INDICATORS

(52 marks; 42 minutes)

5.1 CASH BUDGET

You are provided with information relating to Greyston Stores. The business is owned by Jerry Williams. The business uses a mark-up of 80% on cost. The budget period ends on 31 December 2020.

REQUIRED:

3.1.1 Prepare the debtors' collection schedule for November and December 2020. (7)

3.1.2 Complete the cash budget for two months ending 31 December 2020. (29)

3.1.3 Refer to transaction J, and explain why the employees should not be satisfied with the increase of 4% in their salaries. (2)

INFORMATION:

A.Balances on 31 October 2020	
Bank (favourable)	R138 400
Loan: Terrie Bank (10% p.a.)	R360 000
Fixed deposit at 6,5% p.a.	R80 000

B.Total Sales	
Actual	
September	R360 000
October	R374 400
Budgeted	
November	R403 200
December	R468 000

C. Credit sales comprise 40% of total sales.

A. The average collection from debtors over the past six months is provided below and this trend is expected to continue over the budget period.
- 25% pay in the month of sale
- 60% pay one month after the month of sale
- 10% pay two months after the month of sale
- The balance is written off in the third month after the month of sale.

E. The business replaces stock on monthly basis to maintain a fixed stock level of R200 000.

F. The business buys 70% of its trading stock on credit. Creditors are paid in the month following the month of purchase to obtain a 5% cash discount.

G. A loan repayment of R24 000 is scheduled for 1 December 2020. The interest on loan is paid monthly.

H. Interest on the fixed deposit is received quarterly. The interest for the last quarter of 2018 is due on 31 December 2020

I. Salaries:
- The store manager earns R20 000 per month. However, from 1 December 2020 his salary will increase by 20%. He will also receive a bonus in December equivalent to his December salary.
- The business employs ten sales assistants, each earning R6 000 per month. They will receive a salary increase of 4% effective from 1 December. They do not get bonuses.

J. The owner's monthly drawings are as follows:
- Goods: R5 000
- Cash: R30 000

The owner intends increasing his cash drawings to R50 000 in December as he is taking his family on a holiday

K. Equipment costing R20 000 will be purchased for cash at the beginning of December.

L. Operating expenses are expected to increase monthly in line with the current inflation rate of 5,7%.

M Part of the buildings are rented out at a monthly rental of R5 000.

EXAMPLE 6

Makhubo Traders

Use the Income Statement for the year ended 30 June to prepare the Projected Income Statement of Makhubo Traders for July, August and September 2021

Income statement of Makhubo Traders - 30 June 2021	
Sales	960 000
Cost of sales	(480 000)
Gross profit	**480 000**
Other operating income	**38400**
Rent income	38400
Gross operating income	**518 400**
Operating expenses	**(330 600)**
Advertising	30 000
Bank charges	21 600
Depreciation	12 600
Insurance	21 000
Rates	7 200
Repairs	12 000
Salaries	105 600
Stationery	10 800
Wages	67 800
Water and electricity	42 000
Operating profit	**187 800**
Interest income [on Fixed deposit]	3 840
Profit before interest Expense	**191 640**
Interest expense	(7 500)
Net profit for the year	**184 140**

ADDITIONAL INFORMATION

A. Average monthly sales are expected to remain constant in July and August, and will increase by 10% in September.

B. A fixed mark-up is maintained throughout the year.

C. A monthly rental charged to the tenant will increase by 10% in August.

D. Interest on fixed deposit will remain unchanged

E. The firm has mortgage of R50 000 with Zakheni bank, the rate of interest on this mortgage is 15% p.a . R10 000 of this mortgage is repayable on 01 August

F. Depreciation will remain fixed for July and August on 01 September the firm will purchase equipment for R48 000 ,it will be depreciated at 10% p.a. on cost

G. Advertising, rates and water and electricity are expected to increase by 10% p.a. in August

H. All other expenses are expected to increase by 20% p.a.in September. All expenses are spread evenly throughout the year.

EXPECTED ANSWER

Projected Income statement for July, August and September 2021			
	July	**August**	**September**
Sales	80 000	80 000	88 000
Cost of sales	(40 000)	(40 000)	(44 000)
Gross profit	**40 000**	**40 000**	**44 000**
Other operating income	**3 200**	**3 520**	**3 520**
Rent income	3 200	3 520	3 520
Gross operating income	**43 200**	**43 520**	**47 520**
Operating expenses	**(27 550)**	**(28 210)**	**(32 590)**
Advertising	2 500	2 750	2 750
Bank charges	1 800	1 800	2 160
Depreciation	1 050	1 050	1 450
Insurance	1 750	1 750	2 100
Rates	600	660	660
Repairs	1 000	1 000	1 200
Salaries	8 800	8 800	10 560
Stationery	900	900	1 080
Wages	5 650	5 650	6 780
Water and electricity	3 500	3 850	3 850
Operating profit	**15 650**	**15 310**	**14 930**
Interest income **[3 840 ÷12]**	320	320	320
Profit before interest Expense	**15 970**	**15 630**	**15 250**
Interest expense	(625)	(500)	(500)
Net profit for the year	**15 345**	**15 130**	**14 750**

WORKINGS	
Sales: *960 000 ÷ 12 = 80 000* *September* *80 000 x (100% + 10%)* *80 000 x 110% or (80 000 x 110) ÷ 100* *880 000*	***Rent income*** *38 400 ÷ 12 = 3 200* *August* *3200 ×110% =3 520*
Cost of sales *480 000÷12 = 40 000* *September* *88 000 × 50% = 44 000*	***Interest on mortgage*** *50 000 × 15% ÷ 12 = 625* *August* *50 000 – 10 000=40 000* *40 000 × 15% ÷ 12 = 500*
Depreciation *12 600 ÷ 12 = 1 050* *August* *48 000 × 10% =4 800* *4 800 ÷ 12 = 400*	***Advertising*** *30 000 ÷ 12 = 2 500* *2 500 ×110% =2 750* *Rates* *7 200 ÷ 12 = 600* *600 × 110% =660* *For water and lights perform the same calculation*
Wages and all other expenses *67 800 ÷ 12 = 5 650* *5 650 × 120% =6 780*	

ACTIVITY 6
THUTHUKA TRADERS

Use the information given to prepare the Projected Income Statement for July and August 2021.

Income statement of Thuthuka Traders for the six months 01 January to 30 June 2021	
Sales	900 000
Cost of sales	(450 000)
Gross profit	**450 000**
Other operating income	**24 000**
Rent income	24 000
Gross operating income	**474 000**
Operating expenses	**(126 000)**
Bad debts	1 500
Bank charges	2 100
Depreciation	12 600
Consumables	6 000
Insurance	3 600
Telephone	7 800
Salaries and wages	90 000
Stationery	2 400
Profit before interest Expense	**348 000**
Interest expense	(15 000)
Net profit for the year	**333 000**

Additional information

A. Sales will increase by R10 000 in July and remain constant in August.

B. A fixed mark-up will be maintained.

C. A fixed deposit of R50 000 will be made at 9 % p.a. on 01 August

D. Salaries and wages will be increased by 10% in July.

E. Telephone charges are expected to increase by 10% in July and 5% in August.

F. The insurance monthly premium will increase by R200 in August

G. The rent income will increase by 15 % in August

H. Stationery and consumable stores are expected to increase by 5% in August

I. The advertising expenses for July to December are expected to be R9 000

J. Other expenses will remain constant

8. INVENTORY

INTRODUCTION

In grade 10 you were introduced to perpetual inventory systems, grade 11 will focus at perpetual inventory system and periodic inventory system.

Definition of inventory systems

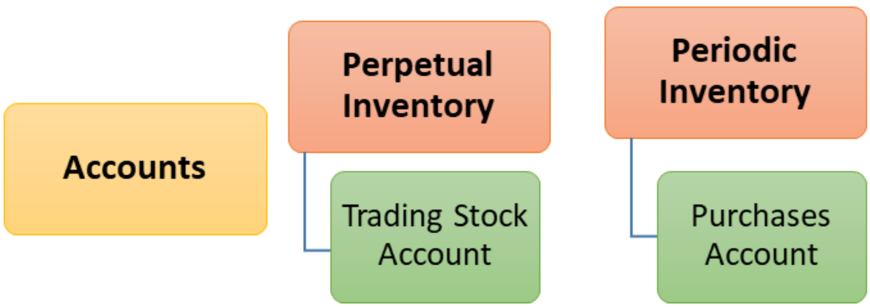
- The periodic and perpetual inventory systems are different methods used to track the quantity of goods on hand.

Perpetual inventory	Periodic inventory
• Perpetual system keeps continual track of inventory balances and the cost of sales	• The periodic system relies upon a physical count of the inventory to determine the number of units on hand and the cost of goods sold.

The difference between the two systems are as follows:

Perpetual inventory system	Periodic Inventory System
• The movement of stock is recorded on an **ongoing** or **continuous basis**. The exact quantities and types of stock items on hand are shown by the system at any point in time. • Businesses that are selling **one type** of commodity, like furniture, cars, or computers will make use of the perpetual stock method. • The physical stocktaking is conducted to verify the stock on hand.	• There is **no continuous recording** of the movement of trading stock. The value of the trading stock on hand cannot be worked out during the financial year. • It is used by businesses that sell **large quantities** of trading stock with **low value** e.g. supermarkets. • The value of the stock on hand at the financial year-end is calculated by conducting a physical stocktaking.
	

Accounts used to record periodic and perpetual inventory :



ACCOUNTS AFFECTED BY PERPETUAL AND PERIODIC INVENTORY SYSTEM			
PERIODIC SYSTEM		**PERPETUAL SYSTEM**	
Stock purchases are recorded in the Purchases account – **expense account**	*Dr Purchases*	Stock purchases are recorded in the Trading stock account – **asset account**	*Dr Trading Stock*
Carriage on purchases/ custom duties are recorded directly in the Carriage on purchases / Custom duties account	*Carriage debited – increase expenses*	Carriage on purchases/ custom duties are recorded in the trading stock account	*Dr Trading stock ,value of stock increased*
Returns on stock purchases are credited in the Purchases account	*Credit Purchases -*	Returns on stock purchases are credited in the trading stock account	*Cr Trading stock- reduced*
Donations of stock are credited in the Purchases account		Donations of stock are credited in the trading stock account	
Drawings of stock are credited in the purchases account		Drawings of stock are credited in the trading stock account	

Advantages of Periodic Inventory	Disadvantages of Periodic Inventory
o It is cost effective as there is expensive equipment like bar codes and scanning equipment	o Control over stock is not very effective
o It is not necessary to calculate cost of sales on a continuous basis	o Theft is not quickly detected – a stock-take is necessary to determine leakages or theft
o This system is suitable for businesses where it is difficult to determine the cost price of individual items	o Trading stock deficit account is not completed, the business will forfeit the reduction of taxable income.

Advantages of Perpetual Inventory	Disadvantages of Perpetual Inventory
o The business can verify physical stock at any time o The business can prepare interim accounts o Discrepancies, errors, shrinkage in stock are discovered and action can be taken. o Regular updates in stock help in avoiding deterioration (decline in quality) in stock and obsolescence (outdated). o Stock can be replenished or replaced timeously.	o The system is complicated, it requires more accounting entries. o It is very expensive to run this system

COMPARISON OF THE PERPETUAL INVENTORY SYSTEM WITH THE PERIODIC INVENTORY SYSTEM														
No.	**Transaction**	**PERPETUAL STOCK SYSTEM**						**PERIODIC STOCK SYSTEM**						
		A/c Debit	**A/c Credit**	**Journal**	**A**	**O**	**L**	**A/c Debit**	**A/c Credit**	**Journal**	**A**	**O**	**L**
1.	Bought merchandise for cash	Trading stock	Bank	CPJ	±	0	0	Purchases	Bank	CPJ	_	_	0
2.	Bought merchandise on credit	Trading stock	Creditors control	CJ	+	0	+	Purchases	Creditors control	CJ	0	_	+
3.	Return merchandise to suppliers	Creditors control	Trading stock	CAJ	_	0	_	Creditors control	Creditors Allowances **or** Purchases	CAJ	0	+	_
4	Carriage on purchases [Cash]	Trading stock	Bank	CPJ	±	0	0	Carriage on purchases	Bank	CPJ	_	_	0
5.	Carriage on purchases [Credit]	Trading stock	Creditors control	CJ	+	0	+	Carriage on purchases	Creditors control	CJ	0	_	+
6	Merchandise taken for own use	Drawings	Trading Stock	GJ	_	_	0	Drawings	Purchases	GJ	0	±	0
7.	Merchandise donated	Donation	Trading Stock	GJ	_	_	0	Donation	Purchases	GJ	0	±	0
8.	Merchandise sold for cash	Bank	Sales	CRJ	+	+	0	Bank	Sales	CRJ	+	+	0
		Cost of sales	Trading stock	CRJ	_	_	0						
9.	Merchandise sold on credit	Debtors Control	Sales	DJ	+	+	0	Debtors Control	Sales	DJ	+	+	0
		Cost of sales	Trading stock	DJ	_	_	0						
10.	Merchandise returned by debtors	Debtors Allowances	Debtors Control	DAJ	_	_	0	Debtors Allowances	Debtors Control	DAJ	_	_	0
		Trading stock	Cost of sales	DAJ	+	+	0						
11	Closing Stock							Trading Stock	Closing stock	GJ	+	+	0

CALCULATION FOR COST OF SALES

- **Perpetual Inventory system –** cost of sales calculated at **POINT OF SALE**
- **Periodic inventory –** cost of sales is calculated at the end of financial period as indicated below :

Calculation for the cost of sales – Perpetual Inventory
Assume your sales = R500 000 Mark up is 60% **Cost of sales is** : $500\,000 \times \frac{100}{160} = 312\,500$

Calculation for the cost of sales – Periodic Inventory		
Opening Stock	xxxx	*Always remember to deduct purchases returned* ***Carriage on sales** will affect the profit and loss account or operating expenses in the income statement*
Add Purchases	xxxx	
Add Carriage on purchases	xxxx	
Add import duties	xxxx	
Less closing stock	(xxxx)	
Cost of sales	**xxxx**	

CALCULATION FOR GROSS PROFIT

Sales – Cost of sales = Gross Profit

EXAMPLE 1

INSTRUCTION

Use the following information to calculate the cost of sales for the year ended 28 February 2021.

INFORMATION	
Stock – 1 March 2020	R60 000
Purchases for the year	R450 000
Carriage on purchases	R20 000
Custom duty	R5 000
Stock 28 February 2021	R35 000

ANSWER	
	R
Opening stock	60 000
Plus Purchases	450 000
Plus on purchases	20 000
Plus Custom duty	5 000
	525 000
Less Closing stock	(35 000)
Cost of sales	**490 000**

NOTE: Creditors Allowances will be deducted from the Purchases and the difference is “Net Purchases”.

EXAMPLE 2

Use the following information to calculate the purchases for the year ended 28 February 2021.

Credit sales	R90 000
Carriage on sales	R8 000
Allowances to debtors	R5 500
Opening stock - 1 March 2020	R20 000
Closing stock - 28 February 2021	R40 000
Cost of sales	R67 000

EXPECTED ANSWER

Opening stock	20 000	**Bottom up :** 67 000 + 40 000- 20 000 = 87 000 Change signs	**NOTE** The sign for the cost of sales will not change
Purchases	**87 000**		
	107 000		
Closing Stock	(40 000)		
Cost of sales	67 000		

ACTIVITY 1

INFORMATION

The following information was taken from the accounting records of three separate businesses.
Calculate the unknown amounts and percentages on 28 February 2021

BALANCES AND TOTALS - 29 FEBRUARY 2021:			
	Business A	**Business B**	**Business C**
Opening Stock	60 000	56 000	48 000
Purchases	**A**	120 000	115 000
Carriage on purchases	8 000	7 500	**H**
Cost of goods available for sales	198 000	**D**	169 000
Less Closing stock	55 000	**E**	**I**
Cost of sales	**B**	135 500	130 000
Gross profit	71 500	54 200	**J**
Sales	214 500	**F**	208 000
Gross profit on cost of sales	**C**	40%	**K**
Gross profit on turnover	33,33%	**G**	**L**

ACTIVITY 2

Manyaka Traders

The following information for June 2021 relates to Manyaka Traders. The **periodic inventory** is in use and the mark- up on cost is 25%.

REQUIRED:

- Calculate the cost of sales
- Calculate the gross profit

1. **TRANSACTIONS FOR JUNE 2021**

02 Purchased merchandise from Bronkhorst Ltd, R35 000 was transferred to their current account.

07 Purchased merchandise on credit from Mogashoa Wholesalers for R105 000. Attached to the invoice is the delivery charges of R1 000.

10 Sold goods on credit to N.Naidoo for R90 000.

14 Returned merchandise to Mogashoa Wholesalers, cost price R4 000.

23 Sold goods for cash, the cost price is R30 000.

28 N.Naidoo returned the goods for R1 200, refer to the 10th of June.

2. INFORMATION

Stock on hand :	
01 June 2021	R105 000
30 June 2021	R140 000

ACTIVITY 3

MANDISA STORES

Mandisa Stores sells sport clothes. They apply a 50% mark-up on all products.

REQUIRED

1. Calculate the cost of sales for the period ending 30 June 2021
2. Calculate the gross profit for the year
3. Calculate the actual mark-up percentage achieved.
4. Supply **two** reasons why the business did not achieve the intended mark-up.
5. The owner is concerned about the high transport costs on purchases. Is there a way to solve this problem? Explain.
6. The business regularly donates cash and trading stock to several charity organizations. How does the business benefit from making donations? Explain **two** ways.
7. The owner is considering changing to the perpetual system the following year.What should he consider before taking this action?

INFORMATION

Extracted from the General Ledger on 30 June 2021 (end of financial year)	
Opening stock	320 000
Purchases for cash	710 000
Purchases for credit	240 000
Cash sales	1 024 500
Credit sales	850 000
Debtors allowances	42 000
Carriage on purchases	162 000
Custom duty	56 000

ADDITIONAL INFORMATION

1. The following invoice received has not yet been recorded

INVOICE **To :** Mandisa Stores **Supplier:** Vula Wholesalers	
30 treadmills	35 300
Less 10% trade discount	3 530
	31 770
Add transport costs	1 800
	33 570

2. Donated a soccer kit to the local school, cost price R2 900
3. A debtor returned goods which he had bought for R3 000 (cost price R1 500)
4. According to the stock-taking done on 30 June 2012 there was stock on hand costing R210 000 (after taking 1, 2 and 3 above into account)
5. After the stock-taking has been done, stock costing R3 400 were returned to the supplier. A debit note had been issued.
6. The owner remembered after the stock-taking has been done that she had taken stock of R1 400 for own use.

ACTIVITY 4: PERIODIC INVENTORY AND ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

4.1 PERIODIC INVENTORY

High Flying T-shirts imports one design of T-shirts from “The T-Shirt Co” in Egypt. They use the periodic inventory system.

REQUIRED:

Calculate the cost of sales for the year ended 31 December 2020. (10)

INFORMATION:

A. The following balances appear in the books on 31 December 2020:

Trading stock – 1 January 2020 (3 000 T-shirts)	R75 000
Purchases (35 000 T-shirts)	R875 000
Carriage on purchases	R90 250
Carriage on sales	R12 500
Custom duties	R87 500

B. Adjustments and additional information.

(i) An additional 10 000 T-shirts were ordered from “The T-Shirt Co.” in December. The order was received on 20 December 2020 and the account of R250 000 is still outstanding.

(ii) Custom duties equal to 10% of this purchase was paid immediately.

(iii) Carriage on purchase amounting to R16 000 was paid to Fast Freight for transporting the T- shirts form Egypt to South Africa.

(iv) T-shirts costing R20 000 were returned to “The T-shirt Co.” on 30 December.

(v) No entry has been made of 200 T-shirts with a cost price of R5 000 which were donated to the organizers of the local yacht race on 29 December.

(vi) According to a stock count on 31 December 2020 there were 3 750 T-shirts on hand valued at R93 750.

ACTIVITY 5

Nalini Stores uses the periodic inventory system. They apply 80% mark-up on their products.

REQUIRED:
Calculate the following for the period ending 29 February 2020:

5.1 Cost of sales
5.2 Gross profit
5.3 Actual mark-up % achieved

INFORMATION:
Totals extracted from the records on 29 February 2020, the end of the financial year.

	R
Opening stock	56 000
Purchases (cash and credit)	342 000
Carriage on purchases	12 700
Customs duty	5 500
Cash sales	280 000
Credit sales	425 000
Debtors allowances	21 000

Additional information:

The following have not yet been taken into account:

(a) Goods returned to creditors, R900.
(b) Carriage on purchases not recorded, R150.
(c) A physical stock count after taking all of the above into account, revealed trading stock on hand, R48 000.

ACTIVITY 6

The transactions below was taken from the books of Thebuss Stores.

REQUIRED:

6.1 Analyse the transactions according to the columns provided in the answer book.

TRANSACTIONS:

(i) Bought trading stock and transferred funds electronically.

(ii) Returned trading stock to a creditor.

(iii) Sold goods on account.

(iv) Received an invoice for carriage on purchases. (11)

6.2 The following information was taken from the books of Tembisa Traders on 31 October 2020. Tembisa Traders use the periodic inventory system.

REQUIRED:

- Calculate cost of sales (7)

INFORMATION:

	R
Opening stock	48 000
Purchases	224 000
Sales	350 000
Returns to creditors	12 000
Returns from debtors	43 000
Carriage on purchases	18 000
Carriage on Sales	15 300
Closing stock	55 500

9. COST ACCOUNTING

INTRODUCTION

Cost Accounting concepts and basic calculations were introduced in grade 10.In grade 11 the focus will be calculation of costs within the manufacturing environment, ledger accounts, ethics and internal control in relation to manufacturing.

CONCEPTS UNIQUE TO COST ACCOUNTING:

CONCEPT	EXPLANATION
Manufacturing business	• A manufacturing enterprise is an enterprise that manufactures products (completed products) from raw materials. • It transforms raw materials into finished or completed products.
Costing	It is the calculation of the costs involved in producing a product.
Unit	The word used to describe a single product produced in the factory.
Direct material costs	The raw material needed to produce the product – also called Direct raw material cost.
Indirect material costs	These are materials that are indirectly involved in the process of manufacturing the product e.g. cleaning material costs, packing materials.
Direct labour costs	This is the payment to workers who are directly involved in manufacturing of the product.
Indirect labour costs	This is the amount paid to workers in the factory who are not directly involved with the production process e.g. the cleaning staff)
Factory overheads	• These are the expenses incurred to run the factory, but none of them are directly involved with the production process. e.g. factory rent • Indirect labour and indirect materials are classified as factory overheads.
Primary production cost	Direct material cost plus direct labour cost
Total production cost or manufacturing costs	It is the total cost to produce the products. Prime cost plus factory overhead cost **(Direct material cost + Direct labour cost + Factory overhead cost)**
Cost per unit or unit cost	This is the cost of producing one product/unit **(Total production cost ÷ total units produced)**
Fixed costs	These costs do not change irrespective of the number of items produced, the cost for rent is the same whether the quantity produced by the factory is increased or reduced.
Variable costs	These costs increase when the factory produce more products and decrease when the factory produce less products (e.g. electricity)
Total costs	Fixed costs + Variable costs
Unit costs	This is the cost to produce one unit.
Marginal income (contribution)	The difference between the selling price per unit and the variable cost per unit. (SP/unit – VC/unit) It is used to work out the break-even point.

CONCEPT	EXPLANATION
Break-even point	➨ It is the number of units that need to be sold to cover all costs, but no profit is made. It is when total receipts are **equal** to total costs. ➨ It is the point where there is **no** profit or loss incurred. **NOTE** :The break-even point can be calculated in units as well as rand value
Work-in-progress stock	Products that have not yet been completely turned into finished goods and are still in the manufacturing process.
Finished goods (Completed products)	Completed goods are ready for consumption, these units are ready to be sold.
Selling and distribution cost	These are costs incurred in the selling of the finished goods, e.g. advertising and sales commission. These are variable costs.
Administration cost	These are costs incurred to run the business but are not tied to the manufacturing or sales costs. These costs will include office rent, salaries of office employees, depreciation of office equipment etc.

The following methods are used to allocate costs and expenses :

Ratios

Rent amounting to R200 000 was paid during the year. This amount must be divided in the ratio 3:1:1 between the factory, the office and the sales department.

Factory	Office	Sales department	200 000
3	**1**	**1**	**5**
$\frac{3}{5}$ x 200 000 =120 000	$\frac{1}{5}$ x 200 000 = 40 000	$\frac{1}{5}$ x 200 000 = 40 000	200 000

Percentages

Sundry expenses amounted to R25 000. Factory accounts for 80%, Office 5% and Sales department 15%

Factory	Offices	Sales department	
80%	**5%**	**15%**	**100%**
$\frac{80}{100}$ x 25 000 =R20 000	$\frac{5}{100}$ x 25 000 = R1 250	$\frac{15}{100}$ x 25 000 = 3 750	R25 000

Square Meters

Rent is allocated on proportion to floor area. R72 000 Floor space: Factory 1 000 square meters, Office 500 square meters, Sales department 500 square meters.

Factory	Offices	Sales department	Total
1 000	**500**	**500**	**2 000**
$\frac{1\ 000}{2\ 000}$ x 72 000 = 36 000	$\frac{500}{2\ 000}$ x 72 000 = 18 000	$\frac{500}{2\ 000}$ x 72 000 = 18 000	

SUMMARY OF LEDGER ACCOUNTS

RAW MATERIALS STOCK (direct materials in the store room)

	Balance (not used last year)	b/d			Direct mat cost (materials sent to factory)		4	
	Creditors control (raw materials bought)				Balance (amount left in storeroom year-end)	c/d		
	Bank (raw materials bought)							

DIRECT LABOUR COST (labour costs)

	Factory wages				Work-in Process (direct labour)		3

INDIRECT MATERIALS

	Consumable stores stock (reversal)	9			Factory overhead cost (Indirect materials used)		2
	Creditors control (bought)				Consumable stores stock (left over year-end)		8
	Bank (bought)						

DIRECT MATERIAL COST

	Raw material stock	4			Work-In –Process stock		10

CONSUMABLE STORES STOCK

	Indirect materials stock (left over year-end)	8			**Indirect materials (reversal of adjustment)**			9

FACTORY OVERHEAD COST (total indirect costs)

	Salaries, wages (indirect labour)	1			Work-in Process		5
	Electricity, etc						
	Depreciation (on machinery)						
	Indirect materials	2					

WORK-IN-PROCESS

	Balance (unfinished tables end of last year)	b/d			Finished goods stock (goods ready for sales)		6
	Direct material cost		10		Balance (unfinished goods)	c/d	
	Direct labour cost		3				
	Factory overhead cost		5				

All direct and indirect expenses to make the goods

FINISHED GOODS

	Balance (goods not sold last year)	b/d			Cost of sales (goods sold this year)		7
	Work-in-Process (ready to be sold)		6		Balance (goods not sold this year)	c/d	

COST OF SALES

	Finished goods (finished goods sold this year)		7		Trading account		8

TRADING ACCOUNT

	Cost of sales		8		Sales		
	Profit and loss account (gross profit)						
			xx				xx

MANUFACTURING ACCOUNTS –EXAMPLE 1

The following information was extracted from the accounting records of Chantel Manufacturers, manufacturers of ladies handbags.

REQUIRED:

Draw up the following accounts in the General Ledger, properly closed/balance on 31 July 2020:

1. Raw Material stock
2. Work-in–Process
3. Finished Goods Stock
4. Factory overheads
5. Indirect Material

INFORMATION:

Balances on 1 August 2019	
Raw Material	67 224
Consumables on hand (indirect material)	1 590
Work-In-Process	11 335
Finished Goods	39 784

Summary of transactions and other information for the year ending 31 July 2020	
Raw material purchased in cash	R 389 200
Raw material purchased on credit	79 332
Raw material issued for production	496 200
Wages paid: Direct labour	338 780
Indirect labour	105 600
Consumables purchased for production	70 890
Factory rent paid	48 000
Factory insurance paid	16 000
Factory maintenance paid	32 500
Depreciation on factory equipment	28 600
Cost of sales of finished goods	1 143 220
Sale of finished goods	1 829 152
Cost price of finished goods	1 136 079
Consumables on hand (indirect material) **31 July 2020**	1 056

EXPECTED ANSWER

Dr		Raw Material stock						B6	Cr
2019 Aug	1	Balance	b/d	67 224	2020 Jul	31	Raw Material issued	GJ	496 200
2020 Jul	31	Bank	CPJ	389 200			Balance	c/d	39 556
		Creditors control	CJ	79 332					
				535 756					**535 756**
2020 Aug	1	Balance	b/d	39 556					

Dr		Work-in-Process Stock						B7	Cr
2019 Aug	1	Balance	b/d	11 335	2020 Jul	31	Finished goods inventory	GJ	1 136 079
2020 Jul	31	Direct material costs	GJ	496 200			Balance	c/d	12 360
		Direct labour costs	GJ	338 780					
		Factory overheads	GJ	302 124					
				1 148 439					**1 148 439**
2020 Aug	1	Balance		12 360					

Dr		Finished Goods Stock						B8	Cr
2019 Aug	1	Balance	b/d	39 784	2020 Jul	31	Cost of Sales	GJ	1 143 220
2020 Jul	31	Work-in-progress	GJ	1 136 079			Balance	c/d	32 643
				1 175 863					**1 175 863**
2020 Aug	1	Balance		32 643					

Dr		Factory Overheads						C2	Cr
2020 Jul	31	Wages	GJ	105 600	2020 Jul	31	Work-in-Progress	GJ	302 124
		Rent expense	GJ	48 000					
		Insurance	GJ	16 000					
		Maintenance	GJ	32 500					
		Depreciation	GJ	28 600					
		Indirect Material	GJ	71 424					

Indirect Material cost	
Consumables on hand	1 590
Bank	70 890
Consumables on hand	(1 0560)
Factory overheads	**71 424**

ACTIVITY 1 : MANUFACTURING ACCOUNTS

The following information was extracted from the accounting records of Jele Manufacturers, manufactures of plastic clothes pegs

REQUIRED:

Use the information given below to draw up the ledger accounts shown below.

1. Raw material stock account
2. Factory overheads
3. Work in process
4. Indirect material account
5. Finished goods stock
6. Trading account

INFORMATION:

	28 February 2021	**28 February 2020**
Raw material	20 400	16 800
Consumable on hand (indirect material)	9 800	6 700
Work in process	9 400	5 900
Finished goods	?	25 100

Summary of transactions and other information for the year ending 28 February 2021	
Raw material purchased in cash	R 55 000
Raw material purchased on credit	25 000
Carriage on purchases paid in cash	2 500
Wages paid: Direct labour including UIF and Pension fund	39 800
Indirect labour including benefits	17 000
Consumables purchased for production (cash)	14 500
Factory insurance paid	2 900
Delivery expense	9 900
Factory rent paid	16 000
Deprecation on factory equipment	8 600
Sundry factory expense	11 200
Sales of finished goods	325 000
Cost of sales of finished goods	175 500

CONTRIBUTION PER UNIT AND BREAK-EVEN POINT

Contribution per unit

- Is the difference between the selling price per unit and the variable cost per unit.
  (SP per unit – VC per unit)

Note: Contribution per unit is one of the figures used to calculate the break-even point.

EXAMPLE 2

INFORMATION

- Mr Baloyi produced 1 800 cakes and sold them for R20 each.
- Variable cost amounted to R17 000
- Fixed cost amounted to R10 000

SUGGESTED ANSWER

Selling price *= 1 800 x R20 = R36 000*

Contribution per unit $= \dfrac{\text{Sales – Variable cost}}{\text{Units produced}}$

$= \dfrac{36\ 000 - 17\ 000}{1\ 800}$

$= \dfrac{19\ 000}{1\ 800}$

$= R10{,}56$

Break- even point

- It is the point where there is **no** profit or loss incurred.

Formula used to calculate :

Break-even point
$\dfrac{\text{Total fixed cost}}{\text{Contribution per unit}}$ $= \dfrac{\text{Total fixed cost}}{\text{Selling price per unit – Variable cost per unit}}$ = **x units**

Note : *The break-even point can be calculated in units as well as rand value*

EXAMPLE 3

INFORMATION

Use the information extracted from the records of Bonolo Manufacturers to calculate the break-even point , the business manufactures the hand cream.

Total fixed cost	R14 400
Total variable costs	R10 800
Fixed costs per unit	R24
Variable cost per unit	R18
Total costs	R25 200
Total cost per unit	R42
Number of units produced	R600
Selling price per unit	R50

ANSWER

Calculate the break-even point in units	**Calculate the break-even point in sales value**
$\dfrac{\text{Total fixed costs}}{\text{Contribution per unit}}$ $= \dfrac{\text{Total fixed cost}}{\text{Selling price per unit} - \text{Variable cost per unit}}$ $= \dfrac{14\ 400}{50 - 18}$ $= \dfrac{14\ 400}{32} = 450$ units	Break-even point in units x selling price per unit = 450 units x R50 = R22 500

SELLING AND DISTRIBUTION COSTS

- These accounts have nothing to do with the manufacturing process and are closed off to the Profit and loss account

Selling and Distribution Costs					
	Advertising	xxx		Profit and loss	xxxx
	Delivery expenses	xxx			
	Bad debts	xxx			
	Commission on sales	xxx		*These costs are classified as variable costs*	
	Refer to textbook for more examples				

Administration Costs					
	Salaries	xxx		Profit and loss	xxxx
	Depreciation	xxx			
	Insurance	xxx			
	Sundry administration costs	xxx		*These costs are classified as fixed cost*	
	Rent expense	xxx			

Variable and fixed costs:

Variable cost	**=**	Direct Material cost + Direct Labour Cost + Selling and Distribution Cost
Fixed cost	**=**	Factory Overheads Cost + Selling and Distribution Cost

ACTIVITY 2

INFORMATION:

Sun Factory produced leather soccer balls during the year. The soccer balls are sold at R70 each. All 10 000 soccer balls produced were sold.

REQUIRED:

Calculate the following :

- Total Fixed cost
- Variable cost per unit
- Contribution per unit
- Break-even point

A list of monthly costs:	
Direct material costs – leather (R10 per unit)	R100 000
Direct labour costs	150 000
Factory overhead costs	200 000
Selling and Distribution costs	50 000
Administration costs	70 000

ACTIVITY 3: MANUFACTURING ACCOUNTS AND BREAK EVEN POINT

3.1 JELE MANUFACTURERS

Jele Manufacturers produces rugby balls which are supplied to local schools and retailers in the Despatch area. The financial year ends on 28/29 February each year.

REQUIRED:

3.1.1 Calculate the following for the financial year:

- Direct material cost (7)
- Direct labour cost (5)

3.1.2 Record the following transactions in the General Ledger:

- Work-in-progress stock (10)
- Finished goods stock (6)

3.1.3 The owner is concerned about the control of workers in production. Provide TWO points that justify his concern. Quote relevant figures. (6)

INFORMATION:

A. Stock balance:

	1 March 2020 R	28 February 2021 R
Raw material	23 400	38 700
Work-in-progress	45 300	60 000
Finished goods	27 000	22 000

B. Transactions for the year

- Raw material for R342 600 was purchased on credit.
- Damaged raw material worth R15 700 was sent back to creditors.
- Cash purchase of raw material amounted to R155 000.
- Delivery cost on cash purchases of raw material, R19 400.
- Total factory overheads for the year amounted to R273 340.

C. Details of workers in production:

Number of workers	4
Normal hours worked (basic)	1 440 hours per worker
Normal time as per contract	40 hours per week, 45 weeks per year
Normal time rate	R35 per hour
Total overtime hours worked	640 hours
Overtime paid	R33 600

The business contributes 1% to the UIF and 9% to the pension fund on behalf of all employees.

3.2 LUVUNO AND SESHOHLI DOLLS

The partnership manufacturers dolls. The financial year ended 30 April 2021. The mark-up percentage on cost is 50%.

REQUIRED:

3.2.1 Calculate the break-even point and comment on your findings. (10)

3.2.2 Did the business achieve the targeted gross profit on sale? Provide a calculation to support your opinion, (6)

INFORMATION:

A. Details of the cost accounts:

		UNIT COST	**TOTAL AMOUNT**
Direct material	Variable cost	?	R71 400
Direct labour	Variable cost	R23	R?
Administration	Fixed cost	R12	R30 600
Selling and distribution	Variable cost	R14	R35 700
Factory overheads	Fixed cost	R18	R45 900

B. 2 550 dolls were made and sold during the financial year.

C. Total sales amounted to R242 250.

[50]

ACTIVITY 4: MANUFACTURING **(40 marks; 35 minutes)**

4.1 C & A CLOTHING

You are supplied with information regarding C & A Clothing for the financial year ending on 30 June 2020. The business manufactures sports clothes for their local school.

REQUIRED:

4.1 Calculate the following for the year ended on 30 June 2020:

4.1.1 Direct material costs (5)

4.1.2 Direct labour costs (6)

4.2 Complete the following ledger accounts in the General Ledger:

4.2.1 Factory overheads (12)

4.2.2 Work-in-progress stock (6)

INFORMATION:

A. Inventory balances:

	30 June 2020	**30 June 2019**
Raw material stock	R85 050	R62 100
Work in progress	R45 000	R63 900
Finished goods stock	R68 700	R81 300

B. Transactions during the year:

	R
Raw materials purchased during the year	1 914 450
Transport and carriage on raw materials purchased	39 300
Returns of raw materials to suppliers	49 050
Water and electricity paid	219 000
Rent expense	418 000
Insurance paid	45 000
Maintenance of factory equipment	29 106
Depreciation on factory equipment	48 585
Advertisements	38 250
Wages	?

C Additional information:

(i) Indirect material issued to the factory, R53 595.

(ii) Water and electricity must be divided between the factory and the selling department in the ratio 3:1.

(iii) Repairs to the factory equipment to the value of R2 925 was completed during June 2020, but it will only be paid in July 2020.

(iv) Insurance includes an amount of R 9 000 that was paid for the period 1 January 2020 to 31 December 2020. 60% of the insurance is related to the factory.

(v) Rent was outstanding for the last month. The rent was divided according to the floor space. Two thirds of the floor area is covered by the factory.

(vi) Wages

- There are 10 factory workers.
  - Basic wages per month, R6 000
  - Overtime for the year, R382 800
  - Deductions and contributions:
    - Pension fund deduction: 8% of basic salary
    - Pension fund contribution: 10% of basic salary
    - UIF contribution: 1% of basic salary

The factory foremen's' salary amounts to R 156 000 for the year.

- There is one cleaner:
  - Received R1 125 per week for 52 weeks
  - Spends two thirds of her time in the factory and the rest in the sales department
- There is one administrative clerk:
  - Salary per month, R 7 500. He worked for 12 months.

4.3 **YASMIN'S CANDLE MANUFACTURERS**

You are supplied with information relating to Yasmin's Candle manufacturers at the end of the second years' business, 30 June 2020. No stock was on hand at the beginning or the end of the financial year.

4.3.1 Calculate the following for the financial year ended 30 June 2020:

- Variable cost per unit (2)
- Break-even point (4)

4.3.2 Comment on the break-even point. Quote figures.

4.3.3 The owner decided to increase the selling price for 2020.

- Calculate the percentage increase in the selling price.

INFORMATION:

	2020		2019	
Number of units produced	13 500 units		16 000 units	
Break-even point in units	?		2 330 units	
	Price per unit	**Total**	**Price per unit**	**Total**
Sales	R88,00	R1 188 000	R80,00	R1 280 000
Total fixed costs		**R126 896**		**R120 000**
Administration cost	R3,40	R45 900	R2,50	R40 000
Factory overheads cost	R6,00	R80 996	R5,00	R80 000
Total variable costs		**R492 750**		**R456 000**
Direct material costs	R18,00	R243 000	R14,00	R224 000
Direct labour costs	R12,00	R162 000	R10,00	R160 000
Selling and distribution cost	R6,50	R87 750	R4,50	R72 000

40

ACTIVITY 5

MANUFACTURING ACCOUNTS AND BREAK-EVEN POINT

5.1 Mongezi Manufacturers manufacture and sell soccer and netball balls. The financial year ended on 30 June 2021.

REQUIRED:

5.1.1 Calculate the raw materials used for production. (4)

5.1.2 Complete the following accounts in the General ledger:
Factory overheads cost (14)
Work-in-process stock (10)
Finished goods stock (7)

INFORMATION:

A. Balances

	30 June 2021	**1 July 2020**
Raw material stock	73 600	138 800
Work-in-process stock	?	31 200
Finished goods stock	?	93 200
Indirect material on hand	16 800	23 600

B. TRANSACTIONS FOR THE YEAR ENDED 30 JUNE 2021:

Raw materials purchased for cash	382 000
Carriage on purchases of raw materials (cash)	11 600
Raw materials issued for production	?
Indirect materials purchased for cash	69 200
Direct wages	368 000
Wages of a cleaner – Admin	7 600
Salaries – sales staff	74 400
Advertising	12 400
Rent expense	46 400
Factory maintenance	26 000
Water and electricity	50 000
Depreciation on factory machinery	26 400
Commission on sales (3% of sales)	41 400

C. ADDITIONAL INFORMATION:

- Rent must be allocated in proportion to the floor space occupied. The factory area use 600 square meters and the office area uses 400 square meters.
- The cleaner spends 20% of his time cleaning the Administration Block and the rest in the factory. Cost must be allocated according to the time spend in each department.
- The factory uses 75% of the water and electricity.
- 14 300 units were produced at the cost of R140 per unit.
- Cost of sales is equal to 70% of sales.

5.2 BREAK EVEN POINT

Katlego Mahlangu started his own business. He sells and makes personalised key rings.

REQUIRED:

5.2.1 Explain to Katlego why it is necessary to calculate the Break-even point. (2)

5.2.2 Calculate the Break-even point achieved by Katlego (6)

5.2.3 Comment on the level of production achieved by Katlego. (2)

INFORMATION:
Production and sales figures at the end of 2021.

Details	Total	Per unit
Direct material costs	R 9 800	R 10
Direct labour costs	R 5 880	R 6
Factory overheads	R 6 860	
Selling and distribution costs	R 2 940	R 3
Administration costs	R 700	
Sales : 2020 = 1 100 units 2021 = 900 units	R30 800	R28
Breakeven point: 2021	870 units	

[45]

10. VALUE ADDED TAX

Value Added Tax

An indirect tax that is charged whenever goods are sold or when services are rendered by a registered VAT vendor. In South Africa the Standard rate of VAT is **15%**.

VAT Concepts	**Explanation**
VAT Vendor	**A** business that is registered for VAT, there are two categories of registration: • **Compulsory registration:** any business whose annual income exceeds R1 Million is required to register as a VAT vendor. • **Voluntary registration:** Any business whose annual income is less than R1 Million may voluntarily register as a VAT vendor, provided that the business has an annual income in excess of R50 000.
Output VAT	It is the VAT that is charged by the vendor when he sells goods or renders a service. The output tax is included in the price that the customer is charged for the goods or services.
Input VAT	VAT paid by a registered vendor on purchases from another registered vendor as well as VAT paid on other business expenses (e.g. rent) are known as input tax.
Standard rate	The standard rate is the normal rate at which VAT is charged when goods are sold or services are rendered by a registered VAT vendor. The standard rate is currently at 15% .The rate is adjusted by the minister of finance.
Zero rated	Zero-rated supplies are supplies of goods and services on which output VAT is levied at a rate of 0%.
Tax Exempt	An **exempt supply** is the **supply** of **goods** or services upon which neither VAT at the standard rate or zero-rate is chargeable.
VAT 201 form	Is a declaration, which you need to make at the end of every tax period if you are a vendor, which reflects the **VAT** that you have charged on supplies (output tax), and the amounts that you believe you are entitled to deduct as input tax.
SARS	The South African Revenue Service (SARS) is the nation's tax collecting authority they are responsible for administering the South African tax system and customs service.

EXAMPLES OF ZERO-RATED GOODS

▪ Goods export from SA	▪ Mealie rice	▪ Fruit and vegetables
▪ Brown Bread	▪ Dried lentils	▪ Pilchards in cans
▪ Brown wheaten meal	▪ Mealies	▪ Sardines in cans
▪ Maize meal	▪ Rice	▪ Milk
▪ Samp	▪ Beans	▪ Cultured milk
▪ Cooking oil	▪ Eggs	▪ Milk powder
▪ Edible legumes, pulses	▪ Leguminous plants	▪ Dairy powder blends
▪ Petrol and diesel	▪ International transport	

Other examples will include :

- Services supplied outside SA (Exports)
- Certain supplies made from farming
- Agricultural or pastoral purposes (provided certain requirements are met)
- Certain gold coins issued by SARB (including the Kruger Rand)
- State subsidies and donations to welfare organisations
- Transfer payments made by public authorities to vendors

The zero rate will not apply when zero-rated foodstuffs are prepared for immediate consumption, for example:

- A glass of milk served in a restaurant
- A prepacked salad with salad dressing purchased at a supermarket
- Sandwiches and other take-away foods.
- A punnet of vegetables seasoned with herbs and including a stick of butter
- A pack of rice or beans containing a sachet of flavouring
- A gift hamper consisting of a basket of fruit with chocolates and nuts
- Peri-peri-flavoured cooking oil.

VAT-EXEMPT SUPPLIES

The following goods and services are exempted from VAT:

- Passenger transport by road and rail
- The rental of residential accommodation
- Educational services in crèches, nursery schools, primary and secondary schools, after school centres, universities and technikons.
- Insurance ,pension and life insurance benefits
- Medical services and medicines supplied by state and provincial hospitals and local authority clinics
- The supply of goods and services by an employee organisation to its members to the extent that the consideration consists of membership contributions.

STANDARD - RATED SUPPLIES

With the exception of the items listed above, all items are subject to the standard VAT of **15%**. In April 2018 the rate was increased from 14% – 15%.

VAT CALCULATIONS OF USING INCLUSIVE AND VAT EXCLUSIVE AMOUNTS

VAT Exclusive

- The amount does not include VAT.
- Assume that an exclusive amount of R200 does not include the VAT.

VAT Inclusive

- The amount that includes VAT
- To determine the inclusive price : VAT Exclusive Plus VAT = VAT Inclusive
  R200 + (15% of R200) = R230

Amount (VAT exclusive)	100%	R200
VAT	15%	R200 x 15% = R30
Amount (VAT inclusive)	100% + 15% =115%	R200 +R30 = R230

EXAMPLE 1 - Calculate the unknown amount

INFORMATION

Bought stationery and paid R1 035, the amount include VAT.

REQUIRED

- Calculate the VAT amount
- Calculate the price exclusive of VAT

SUGGESTED ANSWER

R1 035 Include VAT and it is equal to = 115% (100% + 15%)

VAT amount		
VAT exclusive Amount 100%	**VAT (15%)**	**VAT inclusive Amount 115%**
Unknown	**Unknown**	R1 035 **Known**

VAT is unknown (place on top/numerator)

VAT amount:

$$\frac{15}{115} \times \frac{1\ 035}{1}$$

VAT inclusive is known (place at bottom /denominator)

= R135

VAT Exclusive		
VAT exclusive Amount 100%	**VAT (15%)**	**VAT inclusive Amount 115%**
Unknown	R135 **Known**	R1 035 **Known**

VAT Exclusive :

VAT Exclusive is unknown (place on top/numerator)

$$\frac{100}{115} \times \frac{1\ 035}{1}$$

VAT inclusive is known (place at bottom / denominator)

= R900

ALTERNATIVE METHOD

VAT Exclusive		
VAT exclusive Amount 100%	**VAT (15%)**	**VAT inclusive Amount 115%**
Unknown	R135 **Known**	R1 035 **Known**

VAT Exclusive :

VAT Exclusive is unknown (place on top/numerator)

$$\frac{100}{15} \times \frac{135}{1}$$

VAT is known (place at bottom / denominator)

= R900

EXAMPLE 2 : BASIC VAT CALCULATIONS

Amount (VAT exclusive) 110%	VAT 15%	Amount (VAT inclusive) 115%
240	36	**A**
B	225	**C**
D	**E**	690
3 200	**F**	**G**

EXPECTED ANSWER

Amount (VAT exclusive)	VAT	Amount (VAT inclusive)	Calculations
240	36	**276**	*240+ 36 =276* ***OR*** *240 x 115/100* *36 x 115/15*
1 500	225	**1 725**	*225 x 100 /15=1 500* *225 x 115/15 =1 725*
600	**90**	690	*690 x 100/115= 600* *690 x15/115 = 90*
3 200	**480**	**3 680**	*3 200 x 15/100 =480* *3 200 x 115/100 3 680*

NOTE: The **UK METHOD** (unknown/known) is important for most of your calculations in this section .

240 x 115/100
(unknown/known)

- 115 is a numerator because it is unknown
- 100 is a denominator because it is known (equals to 240)

ACTIVITY 1

Complete the table provided below:

No	Exclusive selling price	VAT @ 15%	Inclusive selling price
1	400	60	460
2	700	A	B
4	C	D	966
5	E	F	1 265
9	G	225	H

Effect of VAT Input and VAT Output on different types of supplies/transactions

Transactions/Supplies	Output VAT	Input VAT
Standard-rated Example the sale of a motor vehicle.	The car dealer charges 15% VAT when it sells the car to a customer. This amount has to be paid over to SARS.	The car dealer pays 15% VAT when he buys the vehicle from the factory. The dealer **claims** this amount back from SARS.
Zero-rated Example - the sale of a loaf of brown bread.	The bakery does not charge VAT when he sells the loaf of bread to a customer. No output VAT has to be paid to SARS.	The bakery does not pay VAT on the brown-bread flour, but is pays 15% VAT on ingredients such as salt, yeast and butter. The bakery **claims back** the 15% VAT it paid on the salt, yeast and butter.
Exempt supplies Example - a taxi transporting passengers.	The taxi owner is not allowed to charge VAT on the fare that passengers pay.	Even though the taxi owner pays 15% VAT when she/he buys new tires for the taxi, he/she cannot claim back from SARS.

Illustration of VAT Input and VAT Output

Transaction	VAT Input	VAT Output
1. Bought stationery for R345 (including R45 VAT).	R45	
2. Sold golf balls for R115 (including R15 VAT).		R15
3. Bought trading stock (golf shirts) for R2 300 (including R300 VAT).	R300	
4. Sold a set of golf clubs for R8 625 (including R1 125 VAT).		R1 125
5. Paid the business telephone account, R1 150 (including R150 VAT).	R150	
	R495	**R1 140**

VAT collected from customers

Amount payable to SARS is: R1 140 – R495 = R645

Note: The Input VAT of R495 is claimed back from SARS and that will reduce the amount payable to R645.

ACTIVITY 2

Complete the following table by calculating the amounts indicated by A – G.

No	VAT exclusive	VAT	VAT inclusive
1	R3 000	**(A)**	R3 450
2	R22 500	R3 375	**(B)**
3	**(C)**	R3 750	R28 750
4	**(D)**	R1 260	**(E)**
5	R10 000	**(F)**	**(G)**

Payment of VAT to SARS

Every vendor needs to decide which method of calculating will be used when VAT is paid over to SARS or when VAT is claimed.

The two methods are called **invoice basis** or **receipt basis.**

Invoice basis

- Pay VAT or claim VAT as soon as invoice is issued
- All vendors are registered on the invoice basis, unless they specifically ask to be registered on the payment basis

Payment / receipt basis

- Pay VAT or claim VAT once payment is received or made
- This payment basis was implemented to assist smaller businesses with a turnover of less than R2,5 million per year

ETHICS RELATING TO VAT

Definition of ethics

VAT ethics is willingness of businesses and individuals to pay their taxes and comply with tax laws.

Some illegal or unethical practices in relation to VAT are the following:

- A vendor collects VAT from customers, but does not pay it over to SARS.
- A vendor claims a VAT refund, but is not registered as a VAT vendor.
- A vendor claims a VAT refund from fictitious invoices.
- A vendor does not record cash sales on a VAT invoice, and does not charge VAT.

NOTE: VAT fraud and VAT evasion are serious offences that should be reported to SARS and the vat vendor can be fined or receive a prison sentence.

Difference between Tax Avoidance and Tax Evasion

‘**Tax evasion’** is taking illegal steps to avoid paying tax, e.g. not declaring income to SARS or falsely reduce income and inflate expenditure and recording of fictitious transactions.

Tax avoidance is generally the legal way of attempting to reduce the amount of tax that is payable by means that are within the law, e.g. If you reduce your purchases that will reduce VAT as possible.

Internal control relating to VAT

The following procedures should be in place to prevent fraud and VAT evasion:

- Invoices received from suppliers must be checked to see which are standard-rated, zero-rated and exempt items, and should be charged accordingly.
- A vendor must complete VAT 201 forms accurately and submit it to SARS on time.
- VAT must be correctly recorded in the books of the business.
- Vendors must only issue valid tax invoices.
- Ensure that payments are done correctly.
- Internal auditor or owner should conduct random VAT Input and Output calculations.
- Ensure that VAT is paid on the due date to avoid penalties imposed by SARS vat returns are returned.

ACTIVITY 3 : VAT ETHICS

3.1 Rakgetsi Traders

Rakgetsi Traders is registered for VAT. The VAT rate of 15% applies. His customers are complaining about being charged vat on zero-rated items and also that government is raising prices unnecessarily by charging VAT on goods.

3.1.1 Is it ethical for Rakgetsi Traders to charge VAT on zero-rated items? Explain the consequences/results of his action in ONE point. (3)

3.1.2 Give **ONE** reason why you would agree that "the government is raising prices by charging VAT", and **ONE** reason why you would not agree with the statement. (4)

3.2 MDUNGE TRADERS

Mdunge Traders is registered for VAT. The VAT rate of 15% applies.

REQUIRED:

3.2.1 **Refer to the Information A:**
Calculate the VAT that the business must either pay or receive. (2)

3.2.2 You discovered that the VAT amount was not being submitted on due dates. On enquiry, it was discovered that the manager was using the VAT money to pay for business expenses. Give ONE point of advice to the manager and explain why you offer this advice. (4)

3.2.3 Mpumi, the owner, suggested to the bookkeeper that they charge VAT on all goods sold (including the zero rated goods) but keep a separate journal for the VAT payable to SARS.

- Comment on this suggestion. Provide ONE point. (2)

INFORMATION:

A.

VAT from sales of goods	R5 280
VAT on municipal services (electricity and water)	R 279
VAT paid on purchases of trading stock	R3 870

15

VAT CALCULATIONS

- When a business sells goods at a mark-up, the mark-up percentage is **ADDED** to the cost price to determine the selling price. **(COST PRICE + MARK-UP = SELLING PRICE)**
- VAT is then calculated on the selling price to determine the price inclusive of VAT.

EXAMPLE 3
Complete the following

Selling price:
Cost Price+ Mark-Up
100 +15 = 115

VAT Inclusive:
Selling Price + VAT
100+15 =115

Cost price	% mark-up	Selling price (VAT exclusive)	Selling price (VAT inclusive)
R500	**20%**	Mark-up = 500 X 20/100 = R100 Selling price = R500 +R100 = R600 **OR** Selling price = R500 X 120/100 = R600	VAT = R600 x 15/100 = R90 Selling price R600 + R90 = R690 **OR** R600 x115/100 =R690
		The selling price exclude VAT	*The selling price include VAT , price charged to the customer*

NOTE: The **UK METHOD** (unknown/known) is important for most of your calculations in this section .

ACTIVITY 4

Complete the following calculations :

Cost price	% mark-up	Selling price (VAT exclusive)	Selling price (VAT inclusive)
Example R460	**15%**	**R460 x 115/100 = R529**	**R529 x 115/100 = R608,35**
R1 800	20%	**?**	**?**
R1 250	40%	**?**	**?**

ACTIVITY 5

Number	Cost price (VAT)	mark-up	Selling Price (VAT excl)	VAT	MARKED PRICE (VAT incl)
	R	%	R	R	R
1	120	50%			
2		40%			402.50
3	280		364		
4		25%	200		

EXAMPLE 4

Longhill Traders

The information relates to Longhill Traders for the VAT period ended 30 April 2021. The VAT rate of 15% applies to all goods and services.

REQUIRED:

Enter the following transactions in the relevant subsidiary books of Longhill Traders.

INFORMATION:

Transactions for April:

5 Issued credit invoice to customer R. Reddy for merchandise sold R3 910, (cost of sales R1 900)

10 B. Brown a debtor cannot be traced. His debt of R230 must be written off. (inclusive)

13 R. Reddy returned unsatisfactory merchandise R552, (cost of sales 345)

18 Bought office equipment R3 000 for cash from SS Suppliers. (exclusive)

21 Credit purchases of stock from Goodwill stores, R8 700 (exclusive)

25 Cash sales as per register roll R4 554, (cost of sales R2 200)

28 Unsatisfactory goods were returned to Goodwill stores. A credit note of was received for R805 (inclusive)

EXPECTED ANSWER

CASH RECEIPTS JOURNAL OF LONGHILL TRADERSFOR 30 APRIL 2021										
Day	Details	Analysis Of Receipts	Bank	Output VAT	Sales	Cost of Sales	Debtors Control	Discount Allowed	Sundry Accounts	
									Amount	Details
25	Sales	4 554	4 554	**594**	4 554	2 200				

CASH PAYMENTS JOURNAL OF LONGHILL TRADERS FOR 30 APRIL 2021								
Day	DETAILS	Bank	Trading Stock	Input VAT	Creditors Control	Discount Received	Sundry Accounts	
							Amount	Details
18	SS Suppliers	3 450		**450**			3 000	Equipment

DEBTORS JOURNAL OF LONGHILL TRADERSFOR 30 APRIL 2021						
Doc No.	Day	Details	F	Sales	Output VAT	Cost of Sales
101	5	R. Reddy		3 910	**510**	1 900

DEBTORS ALLOWANCES JOURNAL LONGHILL TRADERSFOR 30 APRIL 2021						
Doc No.	Day	Details	F	Debtors Allowances	Output VAT	Cost Of Sales
156	13	R. Reddy		552	**72**	345

CREDITORS JOURNAL OF LONGHILL TRADERSFOR 30 APRIL 2021										
Doc No.	Day	Details	F	Creditors Control	Trading Stock	Input VAT	Equipment	Sundry Accounts		
								Amount	F	Details
111	21	Goodwill stores		1 005	8700	**1 305**				

CREDITORS ALLOWANCES JOURNAL OF LONGHILL TRADERSFOR 30 APRIL 2021										
Doc No.	Day	Details	F	Creditors Control	Trading Stock	Input VAT	Equipment	Sundry Accounts		
								Amount	F	Details
221	28	Goodwill stores		805	700	**105**				

GENERAL JOURNAL OF LONGHILL TRADERSFOR 30 APRIL 2021									
Doc No.	Day	Details	F	General Ledger		Debtors Control		Creditors Control	
				Debit	Credit	Debit	Credit	Debit	Credit
		Bad debts		200					
		Debtors control			200		200		
		Output Vat		30					
		Debtors control			30		30		

SUMMARY OF TRANSACTIONS (EXAMPLE 4)				
Date	**Subsidiary book**	**Vat Amount**	**Input Vat**	**Ouput Vat**
5	Debtors Journal	510		✓
10	General Journal	30		✓
13	Debtors Allowances Journal	72		✓
18	Cash Payment Journal	450	✓	
21	Creditors Journal	105	✓	
25	Cash Receipts Journal	594		✓
27	Creditors Allowances Journal	105	✓	

ACTIVITY 6
Pro Party Shop

You are provided with information relating to Pro Party Shop for the VAT period ended 28 February 2021. The standard VAT rate of 15% is applicable.

REQUIRED:

Analyse transactions given below and complete the table provided

INFORMATION:

Transactions for February:

8 Bought stationery on credit for R3 220 (VAT R420).

15 Trading stock sold for cash, R30 800 (excluding VAT).

16 Settled the amount owing, R25 300, to Dolphin Traders, less 5% discount.

20 Bought 92 costumes @ R500 each (VAT inclusive) from Funny Clothes Ltd received Invoice 1702.

23 Returned 10 faulty costumes together with Debit Note 87 to Funny Clothes Ltd. The VAT on this return amounted to R560.

25 Sold goods on credit to M Malinga for R9 625 (including R1 000 of zero rated items)

27 C. Jones debt of R575 must be written off as irrecoverable (VAT inclusive)