Only Study Guide for

FAC1501

INTRODUCTORY FINANCIAL ACCOUNTING

2020 – 2021

Department of Financial Accounting
University of South Africa, Pretoria





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INTRODUCTORY FINANCIAL ACCOUNTING



Introductory Financial Accounting

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LEARNING UNIT 1

THE NATURE AND PURPOSE OF FINANCIAL ACCOUNTING



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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- define financial accounting
- explain the objective of financial accounting
- explain the nature of financial accounting
- list the steps involved in the financial accounting cycle
- explain the difference between financial accounting and bookkeeping
- explain the acronym IFRSs
- identify the users of financial accounting information in the financial statements and the reasons why they need the financial information

KEY CONCEPTS

- Transaction
- Financial accounting
- Objective of financial accounting
- Financial accounting cycle
- Bookkeeping
- International Financial Reporting Standards (IFRSs)
- Users of financial statements



ASSESSMENT CRITERIA

- The concept “financial accounting” is explained.
- The nature and objective of financial accounting is explained.
- The specific and general functions of financial accounting are explained.
- The processing of basic transactions is explained.
- The meaning of International Financial Reporting Standards (IFRSs) and its application to the preparation and presentation of financial information are explained.
- The overall objective of financial statements to meet the needs of the users of financial information is explained.
- Information useful to the users of financial information is determined according to the specific users’ needs.

1.1 INTRODUCTION

Every day all over the world literally millions of transactions take place. A transaction is an action where money is paid and in return an item or service, that the buyer needs, is obtained. Think about buying a loaf of bread – something that most of us do on a daily basis. For us as individuals it is quite easy to remember what transactions we concluded for a particular day, but for a big entity, it would be impossible to know what transactions took place during a day if proper records were not kept. It would even become impossible for an individual to remember what transactions were concluded a month ago if he/she does not have a proper recordkeeping system in place.

1.2 WHAT IS FINANCIAL ACCOUNTING?

Financial accounting can be defined as the orderly and systematic identification and recording of the monetary values of financial transactions of an individual or business entity, and the reporting of the results of these transactions by way of the preparation and presentation of financial statements to enable the users to use the information obtained in these financial statements as a basis for decision-making. Financial accounting is a specialised method used to communicate financial information about an entity and its activities to those persons or entities that have an interest in the activities of the entity.

Financial accounting is a process that involves three activities, namely:

- Identification – selecting those events that are evidence of economic activity (transactions) relevant to the particular entity.
- Recording the monetary value of the economic events (transactions) so as to provide a permanent history of the financial activities of the entity. Recording consists of keeping a chronological diary of measured events in an orderly and systematic manner. Recording implies that economic events are also classified and summarised.
- The third activity encompasses the communication of the recorded information to interested users. The information is communicated through the preparation and distribution of accounting reports, the most common of which are known as financial statements, that consist of:
  - a statement of financial position;
  - a statement of profit or loss and other comprehensive income;
  - a statement of changes in equity;
  - a statement of cash flows;
  - notes, comprising of a summary of significant accounting policies and other explanatory notes.

An entity does not necessarily refer to business entities. It can also refer to an educational institution, a religious institution or a private household.

NOTE:

Do not be concerned if you do not understand all the terminology on the following few pages, as they will all be explained in learning units 1 and 2.

1.3 THE OBJECTIVE OF FINANCIAL ACCOUNTING

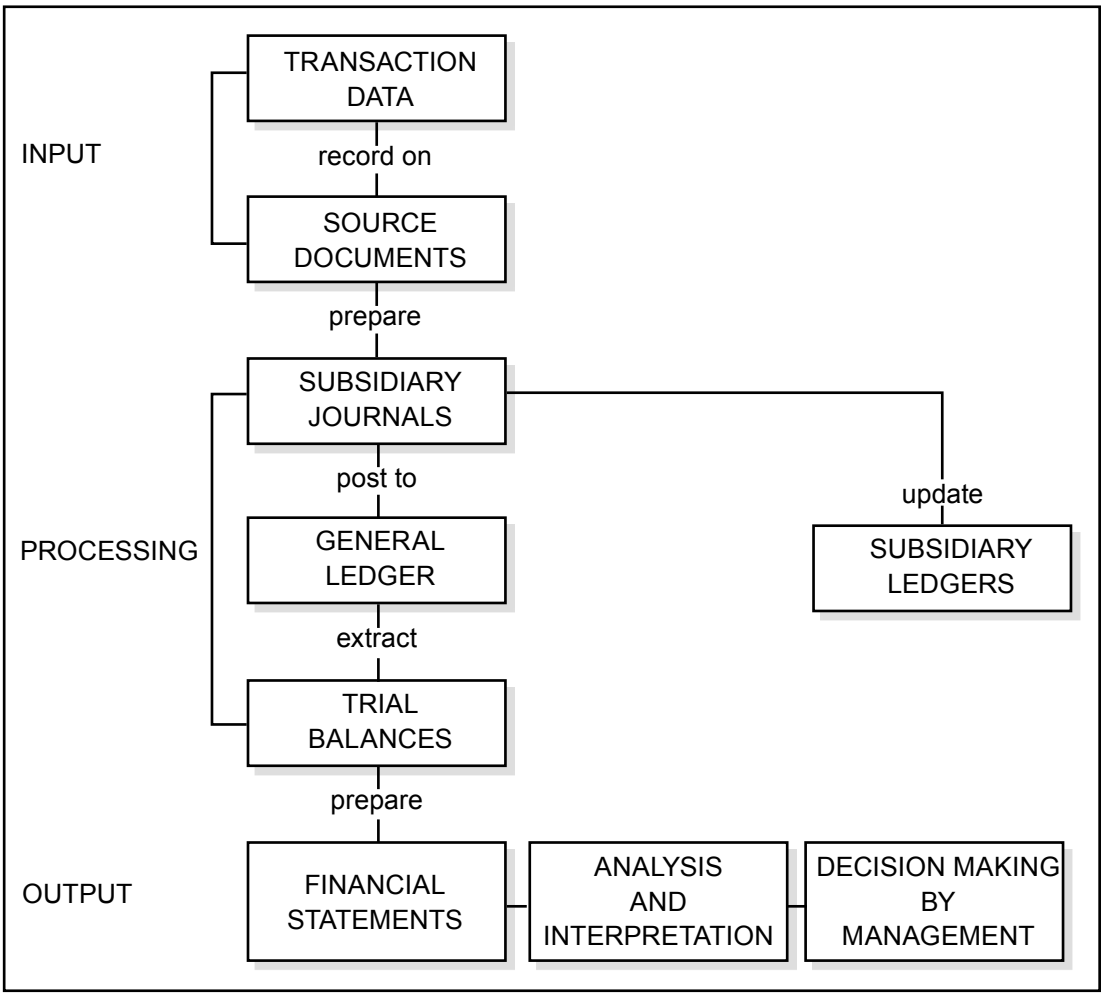
The objective of financial accounting is to enable the users of financial information to ascertain readily what the financial results and financial position of the entity is. With this statement we mean:

(a) Did the entity trade at a profit or loss?
(b) What was the income of the entity and what were the expenses incurred in producing that income?
(c) How much does the entity owe to other entities?
(d) How much do customers owe to the entity?
(e) What is the nature and amount (in value) of the various kinds of property and other assets the entity possesses?
(f) What is the amount of the entity's capital (equity)?

1.4 THE NATURE OF FINANCIAL ACCOUNTING

Financial accounting functions as an information system: far-reaching decisions are taken on the basis of the results reported in financial statements and business transactions have to be measured, classified, summarised and recorded continuously. We call these actions the financial accounting cycle. This cycle is demonstrated in the following diagram.

Diagram 1: The financial accounting cycle



Financial accounting is the systematic recording of the financial transactions of an entity in such a manner that any information required by the entity is readily available. The systematic recording of the financial information is called a financial accounting cycle, which consists of the elements listed in diagram 1.

The processing stage entails the recording of transactions and this process is known as bookkeeping. The ultimate goal of the input stage and the processing stage is to prepare financial statements.

1.5 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

It would be problematic if each entity kept individualised records of its transactions as this would make it difficult to compare the performance of an entity with those of other similar entities. To prevent this from happening, the financial accounting profession has standardised the way in which entities are required to keep record of their transactions.

In South Africa the recording and reporting of financial information are governed by international financial reporting standards as set by the Financial Reporting Standards Council (FRSC) in South Africa. The purpose of these financial accounting standards will to a great extent ensure that the same type of transaction is recorded by different entities in more or less the same way. This will eventually ensure that the financial statements of different entities conducting the

same type of business are comparable and that an entity's financial statements will also be comparable to those prepared in previous years.

In South Africa we have to comply with International Financial Reporting Standards (IFRSs) which can be regarded as the "rules for financial accounting".

1.6 THE OBJECTIVE OF FINANCIAL STATEMENTS

The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions.

1.7 USERS OF FINANCIAL STATEMENTS

Financial statements are prepared and presented at least once a year and are directed towards the common information needs of a wide range of users.

The following categories of users, and their need for accounting information, have been identified:

User	**Information needs**
Clients	to assess the ability of the entity to continue as a going concern.
Employees	to assess the ability of their employer to provide stable employment and remuneration.
Government	to regulate activities of the enterprise, compile statistics and determine resource allocation and tax policies.
Investors	to assess the risk and return on an investment in the enterprise.
Lenders	to assess the ability of the enterprise to pay interest on a loan and to repay loans.
Suppliers and other creditors	to assess the ability of the enterprise to pay amounts owing
Management	● planning, that is determining future actions to be taken; or ● exercising control, that is evaluating the current situation and taking corrective steps

Although employees are considered to be part of the organisation, they do not have the same, unlimited access to the accounting records of the entity.

1.8 EXERCISES AND SOLUTIONS

REQUIRED

Answer the following questions:

(a) What is a transaction?
(b) How will you define financial accounting?
(c) What is the objective of financial accounting?
(d) What is the nature of financial accounting?
(e) List the steps in the financial accounting cycle.
(f) What does bookkeeping entail?
(g) What does IFRSs stand for?
(h) List the categories of users of financial accounting information.
(i) Name the reasons why management need financial accounting information.
(j) What is the objective of financial statements?

SOLUTION

(a) A transaction is an action where money is paid and, in return, an item or service, that the buyer needs is obtained.
(b) Financial accounting is the orderly and systematic identification and recording of the monetary values of financial transactions of an individual or business entity, and the reporting of the results of these transactions by way of the preparation and presentation of financial statements to enable the users to use the information as a basis for decision making.
(c) To enable the users of financial information to ascertain readily what the financial results and financial position of the entity is.
(d)
- to identify events that are evidence of economic activity relevant to the particular entity,
- to record the monetary value of economic events so as to provide a permanent history of the financial activities of the entity,
- to communicate the recorded information to interested users.

(e) Transactions ⇨ source documents ⇨ journals ⇨ general ledger and subsidiary ledgers ⇨ trial balances ⇨ final accounts and financial statements
(f) Bookkeeping is the systematic recording of transactions.
(g) International Financial Reporting Standards.
(h)
- Clients
- Employees
- Government
- Investors
- Lenders
- Suppliers and other creditors
- Management

(i) Information to be used for decisions directed at

- planning, that is determining future actions to be taken, or
- exercising control, that is evaluating the current situation and take corrective steps.

(j) The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions.



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• define financial accounting?	☺	😐	☹
• explain the objective of financial accounting?	☺	😐	☹
• explain the nature of financial accounting?	☺	😐	☹
• list the steps involved in the financial accounting cycle?	☺	😐	☹
• explain what the acronym IFRSs stands for?	☺	😐	☹
• list the users of financial statements?	☺	😐	☹
• explain what information different users of financial statements will be interested in?	☺	😐	☹
• explain the main objective of financial statements?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

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LEARNING UNIT 2

THE ACCOUNTING EQUATION: FINANCIAL POSITION



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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- list the basic business forms found in South Africa
- explain the characteristics of a sole trader
- understand the accounting equation concerning assets, equity and liabilities
- explain the effects of financial accounting entries concerning assets, equity and liabilities on the accounting equation
- prepare entries in general ledger accounts for assets, equity and liabilities
- prepare a statement of financial position for a service entity.

KEY CONCEPTS

- Service entity
- Retailing entity
- Manufacturing entity
- Forms of business
- Sole trader
- Double-entry principle
- T-account
- Debit
- Credit
- Accounting equation
- Assets
- Liabilities
- Equity

- Income
- Expenses
- Statement of financial position
- Balancing off of accounts
- Debtors
- Creditors



ASSESSMENT CRITERIA

- The processing of accounting information by different types of business entities because of the difference in operating activities is explained.
- The form of business ownership according to the capital needs of an entity is explained.
- The characteristics of a sole trader are explained.
- The elements of the general purpose financial statements are explained.
- Accounting terminology is explained and examples of their use are given.
- The principle of debits and credits are explained.
- Business transactions concerning assets, liabilities and equity are explained with reference to appropriate examples.
- Accounting policy is demonstrated according to the right methods and procedures when recording in the accounting equation format and in the ledger accounts.
- Assets, liabilities and equity are defined and classified for recognition in the statement of financial position.

2.1 INTRODUCTION

In the previous learning unit you learned that financial accounting is an information system that communicates financial information to the users of financial accounting information. But who exactly needs to keep financial accounting records? The answer to this question is simple: everybody who earns an income!

The average salary earner needs accommodation, food, clothes, and has to pay (for example) the telephone account, school fees and groceries. They would possibly open a clothing account and pay the school fees in monthly instalments. Salary earners would also have a bank account into which their salaries are deposited every month. How would they be able to keep track of what has been paid, what they still owe and how much money they have left without some form of financial accounting system?

2.2 TYPES OF BUSINESS ENTITIES

The processing of financial accounting information (that is, bookkeeping) will be determined by the operating activities of an entity and should be adapted to provide the information that is applicable to the specific operating activities. The operating activities of an entity are those activities from which it tries to make a profit. The objective of every entity is to earn as large a profit as possible.

Let's consider the following example:

Mr Bongile Sithole, a qualified electrician, has his own business which he runs from his home. Mr B Sithole trades as BS Electrical and installs electrical cables and repairs electrical faults. In order for him to deliver his services he needs his tools. His clients must supply any cabling or wiring required for the job, which they buy from the hardware store. The hardware store buys these items from an engineering company that manufactures them.

- **Mr Bongile Sithole** therefore runs
  - a commercial entity
  - which sells
  - a service to his clients.

- **The hardware store** is
  - a commercial entity
  - which buys and sells
  - goods to their customers.

Commercial entities can be retail entities that will sell goods to the public, or wholesalers that only sell goods to retailer entities.

- **The engineering entity** is
  - a manufacturing entity
  - which manufactures and sells
  - goods to their customers.

Each of these types of entities will make use of financial accounting records that are suitable to their own needs. The minimum information that must be available from these financial accounting records is prescribed by International Financial Reporting Standards (IFRSs).

2.3 SOUTH AFRICAN FORMS OF BUSINESS OWNERSHIP

Mr Bongile Sithole's entity**,** the hardware store entity as well as the engineering entity may be conducted in one of a number of business forms. In order to start any business, money is needed. This money is referred to as *capital*. Some types of businesses require more capital than others. For example, the engineering entity would need machines, an electrician would need his toolbox and the hardware store will need hardware inventory. The amount of capital needed to start and continue business operations would largely influence the *form* of the business.

For financial accounting purposes we distinguish between the following forms of business ownership:

- sole traders
- partnerships
- close corporations
- companies

In South Africa two types of companies can be formed, namely a profit company and a non-profit company.

In this module you will concentrate on the financial accounting records required by different operating activities (that is sales and services) of a sole trader and we will not venture into any aspects of the other forms of business ownership.

2.4 CHARACTERISTICS OF A SOLE TRADER

- This entity belongs to one person only. In the case of BS Electrical the entity belongs to Mr Bongile Sithole.
- It is suitable for smaller types of entities that do not need big amounts of capital to start.

- All decisions regarding the entity are taken by the owner and all the profits and losses accrue to the owner. Mr Bongile Sithole will take all decisions regarding BS Electrical and all the profit and losses will accrue to him as owner.
- Mr Bongile Sithole is the sole owner and disposer of the assets of the business.
- The sole trader is not a legal entity distinct from its owner. Mr Bongile Sithole will conclude any contracts applicable to his entity in his own name and he will be liable in his personal capacity for the debts of the entity.
- As the sole trader is not a legal entity, the profits of the entity will be taxed in the hands of the owner. Mr Bongile Sithole will declare the profits in his personal income tax return and he will be taxed on the amount.
- If Mr. Bongile Sithole dies, the entity ceases to exist. If the business activities are taken over by someone else, a new sole trader entity comes into being.

To be able to do Mr Bongile Sithole's books it is necessary to look at the accounting equation.

2.5 THE ELEMENTS OF FINANCIAL STATEMENTS

Every entity implements a financial accounting system according to the minimum financial accounting standards and practices when it draws up financial statements that are used in making economic decisions. Financial statements will reflect the financial effects of transactions by grouping them into broad classes according to their economic characteristics, namely assets, equity, liabilities, income and expenses. Assets, equity, liabilities, income and expenses are called the elements of financial statements.

The elements directly related to the measurement of financial position at a given time in the statement of financial position are assets, liabilities and equity.

Assets are all the resources controlled by the entity (whether they are owned by the entity or not), for example land and buildings, vehicles, furniture, equipment, trading inventory, debtors, bank and petty cash.

Remember, not all assets controlled by the entity are owned by the entity. If, for example, the entity bought a vehicle on credit, it does not belong to the entity until the final instalment is paid.

Liabilities are the debts of the entity (all the money owed to third parties), for example long-term loans, mortgage bonds, bank overdrafts and creditors.

Equity refers to the amount that the owner invested in the entity and is made up mainly of capital. It is an indication of the assets that actually belong to the owner and is referred to as the owner's net worth.

Profit or loss is frequently used as a measure of performance. The elements directly related to the measurement of financial performance for a period in the statement of profit or loss and other comprehensive income are income and expenses.

Income less expenses = profit for the year

Income is the income earned by the entity through its normal everyday business activities for the financial accounting period (normally a year), for example sales, rent income, interest income and credit losses recovered.

Expenses are the running expenses of the entity for the financial accounting period (normally a year) necessary to earn the income, for example purchases, rent expenses, telephone expenses, water and electricity, salaries and wages.

To be able to record transactions correctly it is necessary to have a look at the process of recording transactions.

2.6 THE DOUBLE-ENTRY PRINCIPLE

Bookkeeping is the part of financial accounting that is concerned with the recording of transactions. The transactions are recorded in an account.

An account consists of a left-hand side and a right-hand side and is presented in a "T" format. The left-hand side is referred to as the debit side and the right-hand side is referred to as the credit side. The name of the "T" account is written across the centre at the beginning of each account.

This can be illustrated as follows:

Dr (debit side)	**……. Account**	**(credit side) Cr**
Left-hand side (LHS)		**Right-hand side (RHS)**

For each asset, liability, equity, expense and income there will be a "T" account in the books of the entity. All these "T" accounts together are called the general ledger.

The double-entry principle provides a logical method of recording transactions. In using the double-entry system the monetary (money value) of each transaction must be entered on the debit side of one ledger account as well as on the credit side of another ledger account. The entry in one ledger account refers to the corresponding entry in the other ledger account.

As the entries in the two ledger accounts have been entered on opposite sides, the use of the double entry system allows for cross references. Each transaction is entered in two separate accounts on opposite sides, and it is therefore possible to check and control the arithmetical and accounting accuracy of the work. If each transaction is recorded so that the debit and credit entries are equal, the same sum of all the debits to the account must equal the sum of all the credits. This can be explained by way of the accounting equation.

2.7 THE ACCOUNTING EQUATION: FINANCIAL POSITION

The logical method of recording transactions by way of the accounting equation is used to process transaction data. Transactions may:

- affect assets and/or equity and/or liabilities.
- generate income or give rise to expenditure

The accounting equation states that:

ASSETS	=	EQUITY	+	LIABILITIES
A	=	E	+	L

OR

EQUITY	=	ASSETS	–	LIABILITIES
E	=	A	–	L

The equity equals all the assets in the entity less all the claims against those assets (liabilities).

The accounting equation is a *mathematical* equation that should **always balance**. The financial position of an entity is indicated by this equation.

For the accounting equation to always balance it requires the involvement of two accounts for each transaction. The accounting equation is, therefore, based on the double-entry accounting system.

Basic requirements for the accounting equation:

- **A minimum of two accounts must be used for each transaction.**
- **The equation must remain in balance after each transaction. In other words the debit side (A) is equal to the credit side (E + L).**

Consider the following example of transactions that affect assets and/or equity and/or liabilities:

Before the entity starts to do business, the **accounting equation** will look like this:

Debit side	**=**	**Credit side**		
A	**=**	**E**	**+**	**L**
Possessions the entity owns	=	Amounts owed to the owner of the entity	+	Amounts owed to third parties
What the entity owns	=	What the entity owes		
0	=	0		

Note that the recording of transactions is done from the point of view of the business entity independent from its owner, Mr Bingole Sithole.

Every entity for which separate financial records are kept is a financial accounting entity. It is extremely important to see the entity as separate from its owner: transactions entered into by the entity have to be dealt with from the point of view of the entity whose books are being done.

Transaction 1:

Mr Bingole Sithole, a qualified electrician, started a small service business, BS Electrical on 1 January 20.6. He decided to deposit R40 000 in the entity's bank account to start the business.

Explanation:

The entity received R40 000 in cash and the money was deposited in a bank account opened in the name of the entity. It cannot be Mr B Sithole's bank account. **The entity must have its own bank account**. The money (bank account) is an asset because it is a resource controlled by the entity (it can be used by the entity to do business). The assets increased because it was "0" before this transaction. The owner deposited the money into the entity's bank account. Any amount received from the owner is called capital and this increases equity. The entity now owes Mr B Sithole R40 000. Both the left-hand side of the equation (A) and the right-hand side of the equation (E + L), now equals R40 000.

The effect of this transaction on the accounting equation can be illustrated as follows:

A	=	E	+	L
Bank		Capital		
R		R		R
+ 40 000	=	+ 40 000	+	–

NOTE:

The plus sign shows an increase of an element of the accounting equation and a minus shows a decrease in an element of the accounting equation.

Transaction 2:

On 1 January 20.6 BS Electrical bought a toolbox and tools to be used by Mr B Sithole on credit from Big Builders for R7 000.

Explanation:

Tools and equipment are a resource controlled by the entity (it can be used by the entity to do business). It is an asset, so the assets increased. The entity owed money to Big Builders, a creditor, so the liabilities would increase.

A creditor is a person or entity to which the entity, BS Electrical, owes money. This debt is usually paid back within one year.

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	E	+	L
Bank	**Tools and equipment**		**Capital**		**Big Builders (creditor)**
R	**R**		**R**		**R**
+ 40 000			+ 40 000		
	+ 7 000				+ 7 000
40 000	7 000	=	40 000	+	7 000

Transaction 3:

On 1 January 20.6 BS Electrical bought a ladder from Ladders (Pty) Ltd and paid for it by cheque, R1 200.

Explanation:

Money (bank account) is a resource controlled by the entity (it can be used by the entity to do business). Assets decreased because money was paid by the entity. Tools and equipment, another resource controlled by the entity (it can be used by the entity to do business), increased, thus assets increased. Assets increased and decreased with R1 200, leaving us with a nil effect. The left-hand side of the equation (A) = right-hand side of the equation (E + L) [R47 000 = R40 000 + R7 000].

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	E	+	L
Bank	**Tools and equipment**		**Capital**		**Big Builders (creditor)**
R	**R**		**R**		**R**
+ 40 000			+ 40 000		
	+ 7 000				+ 7 000
- 1 200	+ 1 200				
38 800	8 200	=	40 000	+	7 000

Transaction 4:

On 1 January 20.6 BS Electrical borrowed R50 000 from Uni Bank at an interest rate of 10% per annum repayable over 60 months. The R50 000 was transferred to the bank account of the entity.

Explanation:

The money received from Uni Bank increased the bank account. Bank is an asset and therefore the assets increased with the money received from Uni Bank. The entity however owed Uni Bank

R50 000. This is an obligation (liability) to pay and the liabilities increased. The left-hand side of the equation (A) = the right-hand side of the equation (E + L) [R97 000 = R40 000 + R57 000].

BS Electrical owes Uni Bank, who provided the long-term loan, the money. Uni Bank is a creditor (financing creditor) of BS Electrical. This long-term debt is usually not paid back within one year (in this case it will only be paid back over a period of 5 years (60 months)).

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	**E**	+	**L**	
Bank	**Tools and equipment**		**Capital**		**Big Builders (creditor)**	**Uni Bank (long-term loan)**
R	**R**		**R**		**R**	**R**
+ 40 000			+ 40 000			
	+ 7 000				+ 7 000	
– 1 200	+ 1 200					
+ 50 000						+ 50 000
88 800	8 200	=	40 000	+	7 000	50 000

The following rules can be applied:

Dr (debit side)	**Asset accounts**	**(credit side) Cr**
+ (increase)		– (decrease)

Dr (debit side)	**Liability accounts**	**(credit side) Cr**
– (decrease)		+ (increase)

Dr (debit side)	**Equity account**	**(credit side) Cr**
– (decrease)		+ (increase)

For you as a learner of financial accounting the reality is that the double-entry rules are not one of those concepts that you can try to understand – you have to learn them!

When analysing a transaction, the following four questions need to be asked:

- **Which two accounts are involved in the transaction?**
- **Do the accounts form part of assets, equity or liabilities?**
- **Did the assets, equity or liabilities increase or decrease?**
- **Which one of the accounts must be debited and which one must be credited?**

Let's consider the transactions of BS Electrical again:

Transaction 1:

Mr Bingole Sithole, a qualified electrician, starts a small service business, BS Electrical, on 1 January 20.6. He decided to deposit R40 000 in the entity's bank account to start the business.

The effect of this transaction on the accounting equation can be illustrated as follows:

A	=	E	+	L
Bank		**Capital**		**Liabilities**
R		**R**		**R**
+ 40 000	=	+ 40 000	+	–

Explanation (detailed explanation of the accounting equation transaction 1):

1. Bank account (an asset) increased; and must therefore be debited.

Dr (debit side)	**Assets**	**(credit side) Cr**
+ (increase)		– (decrease)

2. Capital account (equity) increased; and must therefore be credited.

Dr (debit side)	**Equity**	**(credit side) Cr**
– (decrease)		+ (increase)

The above transaction will be recorded in the ledger accounts as follows:

(a) The debit-side of the bank account:

Dr **Bank** **1** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	1	Capital **(name of account to be credited)**		40 000					

A few things to remember:

- The date of the transaction (date). The transaction took place on 1 January 20.6.
- A description of the other account affected by the transaction to make cross-referencing easier (details). The account to be debited is bank account and the account to be credited is capital account.
- Cross-referencing to the folio number of the other account affected (fol). (It will be discussed in a later learning unit .)

- Recording the amount of the transaction. The amount of the transaction is R40 000. (Bank account is debited with R40 000, and capital account is credited with R40 000.)

(b) The credit-side of the capital account:

Dr **Capital** **2** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6 Jan	1	Bank **(name of account to be debited)**		40 000

Debit side = Credit side = R40 000

Transaction 2:

On 1 January 20.6 BS Electrical bought a toolbox and tools to be used by Mr Bingole Sithole on credit from Big Builders for R7 000.

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	E	+	L
Bank	**Tools and equipment**		**Capital**		**Big Builders (creditor)**
R	**R**		**R**		**R**
+ 40 000			+ 40 000		
	+ 7 000				+ 7 000
40 000	7 000	=	40 000	+	7 000

Explanation (detailed explanation of the accounting equation transaction 2):

1. Tools and equipment account (an asset) increased and must therefore be debited.

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		– (decrease)

2. Big Builders' account (a liability) increased and must therefore be credited.

Dr (debit side)	Liabilities	(credit side) Cr
– (decrease)		+ (increase)

The above transaction will be recorded in the ledger accounts as follows:

(a) The debit-side of the tools and equipment account:

Dr **Tools and equipment** **3** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	1	Big Builders **(name of account to be credited)**		7 000					

(b) The credit-side of Big Builders' account:

Dr **Big Builders** **4** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Tools and equipment **(name of account to be debited)**		7 000

Debit side = Credit side = R7 000

Transaction 3:

On 1 January 20.6 BS Electrical bought a ladder from Ladders (Pty) Ltd and paid for it by cheque, R1 200.

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	E	+	L
Bank	Tools and equipment		Capital		Big Builders (creditor)
R	R		R		R
+ 40 000			+ 40 000		
	+ 7 000				+ 7 000
– 1 200	+ 1 200				
38 800	8 200	=	40 000	+	7 000

Explanation (detailed explanation of the accounting equation transaction 3):

1. Tools and equipment account (an asset) increased and must therefore be debited.

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		– (decrease)

2. Bank account (an asset) decreased and must therefore be credited.

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		– (decrease)

The above transaction will be recorded in the ledger accounts as follows:

(a) The debit-side of the tools and equipment account:

You will have only one ledger account for each asset, liability and equity item. Use the same tools and equipment account as created in transaction 2.

Dr **Tools and equipment** **3** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	1	Big Builders		7 000					
		Bank **(name of account to be credited)**		1 200					

(b) The credit-side of the bank account:

Use the same bank account created in transaction 1.

Dr **Bank** **1** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment **(name of account to be debited)**		1 200

Transaction 4:

On 1 January 20.6 BS Electrical borrowed R50 000 from Uni Bank at an interest rate of 10% per annum repayable over 60 months. The R50 000 was transferred to the bank account of the entity.

The effect of this transaction on the accounting equation can be illustrated as follows:

A		=	E	+	L	
Bank	**Tools and equipment**		**Capital**		**Big Builders (creditor)**	**Uni Bank (long-term loan)**
R	**R**		**R**		**R**	**R**
+ 40 000			+ 40 000			
	+ 7 000				+ 7 000	
– 1 200	+ 1 200					
+ 50 000						+ 50 000
88 800	8 200	=	40 000	+	7 000	50 000

Explanation (detailed explanation of the accounting equation transaction 4)**:**

1. **Bank account (an asset) increased** and must therefore be **debited.**

Dr (debit side)	**Assets**	**(credit side) Cr**
+ (increase)		– (decrease)

2. **Long-term loan: Uni Bank account (a liability) increased and must therefore be credited.**

Dr (debit side)	**Liabilities**	**(credit side) Cr**
– (decrease)		+ (increase)

The above transaction will be recorded in the ledger accounts as follows:

(a) The debit-side of the bank account:

Use the same bank account created in transaction 1 and used in transaction 3.

Dr **Bank** **1** **Cr**

Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6					20.6				
Jan	1	Capital account		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan: Uni Bank **(name of account to be credited)**		50 000					

(b) The credit-side of the long-term loan: Uni Bank account:

Dr **Long-term Loan: Uni Bank** **5** **Cr**

Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
					20.6				
					Jan	1	Bank **(name of account to be debited)**		50 000

The accounting equation is, therefore, based on the double-entry accounting system, and is used for preparing the *statement of financial position at a specific point in time*.

2.8 THE STATEMENT OF FINANCIAL POSITION

The statement of financial position reflects the financial position of an entity in terms of the basic accounting equation **on a specific date**. It is a statement of balances at a specific date.

The statement of financial position of BS Electrical prepared as at 1 January 20.6 is as follows:

BS ELECTRICAL
STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 20.6

ASSETS	R	EQUITY AND LIABILITIES	R
Bank	88 800	Capital	40 000
Tools and equipment	8 200	Creditor	7 000
		Long-term loan	50 000
	97 000		97 000

At this stage it is necessary to have a look at the ways assets can be used:

- Some assets are used time and time again in the business to earn an income. The tools and equipment used by Mr Bingole Sithole are examples of such assets. These assets are classified as **non-current assets**.
- Some assets have a short life span, and continually change in value in the normal course of business, for example, money in the bank. These assets are classified as **current assets**.

Let's have a look at the difference between non-current assets and current assets.

ASSETS

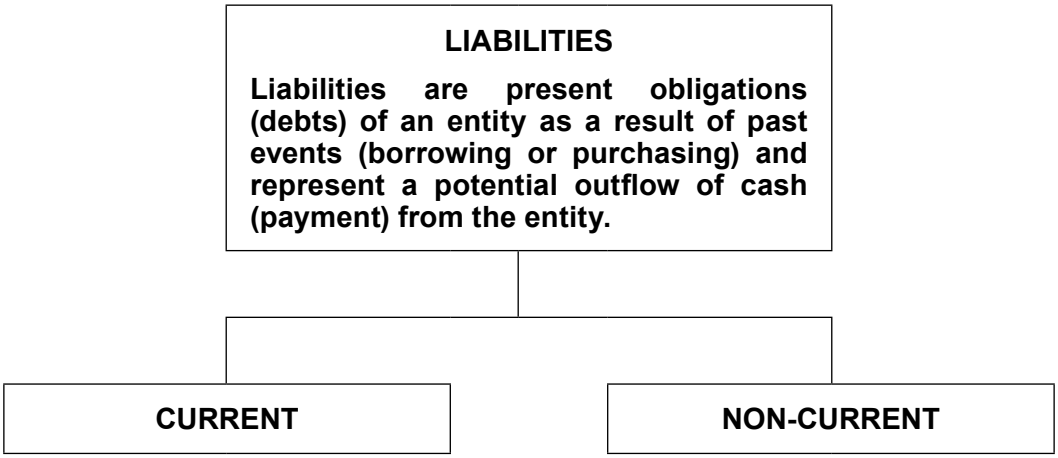
Assets are resources *controlled (used)* by the entity, as a result of *past events (asset was bought)*, and from which *future economic benefits (income)* are expected to flow to the entity.

CURRENT	**NON-CURRENT**
An asset shall be classified as current when it satisfies any of the following criteria:	All other assets (thus being assets that are not classified as current assets will be classified as non-current).
● It is expected to be converted into money (realised), or is intended for sale or consumption, in the entity's normal operating cycle.	Non-current assets include tangible, intangible and financial assets of a long-term nature. (In this module we will only concern ourselves with tangible non-current assets.)
● It is held primarily for the purpose of being traded.	It is not the intention of the entity to sell non-current assets, but to use these assets over the long-term in its business operations to earn an income.
● It is expected to be converted into money (realised) within twelve months of the statement of financial position date.	Non-current assets are those assets with a useful life of longer than one year.
Examples of current assets are:	Examples of non-current assets are:
● Trading inventories ● Consumable stores on hand ● Debtors (trade receivables) ● Accrued income ● Pre-paid expenses ● Bank (positive balance) ● Cash float ● Petty cash	● Land and buildings ● Vehicles ● Furniture ● Equipment ● Machinery

Liabilities can also be non-current or current, depending on when the liability must be settled:

- Some liabilities are payable more than one year after financial year end, that is, they are not payable within the next financial year. These liabilities are classified as **non-current liabilities**.
- Liabilities payable within the next financial year are classified as **current liabilities.**

Let's have a look at the difference between current and non-current liabilities:



A liability shall be classified as current when it satisfies any of the following criteria:	All other liabilities (thus being liabilities that are not classified as current liabilities will be classified as non-current).
● It is expected to be settled in the entity's normal operating cycle (usually one year).	Are long-term debts, and have to be settled after one year of the statement of financial position date.
● It is held primarily for the purpose of being traded.	
● It is due to be settled within twelve months after the statement of financial position date.	
Examples of current liabilities are:	Examples of non-current liabilities are:
● Creditors (trade payables) ● Bank overdrafts ● Current portion of long-term borrowings ● Short-term borrowings ● Accrued expenses ● Income received in advance	● Long-term loans ● Mortgage ● Debentures

According to these principles the correct statement of financial position for BS Electrical is as follows:

BS ELECTRICAL

STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 20.6

ASSETS	R	EQUITY AND LIABILITIES	R
Non-current assets		**Equity**	
Tools and equipment	8 200	Capital	40 000
Current assets		**Non-current liabilities**	
Bank	88 800	Long-term loan	50 000
		Current liabilities	
		Creditor	7 000
Total assets	97 000	**Total equity and liabilities**	97 000

The rules that need to be followed when the double-entry accounting is applied can be derived from the statement of financial position. (The correct vertical format will be discussed later.)

To summarise the ledger accounts in the general ledger:

Dr **Bank** **1** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan:							
		Uni Bank		50 000					

The bank account has transactions on the debit side and the credit side. To determine what the net result is (ie how much money is left in the bank account) the account must be balanced.

An account with entries on both the debit and the credit sides, have to be balanced (to balance is to find the final amount on the account).

To balance the bank account:

- **Add the debit side of the bank account and write down the total in pencil: R40 000 + R50 000 = R90 000.**
- **Add the credit side of the bank account and write down the total in pencil: R1 200.**
- **The debit total of the bank account is more than the credit total. To make the two sides equal the credit side needs an amount of R90 000 – R1 200 = R88 800. This is the balancing amount and is recorded on the side of the T-account that is the smallest, in this case, the credit side. It is shown as a balance c/d.**
- **The account is then totalled (the biggest total in pencil, that is the debit side total of R90 000) and the balance is b/d on the debit side.**
- **The bank has a debit balance because the entity has an amount of R88 800 left in the bank account – which represents an asset of the entity.**

Dr **Bank** **1** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan:				31	Balance	c/d	88 800
		Uni Bank		50 000					
				90 000					90 000
Feb	1	Balance	b/d	88 800					

Dr **Capital** **2** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Bank		40 000

Dr **Tools and equipment** **3** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	1	Big Builders		7 000					
		Bank		1 200					
				8 200					

To balance an account with only debit transactions, you only have to add the debit side, that is, R7 000 + R1 200 = R8 200. If there is only one amount in an account it is left as is.

Dr **Big Builders** **4** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Tools and equipment		7 000

Dr **Long-term loan: Uni Bank** **5** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Bank		50 000

According to the balances on the ledger accounts in the general ledger of the assets, liabilities and equity, it can be recognised in the statement of financial position as follows:

BS ELECTRICAL

STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 20.6

ASSETS	**Note**	**R**
Non-current assets		8 200
Tools and equipment		8 200
Current assets		88 800
Bank		88 800
Total assets		97 000
EQUITY AND LIABILITIES		
Equity		40 000
Capital		40 000
Non-current liabilities		50 000
Long-term loan: Uni Bank		50 000
Current liabilities		7 000
Creditor (Big Builders)		7 000
Total equity and liabilities		97 000

The statement of financial position is now shown in its vertical format and this is the correct format that must be used in future**.**

2.9 EXERCISES AND SOLUTIONS

EXERCISE 1

(a) Define the concept of an accounting entity.
(b) Describe the financial position of an entity in terms of the accounting equation.
(c) Explain the nature of
    (i) assets
    (ii) equity
    (iii) liabilities
(d) Name two sources of financing.
(e) What is meant by the double-entry principle?

SOLUTION: EXCERCISE 1

(a) An accounting entity is any entity for which separate financial records are kept.
(b) ASSETS = EQUITY + LIABILITIES
(c) (i) Assets are the possessions of the entity.
    (ii) Equity is the interest which the owner has in the business and which the entity therefore owes to him.
    (iii) Liabilities are creditors' interest or interests of parties other than the owner(s). Liabilities are therefore the debts of the entity.
(d) The owner and creditors.
(e) In principle it means that every transaction has a dual effect on the elements of the accounting equation and that after every transaction the accounting equation **must remain in balance**.

EXERCISE 2

The assets of Maxi Services amount to R30 000 and its liabilities (creditors) to R5 000.

REQUIRED

Calculate the equity.

SOLUTION: EXCERCISE 2

Use the accounting equation. The amounts which are given are substituted for the appropriate symbol and the value of the unknown symbol is calculated.

A	=	E	+	L
E	=	A	–	L
E	=	R30 000	–	R5 000
E	=	R25 000		

EXERCISE 3

T Tom is the owner of Zebra Services which offers a carpet cleaning service. On 30 November 20.6 Zebra Services owns equipment amounting to R100 000. Clients owe R40 000 for services rendered and Zebra Services owes R20 000 to a supplier for parts purchased. Zebra Services also has R10 000 in cash in the bank.

REQUIRED

Show the accounting equation and determine the equity.

SOLUTION: EXCERCISE 3

Step 1: **Identify the assets:**

Equipment = R100 000

Debtors = R40 000

Cash = R10 000

Step 2: **Identify the liabilities:**

Creditors control = R20 000

Substitute these amounts into the equation:

A	=	E	+	L
E	=	A	–	L
E	=	R(100 000 + 40 000 + 10 000)	–	R20 000
E	=	R150 000	–	R20 000
E	=	R130 000		

Zebra Service's financial position can also be presented in the form of a statement of financial position as follows:

ZEBRA SERVICES

STATEMENT OF FINANCIAL POSITION AS AT 30 NOVEMBER 20.6

ASSETS	R	EQUITY AND LIABILITIES	R
Equipment Debtors Cash in bank	100 000 40 000 10 000	Equity Creditors	130 000 20 000
	150 000		150 000

EXERCISE 4

Calculate the missing figures using the accounting equation:

			R
(a)	Bank	=	4 000
	Vehicles	=	5 000
	Equipment	=	7 000
	Equity	=	?
(b)	Equity	=	150 000
	Loan	=	50 000
	Bank	=	?
	Machinery	=	190 000
(c)	Bank	=	5 000
	Debtors	=	15 000
	Buildings	=	100 000
	Furniture	=	40 000
	Creditors	=	50 000
	Equity	=	?
(d)	Equity	=	60 000
	Loan	=	10 000
	Creditors	=	6 000
	Assets	=	?

SOLUTION: EXCERCISE 4

(a) A = E + L
E = A – L
E = R(4 000 + 5 000 + 7 000) – R0
E = R16 000

(b) A = E + L
R190 000 + Bank = R150 000 + R 50 000
Bank = R200 000 – R190 000
Bank = R 10 000

(c) A = E + L
E = A – L
E = R(5 000 + 15 000 + 100 000 + 40 000) – R50 000
E = R160 000 – R50 000
E = R110 000

(d) A = E + L
A = R60 000 + R(10 000 + 6 000)
A = R76 000



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• classify the different elements of financial statements correctly?	☺	😐	☹
• define an asset?	☺	😐	☹
• define a liability?	☺	😐	☹
• define income?	☺	😐	☹
• define expenses?	☺	😐	☹
• explain the difference between (and give examples of) non-current assets and current assets?	☺	😐	☹
• explain the difference between (and give examples of) non-current liabilities and current liabilities?	☺	😐	☹
• explain the difference between (and give examples of) income and expenses?	☺	😐	☹
• list the rules for debiting and crediting different type of accounts concerning assets, equity and liabilities?	☺	😐	☹
• correctly classify any given account concerning assets, equity and liabilities?	☺	😐	☹
• correctly enter any given transaction concerning assets, equity and liabilities into the accounting equation?	☺	😐	☹
• correctly apply the accounting equation to any given transaction concerning assets, equity and liabilities?	☺	😐	☹
• correctly enter any given transaction concerning assets, equity and liabilities in the ledger accounts?	☺	😐	☹
• prepare a statement of financial position?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 3

THE ACCOUNTING EQUATION: FINANCIAL PERFORMANCE



Introductory Financial Accounting

OVERVIEW

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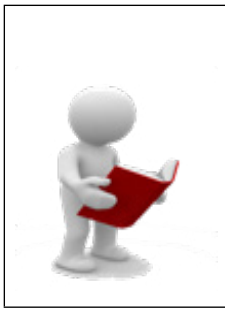
LEARNING OUTCOMES

After studying this learning unit you should be able to:

- understand the accounting equation concerning income and expenses
- explain the effects of financial accounting entries concerning income and expenses on the accounting equation
- prepare entries in general ledger accounts of income and expenses
- prepare a trial balance for a service entity
- prepare a profit or loss account for a service entity
- prepare a statement of profit or loss and other comprehensive income for a service entity

KEY CONCEPTS

- Income
- Expenses
- Debtors
- Trial balance
- Profit or loss account
- Statement of profit or loss and other comprehensive income



ASSESSMENT CRITERIA

- Business transactions concerning income and expenses are explained with appropriate examples.
- Accounting policy is demonstrated according to the right methods and procedures when recording in the accounting equation format and in the ledger accounts.
- Expenses and income and gains and losses are defined and classified for recognition in the statement of profit or loss and other comprehensive income.

3.1 INTRODUCTION

The objective of every entity is to earn as large a profit as possible. It is therefore necessary to determine the financial performance of the entity by calculating the financial result over a specific period.

3.2 THE ACCOUNTING EQUATION: FINANCIAL PERFORMANCE

The financial result of an entity is measured in terms of the profit or loss which the entity has made over a specific period. This period is known as the financial period and is usually one year.

An entity makes a profit when the income it has earned from its business activities is more than the expenditure it has incurred in generating or producing that income.

An entity makes a loss when the expenditure it has incurred in generating or producing income is more than the income it has earned.

PROFIT/LOSS FOR THE YEAR = INCOME – EXPENSES

An entity must earn an income to be able to pay its expenses. Profit for the year is the owner's reward for the capital invested and the entrepreneurial spirit shown.

Profit (gains) or income is credited because it increase the equity (capital) amount owed to the owner of the entity. If equity increases the account must be credited.

Dr (debit side)	**Capital**	**(credit side) Cr**
– (decrease)		+ (increase)

The following rule can be applied to profit/income:

Dr (debit side)	**Profit/income**	**(credit side) Cr**
		Always credited
– (decrease)		+ (increase)

INCOME

Profit/income is the increase in economic benefits of an entity during an accounting period which results in an increase in equity. Such an increase can be the result of an increase in assets or a decrease in liabilities.

REVENUE	**PROFIT/GAINS**
Revenue earned from the entity's normal activities (daily operating activities), for example:	Gains are increases in economic benefits, which do not arise from the normal activities of the entity, for example:
● fees earned	● profit on sale of non-current asset
● sales	
● interest income	
● rental income	
● commission income	
● credit losses recovered	

Expenses are incurred to earn income.

Losses or expenses are debited because it decreases the equity (capital) amount owed to the owner of the entity. If equity decreases the losses or expense accounts must be debited.

Dr (debit side)	**Capital**	**(credit side) Cr**
– (decrease)		+ (increase)

The following rule can be applied to losses/expenses:

Dr (debit side)	**Losses/expenses**	**(credit side) Cr**
Always debited + (increase)		– (decrease)

EXPENSES

Losses/expenses are the outflow of economic benefits (payments/losses) during the accounting period, which results in a decrease in equity. Such a decrease can be the result of a decrease in assets or an increase in liabilities.

EXPENSES | **LOSSES**

Expenses are incurred in the normal course of the entity's activities. They arise from the generation of income, for example:	Losses are decreases in economic benefits, which do not arise from the normal activities of the entity, for example:
● Cost of sales	● Loss on sale of non-current asset
● Rental expenses	
● Interest expenses	
● Wages and salaries	
● Advertising	
● Credit losses	
● Insurance	
● Repairs and maintenance	
● Telephone expenses	
● Water and electricity	
● Postage	
● Rates and taxes	
● Stationery	
● Consumables	
● Packing materials	
● Bank charges	
● Depreciation	
● Administrative expenses	

Let's consider a few more transactions of Mr Bingole Sithole for the 20.6 financial year that generate income or give rise to expenditure. The financial year ends annually on 31 December.

Transaction 5:

Mr Bingole Sithole rendered a service on 15 January, for cash, to a client for the amount of R60 000.

Explanation:

Received money for services rendered, therefore the **bank account (an asset) increases** and must be **debited**.

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		– (decrease)

Services rendered are **an income that increases the profit for the year**. Therefore, **equity increased** and **services rendered account** must be **credited**. You will now see that the double entry principle has been adhered too.

Dr (debit side)	Profit/income	(credit side) Cr
– (decrease)		+ (increase)

The effect of the transaction on the accounting equation can be illustrated as follows:

A		=	E		+	L	
Bank	**Tools and equipment**		**Capital**	**Income/ expenditure**		**Big Builders (creditor)**	**Uni Bank (long-term loan)**
R	**R**		**R**	**R**		**R**	**R**
88 800 + 60 000	8 200		40 000	 + 60 000		7 000	50 000
148 800	8 200	=	40 000	60 000	+	7 000	50 000

The above transaction will be recorded in the ledger accounts as follows:

1. The debit-side of the bank account:

Dr		Bank					1	Cr
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan: Uni Bank		50 000					
	15	Services rendered **(account to be credited)**		60 000					

2. The credit-entry in the services rendered account:

Dr		Services rendered					2	Cr
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
					20.6				
					Jan	15	Bank **(account to be debited)**		60 000

Transaction 6:

Mr Bingole Sithole rendered a service on 16 January, on credit, to M Beauty for the amount of R20 000.

Explanation:

Clients owe BS Electrical money. These clients are called debtors (resource controlled by the entity), as a result of past events (rendering of services), and from which future economic benefits are expected (money to be received). Therefore, it is an asset. **Assets increased** and **M. Beauty** (a debtor) must be **debited**.

A person who owes money to the entity is a debtor (asset).

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		- (decrease)

Services rendered is an income that increases the profit for the year. Therefore, equity increased and services rendered account must be credited.

Dr (debit side)	Profit/income	(credit side) Cr
– (decrease)		+ (increase)

The effect of the transaction on the accounting equation can be illustrated as follows:

A			=	E		+	L	
Bank	**Tools and equipment**	**M. Beauty (debtor)**		**Capital**	**Income/ expenditure**		**Big Builders (creditor)**	**Uni Bank (long-term loan)**
R	**R**	**R**		**R**	**R**		**R**	**R**
88 800	8 200			40 000			7 000	50 000
+ 60 000					+ 60 000			
		+ 20 000			+ 20 000			
148 800	8 200	20 000	=	40 000	80 000	+	7 000	50 000

The above transaction will be recorded in the ledger accounts as follows:

1. The debit-side of M Beauty's account:

Dr **M. Beauty** **6** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	16	Services rendered **(account to be credited)**		20 000					

2. The credit-entry in the services rendered account:

Dr **Services rendered** **7** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	15	Bank		60 000
						16	M. Beauty **(account to be debited)**		20 000

Transaction 7:

On 28 January the business's telephone account for January was paid by cheque, R1 200.

Explanation:

Telephone expenses is **an expense that decreases the profit for the year**. Therefore, **equity decreased** and the **telephone expense account** must be **debited**.

Dr (debit side)	**Losses/expenses**	**(credit side) Cr**
+ (increase)		– (decrease)

Paid money for the telephone account, therefore the **bank account (an asset) decreases** and must be **credited**. To complete the double entry the appropriate expense account must be debited.

Dr (debit side)	**Assets**	**(credit side) Cr**
+ (increase)		– (decrease)

The effect of the transaction on the accounting equation can be illustrated as follows:

A			=	**E**		+	**L**	
Bank	**Tools and equipment**	**M Beauty (debtor)**		**Capital**	**Income/ expenditure**		**Big Builders (creditor)**	**Uni Bank (long-term loan)**
R	**R**	**R**		**R**	**R**		**R**	**R**
88 800	8 200			40 000			7 000	50 000
+ 60 000					+ 60 000			
		+ 20 000			+ 20 000			
– 1 200					– 1 200			
147 600	8 200	20 000	=	40 000	78 800	+	7 000	50 000

The above transaction will be recorded in the ledger accounts as follows:

1. The entry on the debit-side of the telephone expenses account:

Dr **Telephone expenses** **8** **Cr**

Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6									
Jan	28	Bank **(account to be credited)**		1 200					

2. The credit-entry in the bank account:

Dr **Bank** **1** **Cr**

Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan: Uni Bank		50 000		28	Telephone expenses **(account to be debited)**		1 200
	15	Services rendered		60 000					

Transaction 8:

On 31 January the receptionist's salary for January was paid by cheque, R6 000.

Explanation:

Salaries account is **an expense that decreases the profit for the year**. Therefore, **equity decreased** and **salaries account** must be **debited**.

Dr (debit side)	Losses/expenses	(credit side) Cr
+ (increase)		– (decrease)

Paid the salary of the receptionist, therefore the bank account (an asset) decreases and must be credited. To complete the double entry the appropriate expense account must be debited.

Dr (debit side)	Assets	(credit side) Cr
+ (increase)		– (decrease)

The effect of the transaction on the accounting equation can be illustrated as follows:

A			=	E		+	L	
Bank	Tools and equipment	M. Beauty (debtor)		Capital	Income/ expenditure		Big Builders (creditor)	Uni Bank (long-term loan)
R	R	R		R	R		R	R
88 800	8 200			40 000			7 000	50 000
+ 60 000					+ 60 000			
		+ 20 000			+ 20 000			
– 1 200					– 1 200			
– 6 000					– 6 000			
141 600	8 200	20 000	=	40 000	72 800	+	7 000	50 000

The above transaction will be recorded in the ledger accounts as follows:

1. The debit-side of the salaries account:

Dr **Salaries** **9** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	31	Bank **(account to be credited)**		6 000					

2. The credit-entry in the bank account:

Dr		Bank			1	Cr			
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
		Long-term loan: Uni				28	Telephone expenses		1 200
		Bank		50 000		31	Salaries **(account to**		6 000
	15	Services rendered		60 000			**be debited)**		

A summary of all the ledger accounts in the general ledger, at the end of January 20.6 are as follows:

The bank account must be balanced off.

BS ELECTRICAL

GENERAL LEDGER

Dr		Bank			1	Cr			
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6					20.6				
Jan	1	Capital		40 000	Jan	1	Tools and equipment		1 200
	15	Long-term loan: Uni				28	Telephone expenses		1 200
		Bank		50 000		31	Salaries		6 000
		Services rendered		60 000			Balance	c/d	141 600
				150 000					150 000
Feb	1	Balance	b/d	141 600					

Dr		Capital			2	Cr			
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
					20.6				
					Jan	1	Bank		40 000

Dr		Tools and equipment			3	Cr			
Date		**Details**	**Fol**	**R**	**Date**		**Details**	**Fol**	**R**
20.6									
Jan	1	Big Builders		7 000					
		Bank		1 200					
				8 200					

Dr **Big builders** **4** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Tools and equipment		7 000

Dr **Long-term loan: Uni Bank Account** **5** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Bank		50 000

Dr **M Beauty** **6** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	16	Services rendered		20 000					

Dr **Services rendered** **7** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	15	Bank		60 000
						16	M Beauty		20 000

Dr **Telephone expenses** **8** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	28	Bank		1 200					

Dr **Salaries** **9** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Jan	31	Bank		6 000					

The ledger accounts in the general ledger numbered from 1 to 6 are asset accounts, liability accounts and equity accounts. These balances will appear in the statement of financial position. The ledger accounts in the general ledger numbered from 7 to 9 are all income/profit accounts and expense/loss accounts. The arithmetical correctness of the recording of transactions in the general ledger must be tested on a regular basis. This usually takes place once all transactions up to and including a certain date (in this case for the month of January) have been recorded in the general ledger and before any final financial statements are prepared. A trial balance will be compiled to check the arithmetical correctness of the recording of transactions in the general ledger.

3.3 THE TRIAL BALANCE

The total of all the debit balances on the ledger accounts should be equal to the total of all the credit balances on the ledger accounts, because all the transactions should have been recorded

in accordance with the double-entry principle. To determine whether this is so, the balances of all accounts are determined and recorded in a statement known as the trial balance.

A trial balance is a list of all the balances of all the accounts in the general ledger on a particular date.

The names and balances are recorded in the trial balance in the order in which they appear in the general ledger. There are two columns in which debit balances and credit balances are recorded. The final totals of the two columns should always be the same.

BS ELECTRICAL
TRIAL BALANCE AS AT 31 JANUARY 20.6

	Debit	Credit
	R	R
Bank	141 600	
Capital		40 000
Tools and equipment	8 200	
Big Builders		7 000
Long-term loan: Uni Bank		50 000
M. Beauty	20 000	
Services rendered		80 000
Telephone expenses	1 200	
Salaries	6 000	
	177 000	177 000

The errors which may be revealed by a trial balance will be discussed in detail in a later learning unit. The debit balances total is equal to the credit balances total and the profit or loss account can now be compiled.

3.4 THE PROFIT OR LOSS ACCOUNT

If Mr Bingole Sithole wants to determine after one month whether it is worthwhile for him to carry on the business, the profit/income accounts and losses/expense accounts must be closed off to the profit or loss account so that the profit for the month can be calculated.

The financial result of an entity is measured in terms of the profit or loss which the entity has made over a specific period. This period is known as the **financial period** and is usually one year.

At the end of the financial period (usually a year) all expense/loss accounts and income/profit accounts of a service entity must be closed off to a profit or loss account which forms the basis for the preparation of a statement of profit or loss and other comprehensive income.

Explanation of the transfer of income to the profit or loss account:

To close off the services rendered account (income), the **services rendered account** must be **debited** with R80 000, which is equal to the total of the amounts on the credit side (R60 000 + R20 000). There is no total on the debit side. To balance off the ledger account the total amount of R80 000 will be entered on the debit side. The name of the account that must be credited to complete the double-entry is profit or loss account. The services rendered account will now balance off.

The **profit or loss account** is **credited** with R80 000. This is done to adhere to the double-entry principle.

Dr **Services rendered** **7** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	31	Profit or loss **(account to be credited)**		80 000	Jan	15 16	Bank M. Beauty		60 000 20 000
				80 000					80 000

Explanation of the transfer of expenditure to the profit or loss account:

To close off the telephone expense account (an expense), the **telephone expenses account** must be **credited** with R1 200 which is equal to the total amount on the debit side, R1 200. There is no balance on the telephone expense account because the total amount is taken to the profit or loss account.

The **profit or loss account** is **debited** with R1 200. This is done to adhere to the double-entry principle.

Dr **Telephone expenses** **8** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	28	Bank		1 200	Jan	31	Profit or loss (**account to be debited)**		1 200
				1 200					1 200

The same principle is applicable to the closing off of the salaries account (an expense) to the profit or loss account.

The salaries account must be credited with R6 000, the total of the amount on the debit side, R6 000. There is no balance on the salaries account because the total amount is taken to the profit or loss account.

The **profit or loss account** is **debited** with R6 000. This is done to adhere to the double-entry principle.

Dr **Salaries** **9** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	31	Bank		6 000	Jan	31	Profit or loss **(account to be debited)**		6 000
				6 000					6 000

The profit or loss account is a final account in the general ledger and the statement of profit or loss and other comprehensive income is one of the financial statements an entity has to prepare. It uses the same information, but the one is an account while the other is a statement (no debit side or credit side).

The profit or loss account is as follows:

Dr **Profit or loss** **10** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Jan	31	Telephone expenses **(account to be credited)**		1 200	Jan	31	Services rendered **(account to be debited)**		80 000
		Salaries **(account to be credited)**		6 000					
		Capital (Profit for the month) **(account to be credited)**		72 800					
				80 000					80 000

An entity makes a profit when the income it has earned is more than the expenditure it has incurred in generating or producing that income. BS Electrical has made a profit for the month because the income earned, R80 000, is more than the expenses incurred in generating the income, R1 200 + R6 000 = R7 200. The income earned (profit) is R80 000 – R7 200 = R72 800.

To calculate the profit or loss for the month (the same as calculating the balance c/d):

- **Add the debit side of the profit or loss account and write down the total in pencil: R1 200 + R6 000 = R7 200.**
- **Add the credit side of the profit or loss account and write down the total in pencil: R80 000.**
- **The credit total of the profit or loss account is more than the debit total. To make the two sides equal the debit side needs an amount of R80 000-R7 200 = R72 800. This is the balancing amount and is recorded on the side of the profit or loss account that is the smallest in this case, the debit side. It is a profit because the income is greater than than the expenses.**
- **The account is then totalled (the biggest total in pencil, that side is the credit side total of R80 000).**
- **The capital account will be credited, therefore the reference on the debit side of the profit or loss account will be capital account (profit for the month).**

The last transfer is the entry for the profit for the period that must be credited to the capital account (profit or loss account is debited) because BS Electrical owes the profit to the owner, Mr B. Sithole. The profit for the month is the owner's reward for the capital he has invested and the entrepreneurial spirit he has shown. It therefore increases the equity.

Dr **Capital** **2** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Jan	1	Bank		40 000
						31	Profit or loss (profit for the month) **(account to be debited)**		72 800
									112 800

A statement of profit or loss and other comprehensive income will now be compiled using the information included in the profit or loss account.

3.5 THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The aim of the statement of profit or loss and other comprehensive income is to reflect the financial performance (profit/loss) for a financial period.

The statement of profit or loss and other comprehensive income is as follows:

BS ELECTRICAL

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE MONTH ENDED 31 JANUARY 20.6

	Notes	R
Services rendered		80 000
Distribution, administrative and other expenses		(7 200)
Telephone expenses		1 200
Salaries		6 000
Profit for the month		72 800
Other comprehensive income for the month*		—
Total comprehensive income for the month		72 800

***** Other comprehensive income for the month falls outside the scope of the FAC1501 syllabus.

Notes fall outside the scope of this module.

In order to complete the set of financial statements the statement of financial position will also be compiled.

The statement of financial position is as follows:

BS ELECTRICAL

STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 20.6

	Notes	R
ASSETS		
Non-current assets		8 200
Tools and equipment		8 200
Current assets		161 600
Debtors control		20 000
Bank		141 600
Total assets		169 800
EQUITY AND LIABILITIES		
Equity		112 800
Capital		112 800
Non-current liabilities		50 000
Long-term loan: Uni Bank		50 000
Current liabilities		7 000
Creditors control		7 000
Total equity and liabilities		169 800

Learning unit 2 and 3 are the most important learning units in financial accounting. Please make sure you understand the rules concerning assets, liabilities, equity, profit/income accounts and losses/ expense accounts. You will have no problems with financial accounting in future if you understand these rules and know how to apply them.

3.6 SUMMARY

The table below presents a useful overview of the accounting equation and the related sub-categories of the elements of financial statements. Examples of relevant ledger accounts are provided under each category.

ASSETS Debit (+) Credit (–)	=	EQUITY Debit (–) Credit (+)	+	LIABILITIES Debit (–) Credit (+)
		* DRAWINGS	* CAPITAL	
NON-CURRENT ASSETS Land and buildings Equipment Vehicles Furniture Machinery Goodwill Investments (financial)		**EXPENSES** Cost of sales Rental expenses Interest expense Wages and salaries Advertising Insurance expenses Repairs and maintenance Telephone expenses Water and electricity Credit losses Postage Rates and taxes Stationery Consumables Packaging materials Loss on sale of a non-current asset	**INCOME** Sales Rental income Interest income Dividend income Commision income Credit losses recovered Profit on sale of a non-current asset	**NON-CURRENT LIABILITIES** Long-term loans Mortgage
CURRENT ASSETS Trading inventory Debtors control Prepaid expenses Accrued income Bank Petty cash Cash float				**CURRENT LIABILITIES** Short-term loans Creditors control Bank overdraft Current portion of long-term loans Accrued expenses Income received in advance

3.7 EXERCISES AND SOLUTIONS

EXERCISE 1

(a) How is the financial result calculated in financial accounting terms?
(b) Which financial report reflects the financial result?
(c) Give three examples of income.
(d) Give three examples of expenditure.
(e) How is profit/loss determined for a financial period?
(f) Does a loss increase or decrease the equity of the owner?

SOLUTION: EXCERCISE 1

(a) PROFIT FOR THE YEAR = INCOME – EXPENDITURE
(b) The statement of profit or loss and other comprehensive income for the year ended …
(c)
- fees earned
- sales
- interest income
- rental income
- commission income
- credit losses recovered

(d)
- cost of sales
- rental expenses
- interest expense
- wages and salaries
- advertising
- credit losses
- insurance
- repairs and maintenance
- telephone expenses
- water and electricity
- postage
- rates and taxes
- stationery
- consumables
- packing materials
- bank charges
- depreciation
- administrative expenses

(e) PROFIT FOR THE YEAR = INCOME – EXPENDITURE
(f) A loss decreases income and profits and therefore also decreases the equity.

EXERCISE 2

The financial position of T Payn, an attorney, at 28 February 20.6 is as follows:

A	=	E	+	L
R50 000	=	R30 000	+	R20 000

For the year ended 28 February 20.7 he had the following income and expenditure:

	R
Fees earned	180 000
Salaries	100 000
Administrative expenses	20 000
Insurance expenses	10 000

REQUIRED

Calculate T Payn's equity as at 28 February 20.7.

SOLUTION: EXCERCISE 2

Income	=	Fees earned R180 000		
Expenditure	=	Salaries R100 000 + Administrative expenses R20 000 + Insurance expenses R10 000		
	=	R130 000		
Profit for the year	=	**Income**	**–**	**Expenses**
	=	R180 000	–	R130 000
	=	R50 000		
Equity	=	**Capital**	**+**	**Profit for the year**
E	=	R30 000 (20.6)	+	R50 000 (20.7)
E	=	R80 000		

EXERCISE 3

REQUIRED

List each of the following ledger accounts under one of the categories in the table below. "Furniture" is inserted as an example.

ASSETS		EQUITY			LIABILITIES	
Non-current assets	**Current assets**	**Capital**	**Income**	**Expenditure**	**Non-current liabilities**	**Current liabilities**
Furniture						

Ledger accounts to be classified:

(a) land and buildings
(b) mortgage
(c) petty cash
(d) postage
(e) interest income
(f) vehicles
(g) salaries
(h) debtors
(i) creditors
(j) bank overdraft
(k) fees earned
(l) electricity deposit
(m) subscriptions

SOLUTION: EXCERCISE 3

	ASSETS		EQUITY			LIABILITIES	
	Non-current assets	**Current assets**	**Capital**	**Income**	**Expenditure**	**Non-current liabilities**	**Current liabilities**
(a)	land and buildings						
(b)						mortgage	
(c)		petty cash					
(d)					postage		
(e)				interest income			
(f)	vehicles						
(g)					salaries		
(h)		debtors					
(i)							creditors
(j)							bank overdraft
(k)				fees earned			
(l)		electricity deposit *					
(m)					subscriptions		

***** Electricity deposit is an amount paid by the entity to serve as security for the payment of the electricity account. The amount will be paid back to the entity if they sell the land and buildings and will no longer make use of the electricity; therefore it is not an expense but a current asset.

EXERCISE 4

D Paulus started a television antenna installation service on 1 June 20.6. The following transactions took place during the first month:

Transactions:

June	1	Cash in the bank deposited as opening capital, R25 000.
	2	D Paulus made his private equipment available to the business, R9 000.
	3	Additional equipment purchased and paid for by cheque, R12 000.
	4	Installation fees for work done on account for Kannadrift Municipality, R4 200.
	6	Vehicle purchased on credit from Virginia Cars Limited, R22 400.
	17	Kannadrift Municipality paid R2 200 on their account.
	28	Wages paid, R4 000.
	30	Paid R9 000 to Virginia Cars Limited in part settlement of the entity's account.

REQUIRED

Use the accounting equation to analyse the above mentioned transactions as follows:

NB: (1) Show the effect of each transaction on the accounting equation with a plus sign (+) for an increase and a minus sign (–) for a decrease.

Example: On 1 July 20.6 D Paulus received R2 000 in cash for an installation done for Cook Financing Corporation.

Date	**Accounting equation**		
	Assets =	**Equity** +	**Liabilities**
20.6 July 1	+ R2 000	+ R2 000	0

Cash received will increase the bank, therefore assets increased.

The cash was for installation fees, an income, therefore equity increased.

SOLUTION: EXCERCISE 4

Date	Accounting equation		
	Assets =	Equity +	Liabilities
20.6			
June 1	+ R25 000	+ R25 000	
2	+ R 9 000	+ R 9 000	
3	+ R12 000		
	– R12 000		
4	+ R 4 200	+ R 4 200	
6	+ R22 400		+ R22 400
17	+ R 2 200		
	– R 2 200		
28	– R 4 000	– R 4 000	
30	– R 9 000		– R 9 000
	R47 600	R34 200	R13 400

Assets (R47 600) = Equity (R34 200) + Liabilities (R13 400)

EXERCISE 5

The following transactions relate to Witblits Electricians:

Transactions:

Oct
1 W Blits, the owner, deposited as opening capital, R10 000.
Obtained a loan from SA Bank, R6 000.
3 Bought equipment on credit from Sparks Dealers, R1 000.
9 Issued a cheque for an advertisement in a local newspaper, R200.
12 Paid the telephone account by cheque, R75.
13 Received a cheque from H House for services rendered, R500.
24 As an additional capital contribution W Blits transferred his motor vehicle to the business, R9 000.
27 Paid salaries by cheque, R2 000.
30 Issued a cheque to SA Bank as a repayment on the loan, R1 500.

REQUIRED

Prepare the appropriate general ledger accounts which reflect the above transactions in the books of Witblits Electricians. The general ledger accounts must be properly balanced at 31 October 20.6.

NB: Indicate the correct contra general ledger account.

SOLUTION: EXCERCISE 5

WITBLITS ELECTRICIANS

GENERAL LEDGER

Dr **Capital** **1** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6				
					Oct	1	Bank		10 000
						24	Motor vehicles		9 000
									19 000

Dr **Bank** **2** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Oct	1	Capital		10 000	Oct	9	Advertisements		200
		Long-term loan:				12	Telephone expenses		75
		SA Bank		6 000		27	Salaries		2 000
	13	Services rendered		500		30	Long-term loan: SA Bank		1 500
						31	Balance	c/d	12 725
				16 500					16 500
Nov	1	Balance	b/d	12 725					

Dr **Long-term loan: SA Bank** **3** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6					20.6				
Oct	30	Bank		1 500	Oct	1	Bank		6 000
	31	Balance	c/d	4 500					
				6 000					6 000
					Nov	1	Balance	b/d	4 500

Dr **Equipment** **4** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Oct	3	Sparks Dealers		1 000					

Dr **Motor vehicles** **5** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6									
Oct	24	Capital		9 000					

Dr **Sparks Dealers** **6** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6 Oct	3	Equipment		1 000

Dr **Services rendered** **7** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
					20.6 Oct	13	Bank		500

Dr **Telephone expenses** **8** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6 Oct	12	Bank		75					

Dr **Salaries** **9** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6 Oct	27	Bank		2 000					

Dr **Advertisements** **10** **Cr**

Date		Details	Fol	R	Date		Details	Fol	R
20.6 Oct	9	Bank		200					



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• define income?	☺	😐	☹
• define expenses?	☺	😐	☹
• explain the difference between (and give examples of) income and expenses?	☺	😐	☹
• explain the rules for debiting and crediting different types of profit/income and losses/expense accounts?	☺	😐	☹
• correctly classify any given profit/income and losses/expense account?	☺	😐	☹
• correctly enter any given transaction considering profit/income and losses/expense into the accounting equation?	☺	😐	☹
• correctly apply the accounting equation to any given transaction considering profit/income and losses/expense?	☺	😐	☹
• correctly enter any given transaction concerning profit/income and losses/expense in the ledger accounts?	☺	😐	☹
• prepare a trial balance?	☺	😐	☹
• prepare a profit or loss account?	☺	😐	☹
• prepare a statement of profit or loss and other comprehensive income?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 4

BUSINESS DOCUMENTS: CASH TRANSACTIONS



Introductory Financial Accounting

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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- define cash transactions
- define source documents
- explain the difference between internal source documents and external business documents
- explain the applicable source documents involved in different cash transactions
- complete different business documents

KEY CONCEPTS

- Cash transactions
- Source documents
- Internal source documents
- External source documents
- Cash slips
- Cash register rolls
- Duplicate cash invoices
- Original cash invoices
- Duplicate receipts
- Original receipts
- Duplicate cash sales invoices
- Cheque counterfoils
- Cheques
- Original delivery note
- Duplicate delivery note
- Petty cash voucher

- Original credit card slip
- Duplicate credit card slip
- Bank statement
- Original deposit slip
- Duplicate deposit slip
- Internet banking: Notice of payment
- Value Added Tax (VAT)
- Sales
- Purchases
- Cash discount



ASSESSMENT CRITERIA

- The concept "source documents" is explained and source documents applicable to cash transactions are identified using appropriate examples from entities.
- The principles of VAT and the calculation thereof is explained with examples to verify the ability to calculate VAT.
- The ability to complete business documents applicable to cash transactions from relevant financial data is demonstrated.
- The ability to apply the accounting equation when recording cash transactions is demonstrated.
- The ability to record cash transactions of a sole proprietor in various ledgers from source documents is demonstrated.

4.1 INTRODUCTION

In learning units 2 and 3 you learned how to analyse transactions and to determine their effect on the accounting equation. The principle of the double-entry system was also explained as well as the recording of all the transactions in the various ledger accounts. This created a framework within which you now must study the processing of accounting data in greater detail.

4.2 THE FINANCIAL ACCOUNTING CYCLE

Accounting data is processed within a definite framework which is known as the financial accounting cycle. The financial accounting cycle was explained in learning unit 1.

You will remember that, according to the financial accounting diagram, there must first be a transaction and then there must be proof that a transaction did take place. The proof that a transaction did take place takes the form of a source document. There are different business documents for different transactions that serve as proof that transactions did take place. In this learning unit the source documents for cash transactions will be discussed.

4.3 CASH TRANSACTIONS

The transaction of an entity can be either in cash or on credit or a mixture of both. In this learning unit only business documents applicable to cash transactions will be discussed. Cash transactions always affect the bank account, petty cash or cash float. That means that, when cash transactions take place, the entity will either receive or pay out money. The type of source document used to record cash transactions will depend on the type of transaction that took place.

4.4 BUSINESS DOCUMENTS

When a cash transaction takes place, it is necessary to record it on a business document. These business documents are necessary to keep record of the large number of transactions that an entity is engaged in during a business day. It is not practical to record each transaction directly into the books of the entity. These business documents serve as proof that a transaction between the entity and another party took place and constitute a record for the further processing of the data on the business document. The information on the business document gives details of the transaction, which includes the date, the amount, the type of transaction, and with whom the transaction has taken place. These documents are referred to as source documents because they are used to record transactions in the accounting records (books) of an entity. They are thus the source of information to record the transaction.

There are two types of source documents, namely:

- **Internal source documents**

  Internal source documents are those documents prepared by the entity itself to record transactions with external clients. Source documents are usually drawn up in duplicate. The original will be given to the other party to the transaction and the **duplicate will remain with the entity** to enable the entity to record the transaction in their accounting records. Examples of internal source documents are:

  - cash register rolls
  - duplicate cash sales invoices
  - duplicate receipts
  - cheque counterfoils
  - petty cash vouchers
  - duplicate bank deposit slips
  - internet banking: notice of payment
  - signed credit card slip

- **External source documents (also referred to as supporting documents)**

  External source documents are the documents prepared by the other party to the transaction and received by the entity as proof that the transaction did take place. The entity will receive the original source document and the **entry into the books is recorded from this original source document received**. Examples of external source documents are:

  - original cash purchases invoices
  - original receipts
  - cheques
  - cash slips

4.5 STARTING A BUSINESS ENTITY

Mr Bingole Sithole, a qualified electrician, starts a small service entity, BS Electrical, from home on 2 January 20.6.

Before BS Electrical can start with its business operations, a current bank account must be opened in the name of the entity, BS Electrical. During the process of opening this current bank account, it must be determined who the person or persons are who are authorised to sign the cheques issued by the business entity. Mr B Sithole decided that he would sign the cheques, but because he will not always be available, he also wants Mrs S Peterson, his newly appointed bookkeeper, to be authorised to sign

the cheques. Mrs S Peterson must accompany Mr B Sithole to Helping Bank Limited because the bank wants a sample of the signatures of both Mr B Sithole and Mrs S Peterson.

Helping Bank Limited opened a current bank account with the number 9000–123456 in the name of the entity, BS Electrical, and Mr B Sithole as well as Mrs S Peterson are authorised to sign the cheques of the business entity.

BS Electrical also applied for:

- Internet banking with Helping Bank Limited. Mrs S Peterson will then be able to make payments for BS Electrical, via the internet, instead of making payments by cheque. The payments are done, via the internet, directly into the bank account of the other party. Payments can also be made by other parties, via the internet, directly into the bank account of BS Electrical.
- A business credit card with Helping Bank Limited to be able to do the necessary purchases for the entity.
- A credit card machine (this machine can also be used for debit card transactions) with Helping Bank Limited. The banks bear the costs of processing the information and collecting outstanding amounts and also absorb any losses arising from credit losses. For these services, banks charge entities a fee based on a percentage of the credit card sale (2% to 5%). BS Electrical settled at a fee of 3% on the credit card sales with Helping Bank Limited.
- A business telephone with Telkom.
- A VAT number with the South African Revenue Service (SARS).

4.6 VALUE ADDED TAX (VAT)

If a person carries on an entity and the total value of his taxable supplies exceeds or is likely to exceed R1 000 000 for a twelve-month period, it is compulsory for him or her to register as a vendor. It is important to note that a person, in the above case Mr B Sithole, is registered as a vendor and not an entity.

Once registered every vendor will fall within a particular category that will determine his or her tax period (that is, how often a tax return must be completed and submitted to SARS). These categories are:

- **Category A**

  Vendors whose tax periods are periods of two months ending on the last day of the months of January, March, May, July, September and November of the calendar year fall in this category. These are vendors whose taxable supplies for the twelve months do not exceed R30 million or for farmers whose taxable supplies exceed R1,5 million.

- **Category B**

  Vendors whose tax periods are periods of two months ending on the last day of the months of February, April, June, August, October and December of the calendar year fall in this category. These are vendors whose taxable supplies for the twelve months do not exceed R30 million or for farmers whose taxable supplies exceed R1,5 million.

- **Category C**

  Vendors whose tax periods are periods of one month ending on the last day of each of the 12 months of the calendar year fall in this category. These are vendors whose taxable supplies for a twelve month period exceed or are likely to exceed R30 million or for vendors who have specifically applied in writing for a monthly basis.

- **Category D**

  This category is for vendors whose tax periods are periods of six months ending on the last day of February and August of the calendar year or, where any vendor falling within this category makes written application, therefore, on the last day of such other months as the Commissioner may approve. These are vendors whose entities consist of farming activities and whose taxable supplies do not or are not likely to exceed R1,5 million.

- **Category E**

  Vendors whose tax periods are periods of twelve months ending on the last day of their year of assessment fall in this category. These are vendors who are either a company or trust fund which meet the following criteria:

  — The vendor's entity entails solely of one or more activities consisting of the letting of fixed property or the renting of movable goods to or the administration or management of companies which are connected person in relation to the vendor.
  — The recipients of these supplies are all registered vendors entitled to the deduction of the full amount of input tax in respect of the supplies.
  — Tax invoices are issued once a year and the payments for these supplies only become due once a year at the end of the year of assessment.
  — A written application to be placed in this category is made to the Commissioner.

- **Category F**

  This category contain vendors whose tax periods are periods of four months ending on the last day of the months of June, October and February. These are vendors who qualify as small entities and whose total value of taxable supplies do not exceed or are not likely to exceed in a period of twelve months R1,5 million, or vendors that has made a written application to SARS to be placed in this category.

Because we are dealing with small entities in this module, we will look at categories A and B (with two-month VAT periods).

Value added tax (VAT) is a tax levied whenever a product is sold or service is rendered. The VAT is added to the selling price that a trader expects for goods and the goods are marked at a price inclusive of VAT. The rate of VAT is decided by the government and is changed from time to time. The current VAT rate is 15%. A vendor will pay input tax – that is the tax which a vendor himself has borne in respect of goods or services supplied to him. This amount can be claimed back from SARS. A vendor will also levy output tax – that is the tax which a vendor charges on the supply of goods or services rendered. This amount must be paid over to SARS. After two months, the value added tax payable or refundable by a registered vendor must be calculated. In other words, the difference between the vendor's output tax and input tax must be determined. If the input tax is bigger than the output tax the vendor will claim the amount of the difference from SARS (it is refundable). If the output tax is bigger than the input tax, the difference is payable to SARS.

The following ledger accounts must be opened:

- a VAT input account
- a VAT output account
- at the end of every second month a VAT control account, to determine the amount refundable by or payable to SARS.

The VAT input account and the VAT output account will be closed off to the VAT control account at the end of every second month.

The amounts of all the transactions will therefore always be the amount excluding VAT.

The completed VAT return must be submitted, with payment if required, to SARS on or before the 25th of the month following the end of the tax period. If a vendor is registered on e-filing it must be submitted, with payment if required, on or before the last day of the month following the end of the tax period. A penalty of an amount equal to 10% of the tax is payable for late submission of a VAT return.

The calculation of the tax payable for a particular tax period will be determined by the accounting basis used by the vendor. The vendor is allowed to choose between two bases, namely:

- **The invoice basis**

  In terms of the invoice basis the output tax and the input tax are accounted for, in general, on the issue of an invoice or on a receipt of payment whichever occurs first.

- **The payments basis**

  In terms of the payments basis the output tax is accounted for, in general, when payments are received and the input tax is accounted for when payments are made. This basis may not be used automatically, but the vendor must state reasons on the VAT registration form as to why the payments basis is to be used. The payments basis may also only be used if the total value of the vendors' taxable supplies does not exceed R2,5 million for a twelve month period or are not likely to exceed such amount and the vendor is a natural person.

  The debtors' and creditors' payment policy applied will determine which basis has the most favourable cash-flow advantage for the vendor. Say the payments basis is applied, then, if a vendor grants credit to his customers, output tax need only be accounted for in the tax period when payment is received from the debtor. However, if the payments basis is applied and the vendor acquires goods and services on credit, he or she will only be able to claim the input tax deduction in respect of the VAT on the transaction in the tax period when payment to the creditor is made.

To be able to claim an input tax deduction the vendor must be in possession of a tax invoice or a debit or credit note in the legal or trading name of the vendor. A tax invoice is also issued by a registered vendor when delivering supplies to a client. Tax invoices differ from normal invoices because they contain particular information.

- **for supplies under R50 (including VAT)**

  The issuing of tax invoices is optional.

- **for supplies between R50 (including VAT) and R5 000 (including VAT)**

  An abridged tax invoice with the following information must be issued:

  — the words "tax invoice", which must be printed in a prominent place on the invoice
  — the name, address and VAT registration number of the supplier
  — an individual serialised number as well as the date upon which the tax invoice is issued
  — a full and proper description of the goods or services supplied

- **either:**

  — the value of the supplies, the amount of tax charged and the consideration for the supplies (price including VAT); or
  — where the tax charged is calculated by applying the tax fraction ($^{15}/_{115}$) to the consideration (price including VAT), the consideration for the supplies and either the amount of tax charged or a statement that the consideration includes a charge in respect of tax; the rate of tax charged may be reflected on the tax invoice.

- **for supplies exceeding R5 000 (including VAT)**

  A full tax invoice as prescribed above with the following additional information must be issued:

  — the name and address of the recipient and with effect from 1 March 2005, the VAT registration number of the recipient
  — the quantity or volume of the goods or services supplied

All tax invoices must be issued with amounts stated in the currency of South Africa.

Debit and credit notes can also be issued if:

- the supply of goods or services were cancelled
- the nature of the supply of goods or services has been fundamentally varied or altered
- the consideration (price including VAT) of the goods or services has been altered by agreement with the recipient
- goods or services supplied have been returned

These credit notes issued must contain the following information:

- the amount by which the value of the supply shown on the tax invoice has been reduced as well as the amount of the excess tax
- where the tax charged is calculated by applying the tax fraction ($^{15}/_{115}$) to the consideration (price including VAT), the amount by which the consideration has been reduced and either:

  — the amount of the excess tax; or
  — a statement that the reduction includes tax and the rate of tax applied

- the reason for the issuing of the credit note with sufficient information to identify it with reference to the original supply

Some products are zero-rated supplies, which will be indicated in the transaction, for example, certain bread products, certain milk products and certain maize meal. An input tax (15%) can be claimed on these products, but no output tax because it is zero-rated (0%) – that means no tax can be levied on the final product for human consumption.

Supply of financial services, especially interest received and interest paid as well as educational services by the State, is exempt from VAT. Neither input nor output tax can be claimed on these services.

- **How to calculate the VAT amount when the VAT inclusive amount is given**

Below is an explanation of how to calculate the VAT amount when the VAT inclusive amount is given.

VAT exclusive	=	100%
VAT	=	15%
VAT inclusive	=	115%

$$\text{VAT amount} = \frac{\text{VAT inclusive amount}}{1} \times \frac{15}{115}$$

When you are given for example the VAT inclusive amount of R6 900 and asked to calculate the VAT amount, then it would be done as follows:

$$\frac{\text{R6 900}}{1} \times \frac{15}{115} = \text{R900}$$

Therefore the VAT exclusive amount will be R6 900 - R900 = R6 000.

- **How to calculate the VAT amount when the VAT exclusive amount is given**

Below is an explanation of how to calculate the VAT amount when the VAT exclusive amount is given.

VAT exclusive = 100%
VAT = 15%
VAT inclusive = 115%

$$\text{VAT amount} = \frac{\text{VAT exclusive amount}}{1} \times \frac{15}{100}$$

When you are given for example the VAT exclusive amount of R6 000 and asked to calculate the VAT amount, then it would be done as follows:

$$\frac{\text{R6 000}}{1} \times \frac{15}{100} = \text{R900}$$

Therefore the VAT inclusive amount will be R6 000 + R900 = R6 900.

You will use the same methods to calculate VAT output and VAT input.

4.7 COMPREHENSIVE EXAMPLE

Consider the following transactions by BS Electrical:

Transaction 1:

Mr B Sithole decided to deposit R100 000 in the entity's bank account to start the business. Mr B Sithole gave Mrs S Peterson a cheque for R100 000 to deposit into the current bank account of BS Electrical.

Explanation:

Money is received. Therefore, the bank account (an asset) increases and must be debited. The money is received from the owner, Mr B Sithole, and the entity owes the money to him. Therefore, the capital account (equity) increases and must be credited.

Source documents:

(a) Duplicate receipt

BS Electrical received the cheque from Mr B Sithole and Mrs S Peterson, the bookkeeper, must complete a receipt in duplicate by using carbon paper. The original receipt was handed to Mr B Sithole for the money received. Mrs S Peterson, the bookkeeper, used the duplicate in the book of receipts to do the entry in the books of BS Electrical.

No. 0001		Date: *2 January 20.6*	
Received from:	*Mr B Sithole*		
		R	**c**
Amount: Rand	*Hundred thousand rand only*		
Cent:	*None*	*100 000*	*00*
For:	*Capital contribution by the owner (cheque)*	**BS Electrical**	
Signature:	*S Peterson*		

(b) Duplicate deposit slip

The deposit slip provided by the bank was completed in duplicate. The bank kept the original deposit slip and Mrs S Peterson received the duplicate deposit slip. The bank deposit slip is a supporting document.

The cheque was deposited into the bank account of BS Electrical. If it is not a bank guaranteed cheque: the money deposited cannot be withdrawn immediately because BS Electrical must wait for the bank to clear the cheque. That means the bank first has to determine whether Mr B Sithole had the amount of money available in his current bank account when he wrote out the cheque. The clearance period of a cheque is 10 working days. Mrs S Peterson could ask for a special clearance, which means that the clearance period is shorter.

Helping Bank Limited														Cheque Account Deposit Slip			
Helpende Bank Beperk														Tjekrekeningdepositostrokie			
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	*-*	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *2 January 20.6*			
Name/Naam *BS Electrical*																	
Bank notes						Banknote											
Coins						Munte											
Money and postal orders						Poswissels en posorders											
SUBTOTAL/SUBTOTAAL																	
	Drawer's name Trekker se naam					Bank							Branch no Taknr				
1	*Mr B Sithole*					*Helping Bank Limited*							*90–00–00*			*100 000*	*00*
2																	
3																	
4																	
5																	
6																	
7																	
						Total/Totaal										*100 000*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.															* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																	

Transaction 2:

On 2 January 20.6 BS Electrical bought a toolbox and tools to be used by Mr B Sithole from Big Builders for R10 000 (VAT inclusive) and paid by cheque number 0001.

Explanation:

Tools and equipment (an asset) increases and must be debited.
Paid by cheque; bank (an asset) decreases and must be credited.

A cheque is an instruction to the bank to pay a sum of money to a certain person or entity. The amount of money in the current bank account is reduced by the amount of each cheque that is written out.

Source documents:

(a) Cheque counterfoil

Mrs S Peterson issued a cheque to Big Builders. The cheque was handed over to the cashier at Big Builders and the cheque counterfoil remained in the chequebook. The cheque counterfoil was used by Mrs S Peterson to do the entry in the books of BS Electrical.

To avoid fraud there are usually two persons responsible for the signing of cheques in an entity. Mrs S Peterson has to sign the cheque and Mr B Sithole will have to authorise the payment for Big Builders by also signing the cheque.

Another way of avoiding fraud is to cross a cheque. Crossing a cheque means Mrs S Peterson has to draw two parallel lines and write the words “NOT TRANSFERABLE” between the lines. The words “or Bearer” are also crossed out. This means the cheque must be deposited into the bank account of Big Builders only and nobody else’s account and that the cheque cannot be exchanged for cash.

		90–00–00–01	
Date	*02/01/20.6*	**NOT TRANSFERABLE**	
To	*Big Builders*	**Helping Bank Limited**	
For	*Tools and equipment*	**Pretoria** **Date:** *2 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Big Builders* **~~or Bearer~~**	
Subtotal	*R*	**The sum of:** *Ten thousand rand only*	*10 000,00*
This cheque	*R10 000,00*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0001		**0001:900000•:9000 123456!!• 01**	

(b) Original cash invoice

Mrs S Peterson received the cash invoice from Big Builders after payment for the tools and equipment bought. The cash invoice is a supporting document.

BIG BUILDERS		
900 Narrow Drive PRETORIA Tel (012) 333–1615	VAT registration number 5590223986	P O Box 2176 PRETORIA 0001 Fax (012) 333–1616

Date: *2 January 20.6*	**TAX INVOICE**	**No:** 0273
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	Description	Qty	Total price
IBM1334 *IBM2043* *IBM6033*	*Tool box* *Electrician tool kit* *Screw driver*	*1* *1* *1*	*4 550,47* *4 000,00* *145,18*
	Vat @ 15%		*8 695,65* *1 304,35*
Invoice total			*10 000,00*
Amount tendered			*10 000,00*
Change			*0,00*
VAT included @ 15%			*1 304,35*
E & OE*			

* E & OE = Errors and omissions excluded. The entity has the right to make corrections and to inform the client thereof, if any error or omission were to be made on the invoice.

Calculation:

VAT on R8 695,65

$$\frac{\text{R8 695,65}}{1} \times \frac{15}{100} = \text{R1 304,3475} = \text{R1 304,35}$$

The amount of **R1 304,3475** must be rounded off to the nearest cent. In the case of the amount of R1 304,3475 we must decide whether the 4 must change to a 5 or will remain a 4 to get rid of the extra 75.

The general rules for the rounding off of an amount are:

- **If the number after the amount you have to round off is equal to 5 or is greater than 5 the amount that must be rounded off must be changed to the next amount. For example, R4,567 must be rounded off to R4,57**
- **If the number after the amount you have to round off is smaller than 5 the amount that must be rounded off will remain the same.**

In this case the first rule for rounding of an amount applies because the 7 is greater than 5 and the 4 changes to the next amount which is 5. The amount is now R1 304,35.

Transaction 3:

On 2 January 20.6 BS Electrical bought a cash register for R3 378,88 (VAT inclusive) by cheque number 0002, from Wiseman Traders. Received cash invoice number 0578 from Wiseman Traders to be retained for guarantee purposes. Mrs S Peterson negotiated for a discount of 10% because the cash register was paid for by cheque.

Explanation:

Tools and equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Source documents:

(a) Cheque counterfoil

Mrs S Peterson issued a cheque to Wiseman Traders. The cheque was handed over to the cashier at Wiseman Traders and the cheque counterfoil remained in the chequebook. The cheque counterfoil was used by Mrs S Peterson to effect the entry in the books of BS Electrical. The cheque amount is the original price of the cash register (R3 378,88) less the cash discount (R3 378,88 x 10% = R337,89), that is R3 378,88 – R337,89 = R3 040,99.

Date	*02/01/20.6*	90–00–00–01 **NOT TRANSFERABLE**	
To	*Wiseman Traders*	**Helping Bank Limited**	
For	*Tools and equipment*	**Pretoria** **Date:** *2 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Wiseman Traders* **~~or Bearer~~**	
Subtotal	*R*	**The sum of:** *Three thousand and forty rand and ninety nine cents*	*3 040,99*
This cheque	*R3 040,99*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0002		**0002:900000•:9000 123456!!• 01**	

(b) Original cash invoice

Mrs S Peterson received the original cash invoice after payment of the cash register (equipment) bought. The cash invoice is a supporting document. Only the price paid after the cash discount will be entered into the books of BS Electrical.

If an entity gets a cash discount, the discount is subtracted from the original price payable and only the final amount (original amount less cash discount) will be entered into the books of the entity. The cash discount will not be shown in the books of the entity.

WISEMAN TRADERS		
700 Straight Drive PRETORIA Tel (012) 335–1515	VAT registration number 6702336097	P O Box 1165 PRETORIA 0001 Fax (012) 335–1629
Date: *2 January 20.6*	**TAX INVOICE**	**No:** 0578
To: *Cash*		Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
FCR1268	*Fancy cash register* *-10% discount*	*1*	*2 938,16* *(293,82)*
	VAT @ 15%		*2 644,34* *396,65*
Invoice total			*3 040,99*
Amount tendered			*3 040,99*
Change			*0,00*
VAT included @ 15%			*396,65*
E & OE			

Calculations:

Selling price (VAT exclusive)

$$\frac{R3\ 378,88}{1} \times \frac{100}{115} = R2\ 938,16$$

Cash discount

$$\frac{R2\ 938,16}{1} \times \frac{10}{100} = R293,816 = R293,82$$

The amount of **R293,81**6 must be rounded off to the nearest cent. That means in the amount of R293,8***1***6 we must decide whether the 1 must change to a 2 or will remain a 1 to get rid of the extra 6.

In this case the first rule for rounding of an amount applies because the 6 is greater than 5 and the 1 must be changed to a 2. The amount is now R293,8**2**.

VAT on R2 644,34

$$\frac{\text{R2 644,34}}{1} \times \frac{15}{100} = \text{R396,651} = \text{R396,65}$$

Transaction 4:

On 3 January 20.6 Mrs S Peterson issued cheque number 0003 for R300 as the cash float for the cash register. The cheque was cashed for small change to be kept in the cash register.

Explanation:

Cash float (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Source documents:

(a) Cheque counterfoil

A cash cheque was issued by Mrs S Peterson. She has taken the cheque to Helping Bank Limited to cash it in. She asked them to pay out the R300 in small change of:

- 1 x R50 = R50
- 2 x R20 = R40
- 5 x R10 = R50
- 10 x R 5 = R50
- 10 x R 2 = R20
- 20 x R 1 = R20
- 40 x 50c = R20
- 100 x 20c = R20
- 200 x 10c = R20
- 200 x 5c = R10

  R300

At the end of each day the cash float will be restored and kept in the cash register for the next day.

Mrs S Peterson used the cheque counterfoil to do the entry in the books of BS Electrical.

A cash cheque cannot be crossed. If an unauthorised person gets hold of a cash cheque they can cash it (ie exchange it for cash at a bank). An entity should try and avoid the issuing of cash cheques. The words “or Bearer” can also not be crossed out on a cash cheque.

		90–00–00–01	
Date	*03/01/20.6*		
To	*Cash*	**Helping Bank Limited**	
For	*Cash float*	**Pretoria** **Date:** *3 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Cash* **or Bearer**	
Subtotal	*R*	**The sum of:** *Three hundred rand only*	*300,00*
This cheque	*R300,00*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0003		**0003:900000•:9000 123456!!• 01**	

Transaction 5:

The entity received an invoice from Mr B Sithole for the rent for January. The rent of R2 000 (VAT inclusive) for occupying part of a building situated on Mr B Sithole's land was paid by issuing cheque number 0004 on 4 January 20.6.

Explanation:

Rent paid is an expense that decreases the profit for the year therefore equity decreases and rent paid account must be debited.

Paid money for rent; therefore the bank account (an asset) decreases and must be credited.

Source documents:

(a) Cheque counterfoil

		90–00–00–01	
Date	*04/01/20.6*	**NOT TRANSFERABLE**	
To	*Mr B Sithole*	**Helping Bank Limited**	
For	*Rent paid*	**Pretoria** **Date:** *4 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Mr Bingole Sithole* ~~**or Bearer**~~	
Subtotal	R	**The sum of:** *Two thousand rand only*	*2 000,00*
This cheque	*R2 000,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0004		**0004:900000•:9000 123456!!• 01**	

Transaction 6:

On 10 January 20.6, Mr B Sithole rendered services to three different clients, Mr P Lucky, Mrs V Happy and Mr T Busy. Original sales invoices number 0001, 0002 and 0003 were issued to them respectively. They have paid the amounts and receipt number 0002 and 0003 were issued to Mr P Lucky and

Mrs V Happy respectively. Mrs S Peterson only deposited these amounts into the bank account on 11 January 20.6.

Explanation:

Received money for services rendered. Therefore, the bank account (an asset) increases and must be debited.

Services rendered are an income that increases the profit for the year. Therefore, equity increases and the services rendered account must be credited.

Source documents:

(a) Duplicate cash sales invoices

Mr B Sithole issued original cash sale invoices to the customers after he finished the jobs. Mrs S Peterson kept copies of these cash invoices and used it to do the entries in the books of BS Electrical.

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750		P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *10 January 20.6*	**TAX INVOICE**		**No:** 0001
To: *Cash*			Payment method Cheque/debit card **Cash** Credit card Account
Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* *-10% cash discount*	*2 hours*	*1 140,36* *(114,04)*
			1 026,32
	VAT @ 15%		*153,95*
Invoice total			*1 180,27*
Amount tendered			*1 200,00*
Change			*19,73*
VAT included @ 15%			*153,95*
E & OE			

Calculations:

Cash discount

$$\frac{\text{R1 140,36}}{1} \times \frac{10}{100} = \text{R114,036} = \text{R114,04}$$

VAT on R1 026,32

$$\frac{\text{R1 026,32}}{1} \times \frac{15}{100} = \text{R153,948} = \text{R153,95}$$

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750		P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *10 January 20.6*	**TAX INVOICE**		**No**: 0002
To: *Cash*			Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* *-10% cash discount*	5 hours	*2 850,88* *(285,09)*
	VAT @ 15%		*2 565,79* *384,87*
Invoice total			*2 950,66*
Amount tendered			*2 950,66*
Change			*0,00*
VAT included @ 15%			*384,87*
E & OE			

Calculations:

Cash discount

$$\frac{\text{R2 850,88}}{1} \times \frac{10}{100} = \text{R285,088} = \text{R285,09}$$

VAT on R2 565,79

$$\frac{\text{R2 565,79}}{1} \times \frac{15}{100} = \text{R384,8685} = \text{R384,87}$$

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *10 January 20.6*	**TAX INVOICE**	**No:** 0003
To: *Cash*		Payment method Cheque/debit card Cash **Credit card** Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* *-5% Cash discount*	*6 hours*	*3 421,05* *(171,05)*
	VAT @ 15%		*3 250,00* *487,50*
Invoice total			*3 737,50*
Amount tendered			*3 737,50*
Change			*0,00*
VAT included @ 15%			*487,50*
E & OE			

Calculations:

Cash discount:

$$\frac{\text{R3 421,05}}{1} \times \frac{5}{100} = \text{R171,0525} = \text{R171,05}$$

VAT on R3 250,00

$$\frac{\text{R3 250,00}}{1} \times \frac{15}{100} = \text{R487,50}$$

(b) Duplicate receipts

Mrs S Peterson issued receipts to Mr P Lucky, who paid cash and Mrs V Happy, who paid per cheque. The original receipts were given to Mr P Lucky and Mrs V Happy and Mrs S Peterson used the duplicates to do the entries in the books of BS Electrical.

No. 0002		Date: *10 January 20.6*	
Received from:	*Mnr P Lucky*		
		R	**c**
Amount: Rand	*One thousand one hundred and eighty rand*		
Cent	*Twenty seven cents*	*1 180*	*27*
For	*Services rendered (cash)*	**BS Electrical**	
Signature	*S Peterson*		

No. 0003		Date: *10 January 20.6*	
Received from:	*Mrs V Happy*		
		R	**c**
Amount: Rand	*Two thousand nine hundred and fifty rand*		
Cent	*Sixty six cents*	*2 950*	*66*
Vir	*Services rendered (cheque)*	**BS Electrical**	
Signature	*S Peterson*		

(c) Credit card slip

Mr T Busy paid by credit card. The transaction was automatically processed by the bank and the money was transferred to BS Electrical's account from Mr T Busy's account. Only 5% discount was granted to Mr T Busy because the bank charges a fee, a negotiated 3% of the sales amount, for this service. The cost will appear on the bank statement that BS Electrical will receive at the end of the month from Helping Bank Limited. Mrs S Peterson will keep the original credit card transaction slip signed by Mr T Busy and the copy of the credit card transaction slip was given to Mr T Busy.

CARD TRANSACTION

Pretoria

BS Electrical

NO.: **********20.7 0 EXP DATE: 04/10

AMOUNT: R3 737,50

CARD NAME: LIVING BANK VISA CARD

10/03/20.6 9:30 AUTH: 641055

EPS No. 173

0415 017 8044288 0039

T Busy

CUSTOMER SIGNATURE

(d) Duplicate deposit slip

The money received from Mr P Lucky and Mrs V Happy were deposited in the bank account of BS Electrical by Mrs S Peterson. The cashier at Helping Bank Limited kept the original deposit slip and handed the duplicate to Mrs S Peterson. The duplicate deposit slip is a supporting document.

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *11 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes				Banknote											*1 180*	*00*
Coins				Munte											*0*	*27*
Money and postal orders				Poswissels en posorders												
SUBTOTAL/SUBTOTAAL															*1 180*	*27*
	Drawer's name Trekker se naam			Bank				Branch no Taknr								
1	*Mrs V Happy*			*Growing Bank Limited*				*90–05–60*							*2 950*	*66*
2																
3																
4																
5																
6																
7																
				Total/Totaal											*4 130*	*93*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bankgebruik	
Deposited by/Gedeponeer deur: *S Peterson*																

Transaction 7:

On 15 January 20.6 Mr B Sithole decided that he would buy the different types of cables and other fittings necessary for the services he renders and keep it in BS Electrical's inventory. Clients could then buy the necessary cable and fittings from BS Electrical and Mr B Sithole could advise them on what is needed for a specific service rendered. BS Electrical would get a 20% discount if the entity buys at bulk from Huge Wholesalers.

Mr B Sithole handed Mrs S Peterson the following list of items she has to order from Huge Wholesalers:

- 1 000 m of two-phase electric cable
- 1 000 m of three-phase electric cable
- 1 box of 100 rolls of insulation tape
- 2 boxes of 100 light fittings each
- 1 box of 100 fluorescent light fittings
- 2 boxes of 100 light switches each

- 2 boxes of 100 plug switches each

The total amount of the order was R48 547,25 before discount. This amount includes VAT at 15%. Mrs S Peterson placed an order and made an internet payment of R38 837,80 directly into the bank account of Huge Wholesalers. After she faxed the proof in the form of a notice of payment through to Mr P Moodley, the sales manager at Huge Wholesalers, they delivered the goods ordered.

The delivered goods were checked by Mrs S Peterson and she signed the delivery note. The original delivery note and original cash invoice were handed to her and the delivery man kept the duplicate, signed delivery note and cash invoice.

Explanation:

Anything bought by BS Electrical to be sold, that is trading inventory, is called "purchases". We refer to this type of transaction as the purchase of merchandise, goods or inventory. Purchases are an expense that decreases the profit for the year. Therefore, equity decreases and purchases account must be debited.

Purchases is an expense that decreases the profit for the year therefore equity decreases and the Purchases account must be debited. (This will depend on the inventory system used; in this case the periodic inventory system. These inventory systems will be discussed in detail in a later learning unit .) Paid by internet, bank (an asset) decreases and must be credited.

Source documents:

(a) Delivery note

Huge Wholesalers will send a detailed delivery note when they deliver the goods to make it possible for Mrs S Peterson to check whether everything was delivered. She will then sign the delivery note and keep the original delivery note. The delivery man will take the duplicate of the signed delivery note back to Huge Wholesalers.

HUGE WHOLESALERS

1167 Marine Drive PRETORIA Tel (012) 336–3433	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012) 336–3434

Date: *15 January 20.6* **DELIVERY NOTE** **No:** SP6058

Supplied to: *BS Electrical*
499 Tshwane Drive
Pretoria

P O Box 392
PRETORIA
0001

Code	Description	Qty	Unit price (excl VAT)		Total price		Checked
EC1002	*Two-phase electric cable*	*1 000 m*	*10*	*00*	*10 000*	*00*	√
EC1003	*Three-phase electric cable*	*1 000 m*	*13*	*00*	*13 000*	*00*	√
IT1001	*Insulation tape*	*1 box*	*300*	*00*	*300*	*00*	√
LF1002	*Light fittings*	*2 boxes*	*3 245*	*00*	*6 490*	*00*	√
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999*	*00*	*7 999*	*00*	√
LS1002	*Light switches*	*2 boxes*	*998*	*00*	*1 996*	*00*	√
PS1002	*Plug switches*	*2 boxes*	*1 215*	*00*	*2 430*	*00*	√
					42 215	*00*	
	VAT @ 15%				*6 332*	*25*	
Total					*48 547*	*25*	
VAT included @ 15%					*6 332*	*25*	

Note:
Discount of 20% applicable

Checked by : *Mrs S Peterson* Signature: *S Peterson* **Date:** *15 January 20.6*

E &OE

Calculations:

VAT on R42 215

$$\frac{\text{R42 215,00}}{1} \times \frac{15}{100} = \text{R6 332,25}$$

(b) Original cash invoice

If the delivery note was correct, an original cash invoice for the final amount payable would have been handed to Mrs S Peterson. The original cash invoice was used to read in the different inventory items into the computer. The cash register is linked to the computer and the computer would "control" the trading inventory because it would automatically subtract the number of goods sold from the number of goods purchased; it can even alert buyers as to when the next order is due.

HUGE WHOLESALERS		
1667 Marine Drive PRETORIA Tel: (012) 336-343	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012) 336–3434

Date: *15 January 20.6*	**TAX INVOICE**	**No:** 5996
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method Cheque/debit card **Cash** Credit card Account

Code	Description	Qty	Total price
EC1002	*Two-phase electric cable*	*1 000 m*	*10 000,00*
EC1003	*Three-phase electric cable*	*1 000 m*	*13 000,00*
IT1001	*Insulation tape*	*1 box*	*300,00*
LF1002	*Light fittings*	*2 boxes*	*6 490,00*
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999,00*
LS1002	*Light switches*	*2 boxes*	*1 996,00*
PS1002	*Plug switches*	*2 boxes*	*2 430,00*
	-20% cash discount		*42 215,00* *(8 443,00)*
	VAT @ 15%		*33 772,00* *5 065,80*
Invoice total			*38 837,80*
Amount tendered			*38 837,80*
Change			*0,00*
VAT included @ 15%			*5 065,80*
E & OE			

Calculations:

Cash discount

R10 000,00 + R13 000,00 + R300,00 + R6 490,00 + R7 999,00 + R1 996,00 + R2 430,00 = R42 215,00

$$\frac{R42\ 215,00}{1} \times \frac{20}{100} = R8\ 443,00$$

VAT on R33 772,00

$$\frac{R33\ 772,00}{1} \times \frac{15}{100} = R5\ 065,80$$

(c) Internet banking: notice of payment

Mrs S Peterson printed a notice of payment after she paid Huge Wholesalers via the internet, and faxed it through to Huge Wholesalers. This notice of payment was used by Mrs S Peterson to do the

entries in the books of BS Electrical. Mrs S Peterson received an SMS as confirmation of the payment made to Huge Wholesalers.

Mrs S Peterson will create a creditor (name of entity to be paid) on the internet banking system of BS Electrical, for Huge Wholesalers. If she wants to pay them she will just have to click on the name for the bank details to appear; she then enters the amount to be paid. On the bank statement of BS Electrical, received from Helping Bank Limited at the end of the month, the name Huge Wholesalers will appear together with the amount paid to them.

The bank statement received from Helping Bank Limited is a summary of all the cash transactions (payment and receipts) that went through the current bank account of BS Electrical during the month.

The internet bank transaction was done only as an example but it will not be discussed further during this course.

HELPING BANK LIMITED

Internet Banking: Notice of Payment **15 January 20.6**

Dear BS Electrical

Subject: Notice of Payment: Huge Wholesalers

Please be advised that a payment has been made as indicated below.
.

Transaction number:	**905520X611363667435578**
Payment date:	**20.6/01/15**
Payment made by:	**BS Electrical**
Payment made to:	**Huge Wholesalers**
Beneficiary account number:	**9000522968**
For the amount of:	**R38 837,80**
Reference on beneficiary statement:	**BS Electrical**

Please remember that the following apply to internet banking payments on non Helping bank accounts

- Payments made on weekdays before 15:30 will be credited to the receiving bank account by midnight of the same day.
- Payments made on weekdays after 15:30 will be credited by midnight the following day.
- Payments made on a Saturday, Sunday or public holiday will be credited to the account by midnight of the 1st following weekday.

If you need more information or assistance, please call Helping Bank Limited on 08600 08600 or +27 11 276 7900 (international calls).

Yours sincerely

General Manager: Digital Channel

This document is intended for use by the addressee and is privileged and confidential. If the transmission has been misdirected to you, please contact us immediately. Thank you.

Helping Bank Limited, Reg No 19X0/005959/05

Transaction 8:

On 16 January 20.6, Mrs S Peterson issued a cash cheque number 0005 for R200 as the impress amount to start the petty cash float of BS Electrical. The cheque was cashed and the money was kept by Mrs S Peterson who acted as petty cashier.

Explanation:

An entity may need to pay cash for certain smaller items such as postage, day-workers' wages and cleaning materials. For this, most entities keep a petty cash float. Petty cash is the same as cash on hand and is an asset.

A cheque for a predetermined amount known as a petty cash float is drawn and cashed for this purpose. The float is then kept entirely separate from the monies received by the entity in the normal course of its business. Usually the petty cash float is restored to its original balance at the end of the month.

Petty cash (an asset) increases and must be debited.
Paid by cheque, bank (an asset) decreases and must be credited.

Source documents:

(a) A cheque counterfoil

A cash cheque was issued by Mrs S Peterson. She took the cheque to Helping Bank Limited to cash it in. Mrs S Peterson used the cheque counterfoil to do the entry in the books of BS Electrical.

Date	*16/01/20.6*	90–00–00–01	
To	*Cash*	**Helping Bank Limited**	
For	*Petty cash*	**Pretoria** **Date:** *16 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Cash* **or Bearer**	
Subtotal	*R*	**The sum of:** *Two hundred rand only*	*200,00*
This cheque	*R200,00*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0005		**0005:900000•:9000 123456!!• 01**	

Transaction 9:

On 17 January 20.6, Mrs S Peterson bought postage stamps and took R50 (VAT inclusive) out of petty cash to pay for it.

Explanation:

Postage is an expense that decreases the profit for the year, therefore equity decreases and postage account must be debited.

Petty cash (an asset) decreases and must be credited.

Source documents:

(a) Petty cash voucher

Mrs S Peterson will complete a petty cash voucher (not in duplicate) for the postage amount of R50. The petty cash voucher is the only source document that is not completed in duplicate. Mr B Sithole must authorise this payment. Mrs S Peterson will then attach the cash slip received from the Post Office to the petty cash voucher as proof that she actually bought the stamps with the R50 taken from petty cash.

To avoid fraud there are usually two persons responsible for the cash in an entity; that is why Mr B Sithole will authorise the payment for the postage stamps out of petty cash.

PETTY CASH VOUCHER	**No.** *001*	
Date: *17 January 20.6*	**Amount**	
Required for:	**R**	**c**
Postmaster – postage stamps	*50*	*00*
Signature: *S Peterson*		
Authorised by: *B Sithole*		

Transaction 10:

On 17 January 20.6, Mr T Wiseman bought electric cables and fittings to be installed by Mr B Sithole in his new home. He purchased:

- 50 m two phase electric cable, R712,50
- 4 rolls insulation tape, R17,10
- 27 plug switches, R233,93
- 20 light switches, R142,27
- 20 light fittings, R924,77
- 3 fluorescent light fittings, R341,96

Mr B Sithole delivered and installed the electric cables and fittings. Original tax invoice number 0004 was issued to Mr T Wiseman. Mr T Wiseman paid the amounts for the equipment and the service by cheque (Growing Bank Limited – branch code 90–05–60). Mrs Peterson issued receipt number 0005. The amount was deposited into the current bank account on 18 January 20.6.

Explanation:

Any trading inventory (inventory bought to be sold) sold is called sales. Sales is an income that increases the profit for the year. Therefore, equity increases and sales account must be credited.

Received money, therefore the bank account (an asset) increases and must be debited with the total amount of R2 372,53 (cables and fittings) + R9 750,00 (services rendered) = R12 122,53.

Sales is an income that increases the profit for the year. Therefore, equity increases and the sales account must be credited with R2 063,07.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited with R8 478,26.

Source documents:

(a) Cash register roll

The cash slip given to Mr T Wiseman is illustrated below. The cash slip will be given to Mr Wiseman as proof of payment and only the cash register roll in the cash register, with a copy of each cash slip, remains for Mrs S Peterson to do the entry in the books of BS Electrical.

Usually only one entry for the total cash sales of the specific day will be entered in the books of BS Electrical. At the end of the day the cash register roll will indicate the total cash sales for the day and Mrs S Peterson will enter this in the books of BS Electrical.

Cheque fraud is on the increase and most entities will only accept bank guaranteed cheques or cheques from people they know well.

In big businesses each cashier will have their own password and code as well as their own cash floats. At the end of the cashiers shift the cash register will add all the sales by the specific cashier. The total of the sales must correspond with the cash less the amount for the cash float in the cash register of the cashier. One of the ways in which fraud can be eliminated is by keeping each cashier responsible for their own cash register.

BS ELECTRICAL	
17/01/20.6	
Till 01	
Two-phase electric cable 50 @ R14,25 EC1002	712,50
Insulation tape 4 @ R4,275 IT1001	17,10
Plug switches 27 @ R8,664 PS1002	233,93
Light switches 20 @ R7,1136 LS1002	142,27
Light fittings 20 @ R46,2384 LF1002	924,77
Fluorescent light fittings 3 @ R113,9886 FLF1002	341,96
TOTAL	2 372,53
Cash	2 372,53
Change	0,00
15% VAT	R309,46
Slip no 0001	
VAT no 8960225750	
Thank you	

Calculation:

VAT

$$R2\ 372,53 \times \frac{15}{115} = R309,46$$

(b) Duplicate cash invoice

Mr B Sithole issued original cash sale invoices to the customers after he finished the jobs. Mrs S Peterson kept copies of these cash invoices and used it to do the entries in the books of BS Electrical.

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *17 January 20.6*	**TAX INVOICE**	**No:** 0004
To: *Mr T Wiseman* *25 Park Street* *Pretoria* *VAT registration number 4301235678*		Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* *VAT @ 15%*	*15hrs*	*8 478,26* *1 271,74*
Invoice total			*9 750,00*
Amount tendered			*9 750,00*
Change			*0,00*
VAT included @ 15%			*1 271,74*
E & OE			

(c) Duplicate receipt

Mrs S Peterson issued a receipt to Mr Wiseman who paid by cheque. The original receipt was given to Mr Wiseman and Mrs Peterson used the duplicate to do the entries in the books of BS Electrical. On the receipt the till slip number as well as the invoice number for which the payment were made must be indicated.

No. 0005		Date: *17 January 20.6*	
Received from:	*Mr T Wiseman*		
		R	**c**
Amount: Rand	*Twelve thousand one hundred and twenty two rand*		
Cent:	*Fifty three cents*	*12 122*	*53*
For:	*Inventory (Cash slip no 0001 – R2 372,53)* *Services rendered (Cash invoice no 0004 – R9 750,00) (cheque)*	**BS Electrical**	
Signature	*S Peterson*		

(d) Duplicate deposit slip

The deposit slip, provided by the bank, was completed in duplicate. The bank kept the original deposit slip and Mrs S Peterson received the duplicate deposit slip.

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *18 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes							Banknote									
Coins							Munte									
Money and postal orders							Poswissels en posorders									
SUBTOTAL/SUBTOTAAL																
	Drawer's name Trekker se naam						Bank						Branch no Taknr			
1	*Mr T Wiseman*						*Growing Bank Limited*						*90–05–60*		*12 122*	*53*
2																
3																
4																
5																
6																
7																
							Total/Totaal								*12 122*	*53*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																

4.8 EXERCISES AND SOLUTIONS

EXERCISE 1

Consider the following transactions of BS Electrical:

(1) On 16 January 20.6 BS Electrical bought a computer for R16 269 (VAT inclusive) and paid by cheque number 0006. They received TAX invoice number B145 from Computer World.

COMPUTER WORLD		
590 Delphi Drive PRETORIA Tel (012) 435–1615	VAT registration number 7704337090	P O Box 5116 PRETORIA 0001 Fax (012) 435–1639

Date: *16 January 20.6*	**TAX INVOICE**	**Invoice No:** B145
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
C755	*Compy 755 computer* *VAT @ 15%*	*1*	*14 146,96* *2 122,04*
Invoice total			*16 269,00*
Amount tendered			*16 269,00*
Change			*0,00*
VAT included @ 15%			*2 122,04*
E & OE			

(2) On 16 January 20.6 the entity bought an accounting computer program to manage their inventory from IT Perfect for R15 600 (VAT inclusive). They received original tax invoice number 1569 from IT Perfect and paid IT Perfect by cheque number 0007.

IT PERFECT		
730 Windows Drive PRETORIA Tel (012) 997–1010	VAT registration number 6805736098	P O Box 1069 PRETORIA 0001 Fax (012) 997–1111

Date: *16 January 20.6*	**TAX INVOICE**	**No:** 1569
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
PE101	*Point of sales inventory programme* VAT @ 15%	*1*	*13 565,22* *2 034,78*
Invoice total			*15 600,00*
Amount tendered			*15 600,00*
Change			*0,00*
VAT included @ 15%			*2 034,78*
E & OE			

(3) On 18 January 20.6 Mr B Sithole rendered services to Mrs B Mini and issued original tax invoice number 0005 to her. Mrs B Mini paid R2 600 (VAT inclusive) cash and receipt number 0006 was issued to her. Mrs S Peterson deposited the money received into the bank account on 19 January 20.6.

(4) On 20 January 20.6 Mr S Big bought electric switches, fittings and insulation tape. He has purchased:

- 5 rolls of insulation tape (IT1001) @ R4,275 per roll
- 10 plug switches (PS1002) @ R8,664 per switch
- 6 light switches (LS1002) @ R7,1136 per switch
- 6 light fittings (LF1002) @ R46,2384 per fitting

He paid R430 cash, which will be deposited by Mrs S Peterson on 21 January 20.6.

(5) On 21 January 20.6 Mr B Strong bought electric cable and fittings to be installed in his new home. He purchased:

- 40 m of three-phase cable (EC1003) @ R18,525 per meter
- 10 rolls of insulation tape (IT1001) @ R4,275 per roll
- 50 plug switches (PS1002) @ R8,664 per switch
- 45 light switches (LS1002) @ R7,1136 per switch
- 30 light fittings (LF1002) @ R46,2384 per fitting
- 10 fluorescent light fittings (FLF1002) @ R113,9886 per fitting

Mr B Sithole installed the electric cable and fittings in Mr B Strong's new home and issued original tax invoice number 0006 to him for R2 600,00. Mr B Strong paid the amount for the electric cable and fittings, R4 064,10 and the service rendered, R2 600,00 cash and receipt number 0007 was issued to him. The money will be deposited on 22 January 20.6.

(6) On 22 January 20.6 the entity ordered some fittings and switches from Huge Wholesalers. Since the first payment was made via the internet and it was for the significant amount of R38 837,80, they will now accept cheques from BS Electrical. Mrs S Peterson received the following delivery and paid by cheque number 0008.

HUGE WHOLESALERS

1667 Marine Drive PRETORIA Tel (012) 336–3433	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012) 336–3434

Date: *22 January 20.6*	**DELIVERY NOTE**	**No:** SP6058
Supplied to: *BS Electrical* *499 Tshwane Drive* *Pretoria*		*P O Box 392* *PRETORIA* *0001*

Code	Description	Qty	Unit price (excl.)		Total price		Checked
IT1001	*Insulation tape*	*1 box*	*300*	*00*	*300*	*00*	√
LF1002	*Light fittings*	*2 boxes*	*3 245*	*00*	*6 490*	*00*	√
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999*	*00*	*7 999*	*00*	√
LS1002	*Light switches*	*2 boxes*	*998*	*00*	*1 996*	*00*	√
PS1002	*Plug switches*	*2 boxes*	*1 215*	*00*	*2 430*	*00*	√
					19 215	*00*	
	VAT @ 15%				*2 882*	*25*	
Total					*22 097*	*25*	
VAT included @ 15%					*2 882*	*25*	

Note:
Discount of 20% if paid on delivery.

Checked by: *Mrs S Peterson* Signature: *S Peterson* Date: 22 *January 20.6*

E & OE

HUGE WHOLESALERS		
1667 Marine Drive PRETORIA Tel (012) 336–3433	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012)336-3434
Date: 22 January 20.6	**TAX INVOICE**	**No:** 5996
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	Description	Qty	Total price
IT1001	*Insulation tape*	*1 box*	*300,00*
LF1002	*Light fittings*	*2 boxes*	*6 490,00*
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999,00*
LS1002	*Light switches*	*2 boxes*	*1 996,00*
PS1002	*Plug switches*	*2 boxes*	*2 430,00*
			19 215,00
	-20% cash discount		*(3 843,00)*
			15 372,00
	VAT @ 15%		*2 305,80*
Invoice total			*17 677,80*
Amount tendered			*17 677,80*
Change			*0,00*
VAT included @ 15%			*2 305,80*
E & OE			

(7) On 23 January 20.6 Mrs S Peterson took R56 from the petty cash to buy stationery from Pen and Pencils.

PEN AND PENCILS	
23/01/20.6	
Till 02	
Pens 2 @ R14.00 BPI1001	28,00
Printing paper PP1003	28,00
TOTAL	56,00
Cash	56,00
Change	0,00
15% VAT	R7,30
Slip no 0012	
VAT no 5690233875	
Thank you	

(8) On 25 January Mrs S Peterson's salary was paid to her by issuing cheque number 0009 for R12 300.
(9) On 29 January Mrs S Peterson issued cheque number 0010 for R106 to restore the petty cash impress amount to R200.

Internal documents to be completed:

Date		90–00–00–01	
To		**Helping Bank Limited**	
For		**Pretoria**	**Date:**
Balance	R		
Deposit	R	**Pay:**	**or Bearer**
Subtotal	R	**The sum of:**	
This cheque	R		
Balance	R	*B Sithole* *S Peterson*	
		For: BS Electrical	
0006		**0006:900000•:9000 123456!!• 01**	

Date		90–00–00–01	
To		**Helping Bank Limited**	
For		**Pretoria**	**Date:**
Balance	R		
Deposit	R	**Pay:**	**or Bearer**
Subtotal	R	**The sum of:**	
This cheque	R		
Balance	R	*B Sithole* *S Peterson*	
		For: BS Electrical	
0007		**0007:900000•:9000 123456!!• 01**	

Date		90–00–00–01	
To		**Helping Bank Limited**	
For		**Pretoria**	**Date:**
Balance	R		
Deposit	R	**Pay:**	**or Bearer**
Subtotal	R	**The sum of:**	
This cheque	R		
Balance	R	*B Sithole* *S Peterson*	
		For: BS Electrical	
0008		**0008:900000•:9000 123456!!• 01**	

Date		90–00–00–01
To		**Helping Bank Limited**
For		**Pretoria** **Date:**
Balance	R	
Deposit	R	**Pay:** **or Bearer**
Subtotal	R	**The sum of:**
This cheque	R	
Balance	R	*B Sithole* *S Peterson*
		For: BS Electrical
0009		**0009:900000•:9000 123456!!• 01**

Date		90–00–00–01
To		**Helping Bank Limited**
For		**Pretoria** **Date:**
Balance	R	
Deposit	R	**Pay:** **or Bearer**
Subtotal	R	**The sum of:**
This cheque	R	
Balance	R	*B Sithole* *S Peterson*
		For: BS Electrical
00010		**00010:900000•:9000 123456!!• 01**

BS ELECTRICAL

499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date:	**TAX INVOICE**	**No:** 0005
To:		Payment method Cheque/debit card Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
Invoice total			
Amount tendered			
Change			
VAT included @ 15%			
E & OE			

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date:	**TAX INVOICE**	**No:** 0006
To:		Payment method Cheque/debit card Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
Invoice total			
Amount tendered			
Change			
VAT included @ 15%			
E & OE			

No. 0006	Date:	
Received from:		
	R	**c**
Amount: Rand		
Cent:		
For:	**BS Electrical**	
Signature		

No. 0007	Date:	
Received from:		
	R	**c**
Amount: Rand		
Cent:		
For:	**BS Electrical**	
Signature		

Helping Bank Limited **Helpende Bank Beperk**				Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr			Date Datum		
Name/Naam						
Bank notes		Banknote				
Coins		Munte				
Money and postal orders		Poswissels en posorders				
SUBTOTAL/SUBTOTAAL						
	Drawer's name Trekker se naam	Bank	Branch no Taknr			
1						
2						
3						
4						
5						
6						
7						
		Total/Totaal				

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur:

* For bank use

* Vir bank gebruik

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr													Date Datum		
Name/Naam																
Bank notes														Banknote		
Coins														Munte		
Money and postal orders														Poswissels en posorders		
SUBTOTAL/SUBTOTAAL																
	Drawer's name Trekker se naam													Bank	Branch no Taknr	
1																
2																
3																
4																
5																
6																
7																
														Total/Totaal		

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur:

* For bank use

* Vir bank gebruik

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr													Date Datum		
Name/Naam																
Bank notes														Banknote		
Coins														Munte		
Money and postal orders														Poswissels en posorders		
SUBTOTAL/SUBTOTAAL																

	Drawer's name Trekker se naam	Bank	Branch no Taknr			
1						
2						
3						
4						
5						
6						
7						
		Total/Totaal				

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur:

* For bank use

* Vir bank gebruik

BS ELECTRICAL	
Till 01	
TOTAL	
Cash	
Change	
15% VAT	
Slip no 0002	
VAT no: 8960225750	
Thank you	

BS ELECTRICAL	
Till 01	
TOTAL	
Cash	
Change	
15% VAT	
Slip no 0003	
VAT no: 8960225750	
Thank you	

PETTY CASH VOUCHER	**No.**	
Date:	**Amount**	
Required for:	**R**	**c**
Signature:		
Authorised by:		

REQUIRED

After considering the above transactions by BS Electrical you must give an explanation of the transaction and complete the internal source documents of BS Electrical.

SOLUTION: EXERCISE 1

1. Explanation:

Computer equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

		90–00–00–01	
Date	*16/01/20.6*	**NOT TRANSFERABLE**	
To	*Computer World*	**Helping Bank Limited**	
For	*Computer equipment*	**Pretoria** **Date:** *16 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Computer World* **~~or Bearer~~**	
Subtotal	*R*	**The sum of:** *Sixteen thousand two hundred and sixty nine rand only*	*16 269,00*
This cheque	*R16 269,00*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0006		**0006:900000•:9000 123456!!• 01**	

2. Explanation:

Computer equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

		90–00–00–01	
Date	*16/01/20.6*	**NOT TRANSFERABLE**	
To	*IT Perfect*	**Helping Bank Limited**	
For	*Computer equipment*	**Pretoria** **Date:** *16 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *IT Perfect* **~~or Bearer~~**	
Subtotal	*R*	**The sum of:** *Fifteen thousand six hundred rand only*	*15 600,00*
This cheque	*R15 600,00*		
Balance	*R*		
		B Sithole *S Peterson* **For: BS Electrical**	
0007		**0006:900000•:9000 123456!!• 01**	

3. Explanation:

Received money for services rendered, therefore the bank account (an asset) increases and must be debited.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited.

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111		VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *18 January 20.6*	**TAX INVOICE**		**No:** 0005
To: *Cash*			Payment method Cheque/debit card **Cash** Credit card Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* VAT @ 15%	*4 hrs*	*2 260,87* *339,13*
Invoice total			*2 600,00*
Amount tendered			*2 600,00*
Change			*0,00*
VAT included @ 15%			*339,13*
E & OE			

Calculations:

VAT on R2 260,87

$$\frac{\text{R2 260,87}}{1} \times \frac{15}{100} = \text{R339,13}$$

No. 0006		Date: *18 January 20.6*	
Received from:	*Mrs B Mini*		
		R	**c**
Amount: Rand	*Two thousand six hundred rand only*		
Cent:	*None*	*2 600*	*00*
For:	*Services rendered (cash)*	**BS Electrical**	
Signature	*S Peterson*		

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *19 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes						Banknote									*2 600*	*00*
Coins						Munte										
Money and postal orders						Poswissels en posorders										
SUBTOTAL/SUBTOTAAL															*2 600*	*00*
	Drawer's name Trekker se naam					Bank					Branch no Taknr					
1																
2																
3																
4																
5																
6																
7																
						Total/Totaal									*2 600*	*00*

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur: *S Peterson*

* For bank use

* Vir bank gebruik

4. Explanation:

Received money; therefore the bank account (an asset) increases and must be debited.

Sales are an income that increases the profit for the year. Therefore, equity increases and sales account must be credited.

BS Electrical	
20/01/20.6	
Till 01	
Insulation tape 5 @ R4,275 IT1001	21,38
Plug switches 10 @ R8,664 PS1002	86,64
Light switches 6 @ R7,1136 LS1002	42,68
Light fittings 6 @ R46,2384 LF1002	277,43
TOTAL	428,13
Cash	430,00
Change	1,87
15% VAT	R55,84
Slip no 0002	
VAT no 8960225750	
Thank you	

Calculations:

(a) 5 x R4,275 = R21,375 = R21,38
(b) 10 x R8,664 = R86,64
(c) 6 x R7,1136 = R42,6816 = R42,68
(d) 6 x R46,2384 = R277,4304 = R277,43

VAT

$$\frac{R428,13}{1} \times \frac{15}{115} = R55,84304 = R55,84$$

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	*-*	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *21 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes				Banknote											*420*	*00*
Coins				Munte											*8*	*13*
Money and postal orders				Poswissels en posorders												
SUBTOTAL/SUBTOTAAL															*428*	*13*
	Drawer's name Trekker se naam			Bank				Branch no Taknr								
1																
2																
3																
4																
5																
6																
7																
				Total/Totaal											*428*	*13*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																

The amount of R428,13 consists of notes of R420,00 and coins of R8,13. Most of the cash registers will round the amount off to the nearest 10c because 1c, 2c and 5c are not available anymore. The amount will be R428,10.

5. Explanation:

Received money, therefore the bank account (an asset) increases and must be debited with the total amount of R4 064,10 + R2 600,00 = R6 664,10.

Sales is an income that increases the profit for the year. Therefore, equity increases and sales account must be credited with R3 534,00.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited with R2 260,87.

BS Electrical	
21/01/20.6	
Till 01	
Three-phase electric cable 40 m 40 @ R18,525 EC1003	741,00
Insulation tape 10 @ R4,275 IT1001	42,75
Plug switches 50 @ R8,664 PS1002	433,20
Light switches 45 @ R7,1136 LS1002	320,11
Light fittings 30 @ R46,2384 LF1002	1 387,15
Fluorescent light fittings 10 @ R113,9886 FLF1002	1 139,89
TOTAL	4 064,10
Cash	4 064,10
Change	0,00
15% VAT	R530,10
Slip no 0003	
VAT no 8960225750	
Thank you	

Calculations:

(a) 40 x R18,525 = R741,00
(b) 10 x R4,275 = R42,75
(c) 50 x R8,664 = R433,20
(d) 45 x R7,1136 = R320,1120 = R320,11
(e) 30 x R46,2384 = R1 387,1520 = R1 387,15
(f) 10 x R113,9886 = R1 139,886 = R1 139,89

VAT

$$\frac{R4\ 064,10}{1} \times \frac{15}{115} = R530,10$$

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *21 January 20.6*	**TAX INVOICE**	**No:** 0006
To: *Cash*		Payment method Cheque/debit card **Cash** Credit card Account

Code	Description	Qty	Total price
SR001	*Electrical services* *VAT @ 15%*	*4 hrs*	*2 260,87* *339,13*
Invoice total			*2 600,00*
Amount tendered			*2 600,00*
Change			*0,00*
VAT included @ 15%			*339,13*
E & OE			

No. 0007		Date: *21 January 20.6*	
Received from:	*Mr B Strong*		
		R	**c**
Amount: Rand	*Six thousand six hundred and sixty four rand*		
Cent:	*Ten cents*	*6 664*	*10*
For:	*Inventory (Cash slip no. 0003 – R4 064,10)* *Services rendered (Cash invoice no 0006 – R2 600,00) (cash)*	**BS Electrical**	
Signature	*S Peterson*		

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *22 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes				Banknote											*6 660*	*00*
Coins				Munte											*4*	*10*
Money and postal orders				Poswissels en posorders												
SUBTOTAL/SUBTOTAAL															*6 664*	*10*
	Drawer's name Trekker se naam			Bank				Branch no Taknr								
1																
2																
3																
4																
5																
6																
7																
				Total/Totaal											*6 664*	*10*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																

6. Explanation:

Purchases is an expense that decreases the profit for the year. Therefore, equity decreases and the purchases account must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

		90–00–00–01	
Date	*22/01/20.6*	**NOT TRANSFERABLE**	
To	*Huge Wholesalers*	**Helping Bank Limited**	
For	*Trading inventory*	**Pretoria** **Date:** *22 January 20.6*	
Balance	*R*		
Deposit	*R*	**Pay:** *Huge Wholesalers* **~~or Bearer~~**	
Subtotal	*R*	**The sum of:** *Seventeen thousand six hundred and seventy seven rand and eighty cents*	*17 677,80*
This cheque	*R17 677,80*		
Balance	*R*		
		B Sithole *S Peterson*	
		For: BS Electrical	
0008		**0008:900000•:9000 123456!!• 01**	

7. Explanation:

Stationery is an expense that decreases the profit for the year. Therefore, equity decreases and the stationery account must be debited.

Petty cash (an asset) decreases and must be credited.

PETTY CASH VOUCHER	**No.** *002*	
Date: *23 January 20.6*	**Amount**	
Required for:	**R**	**c**
Pen and Pencils – stationery	*56*	*00*
Signature: *S Peterson*		
Authorised by: *B Sithole*		

8. Explanation:

Salary is an expense that decreases the profit for the year. Therefore, equity decreases and salaries account must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

			90–00–00–01
Date	*25/01/20.6*	**NOT TRANSFERABLE**	
To	*Mrs S Peterson*	**Helping Bank Limited**	
For	*Salary*	**Pretoria**	**Date:** *25 January 20.6*
Balance	*R*		
Deposit	*R*	**Pay:** *Mrs S Peterson*	~~**or Bearer**~~
Subtotal	*R*	**The sum of:** *Twelve thousand three hundred rand only*	*12 300,00*
This cheque	*R12 300,00*		
Balance	*R*		
		B Sithole	*S Peterson*
			For: BS Electrical
0009		**0009:900000•:9000 123456!!• 01**	

9. Explanation:

Petty cash (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

			90–00–00–01
Date	*29/01/20.6*		
To	*Cash*	**Helping Bank Limited**	
For	*Petty Cash*	**Pretoria**	**Date:** *29 January 20.6*
Balance	*R*		
Deposit	*R*	**Pay:** *Cash*	**or Bearer**
Subtotal	*R*	**The sum of:** *Hundred and six rand only*	*106,00*
This cheque	*R106,00*		
Balance	*R*		
		B Sithole	*S Peterson*
			For: BS Electrical
0010		**0010:900000•:9000 123456!!• 01**	

EXERCISE 2

(a) Define a cash transaction.
(b) Define a source document.
(c) Name two types of source documents.
(d) Define internal source documents.
(e) Give examples of internal source documents.
(f) Define external source documents.
(g) Give examples of external source documents.

SOLUTION: EXERCISE 2

(a) When transactions take place the entity will either receive or pay out money.
(b) When a transaction takes place it is necessary to have a document as proof of the transaction, indicating details of the transaction.
(c) Internal source documents and external source documents
(d) Internal source documents are the documents prepared by the entity itself to record transactions with external clients.

(e) Cash register rolls
Duplicate cash sales invoices
Duplicate receipts
Cheque counterfoils
Duplicate petty cash vouchers
Duplicate bank deposit slips
Telephone banking: Notice of payment
Signed credit card slip

(f) External source documents are the documents prepared by the other party to the transaction and received by the entity as proof that the transaction did take place.
(g) Original cash purchases invoices
Original receipts
Cheques
Cash slips



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• define a cash transaction?	☺	😐	☹
• define a source document?	☺	😐	☹
• name two types of source documents?	☺	😐	☹
• define internal source documents?	☺	😐	☹
• give examples of internal source documents?	☺	😐	☹
• define external source documents?	☺	😐	☹
• give examples of external source documents?	☺	😐	☹
• explain the applicable source documents involved in different cash transactions?	☺	😐	☹
• complete different internal source documents?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 5

THE RECORDING OF CASH TRANSACTIONS



Introductory Financial Accounting

OVERVIEW

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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- prepare a cash receipts journal
- prepare a cash payments journal
- prepare a petty cash journal
- post from the cash receipts journal, cash payments journal and petty cash journal to the general ledger

KEY CONCEPTS

- Books of first entry
- Cash journals
- Cash receipts journal
- Cash payments journal
- Petty cash journal
- Posting to the general ledger
- Grouping of general ledger accounts
- Drawings
- Split cheque



ASSESSMENT CRITERIA

- The ability to record the cash transactions of a sole proprietor, in various journals applicable to cash transactions from source documents, is demonstrated.
- The ability to post to the general ledger accounts, after the journals applicable to cash transactions are closed off, is demonstrated.

5.1 INTRODUCTION

So far you have learned that financial accounting data are processed within a definite framework, which is known as the financial accounting cycle. For each transaction specific source documents are completed to do the necessary entries in the books of an entity. These documents must, after use, be filed for reference purposes for at least five years. These activities form part of the input activity of the financial accounting cycle.

The next step in the financial accounting cycle is the processing of data by recording the transactions.

5.2 THE FINANCIAL ACCOUNTING CYCLE

According to the diagram in learning unit 1 there must first be a transaction and then there must be proof that a transaction did take place, which must take the form of a source document. The source documents are used to record transactions in the books of first entry, namely the subsidiary journals. This is the first step in the processing phase. At the end of each month the subsidiary journals are closed off and posted to the applicable ledger accounts in the general ledger. In this learning unit we will focus on the processing of transaction data for cash transactions.

5.3 BOOKS OF FIRST ENTRY: JOURNALS

Although the ledger is the most important book in financial accounting for recording daily transactions, it would be impossible for an entity to enter every transaction directly into the ledger. This will make the ledger very bulky and unmanageable. In a manual system it also means that only one person can write up the books.

Therefore a system of subsidiary books, called *books of first entry*, is used. These subsidiary books enable a number of clerks to record transactions simultaneously on a daily basis from the source documents into the different subsidiary books. From these subsidiary books (called *journals*) data is posted daily or monthly to the appropriate ledger accounts.

All transactions are sorted and recorded in the relevant subsidiary book, for example cash transactions together, credit sales transactions together and credit purchases transactions together.

One of the principles of accounting is that **no entry is made in the ledger unless it has first been entered in a subsidiary book**. An entry in the ledger will therefore always have its origin in one of the subsidiary books. Even if a computerised system is used the transactions are first recorded in subsidiary journals before it is posted to the ledger.

In this learning unit you will concentrate on the subsidiary journals for cash transactions only. For cash transactions you will need:

- cash receipts journal for the receipt of money
- cash payment journal for the payment of money
- petty cash journal for the cash payment of small expenses within the entity

5.4 CASH JOURNALS

Consider the transactions with source documents discussed in learning unit 4. Determine whether the transaction is a receipt or a payment in the bank or the petty cash to determine whether it must be entered into the cash receipt journal, cash payment journal or petty cash journal.

Transaction 1:

Mr B Sithole decided to deposit R100 000 in the entity's bank account to start the business. Mr B Sithole gave Mrs S Peterson a cheque for R100 000 to deposit into the current bank account of BS Electrical.

Explanation:

Money is received and therefore the bank account (an asset) increases and must be debited.

The money is received from the owner, Mr B Sithole, and the entity owes the money to him. Therefore, the capital account (equity) increases and must be credited.

Money received; therefore this transaction will be entered into the cash receipts journal.

Source documents:

- **Duplicate receipt**

No. 0001	Date: *2 January 20.6*	
Received from: *Mr B Sithole*		
	R	**c**
Amount: *Hundred thousand rand only* Rand		
Cent: *None*	*100 000*	*00*
For: *Capital contribution by the owner (cheque)*	**BS Electrical**	
Signature: *S Peterson*		

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie				
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *2 January 20.6*				
Name/Naam *BS Electrical*																		
Bank notes						Banknote												
Coins						Munte												
Money and postal orders						Poswissels en posorders												
SUBTOTAL/SUBTOTAAL																		
	Drawer's name Trekker se naam					Bank					Branch no Taknr							
1	*Mr B Sithole*					*Helping Bank Limited*					*90–00–00*					*100 000*	*00*	
2																		
3																		
4																		
5																		
6																		
7																		
						Total/Totaal										*100 000*	*00*	
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account-holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.															* For bank use * Vir bank gebruik		
Deposited by/Gedeponeer deur: *S Peterson*																		

Transaction 2:

On 2 January 20.6 BS Electrical bought a toolbox and tools to be used by Mr B Sithole from Big Builders for R10 000 (VAT inclusive) and paid by cheque number 0001.

Explanation:

Tools and equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original cash invoice**

BIG BUILDERS		
900 Narrow Drive PRETORIA Tel (012) 333–1615	VAT registration number 5590223986	P O Box 2176 PRETORIA 0001 Fax (012) 333–1616
Date: *2 January 20.6*	**TAX INVOICE**	**No:** 0273
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	Description	Qty	Total price
IBM1334 *IBM2043* *IBM6033*	*Tool box* *Electrician tool kit* *Screw driver*	*1* *1* *1*	*4 550,47* *4 000,00* *145,18*
			8 695,65
	VAT @ 15%		*1 304,35*
Invoice total			*10 000,00*
Amount tendered			*10 000,00*
Change			*0,00*
VAT included @ 15%			*1 304,35*
E & OE			

- **Cheque counterfoil**

		90–00–00–01
Date	*02/01/20.6*	**NOT TRANSFERABLE**
To	*Big Builders*	**Helping Bank Limited**
For	*Tools and equipment*	**Pretoria** **Date:** *2 January 20.6*
Balance	R	
Deposit	R	**Pay:** *Big Builders* **~~or Bearer~~**
Subtotal	R	**The sum of:** *Ten thousand rand only* *10 000,00*
This cheque	*R10 000,00*	
Balance	R	
		B Sithole *S Peterson*
		For: BS Electrical
0001		**0001:900000•:9000 123456!!• 01**

Transaction 3:

On 2 January 20.6 BS Electrical bought a cash register for R3 378,88 (VAT inclusive) by cheque number 0002, from Wiseman Traders and received cash invoice number 0578 from Wiseman Traders

to be retained for guarantee purposes. Mrs S Peterson negotiated for a discount of 10% because the cash register was paid by cheque.

Explanation:

Tools and equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original cash invoice**

WISEMAN TRADERS			
700 Straight Drive PRETORIA Tel (012) 335–1515	VAT registration number 6702336097		P O Box 1165 PRETORIA 0001 Fax (012) 335–1629
Date: *2 January 20.6*	**TAX INVOICE**		**No:** 0578
To: *Cash*			Payment method **Cheque/debit card** Cash Credit card Account
Code	**Description**	**Qty**	**Total price**
FCR1268	*Fancy cash register* *– 10% discount*	*1*	*2 938,16* *(293,82)*
	VAT @ 15%		*2 644,34* *396,65*
Invoice total			*3 040,99*
Amount tendered			*3 040,99*
Change			*0,00*
VAT included @ 15%			*396,65*
E & OE			

- **Cheque counterfoil**

		90–00–00–01	
Date	*02/01/20.6*	**NOT TRANSFERABLE**	
To	*Wiseman Traders*	**Helping Bank Limited**	
For	*Tools and equipment*	**Pretoria** **Date:** *2 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Wiseman Traders* **~~or Bearer~~**	
Subtotal	R	**The sum of:** *Three thousand and forty rand and ninety nine cents*	*3 040,99*
This cheque	*R3 040,99*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0002		**0002:900000•:9000 123456!!• 01**	

Transaction 4:

On 3 January 20.6 Mrs S Peterson issued cheque number 0003 for R300 to be the cash float for the cash register. The cheque was cashed for small change to be kept in the cash register.

Explanation:

Cash float (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Cheque counterfoil**

		90–00–00–01	
Date	*03/01/20.6*		
To	*Cash*	**Helping Bank Limited**	
For	*Cash float*	**Pretoria** **Date:** *3 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Cash* **or Bearer**	
Subtotal	R	**The sum of:** *Three hundred rand only*	*300,00*
This cheque	*R300,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0003		**0003:900000•:9000 123456!!• 01**	

Transaction 5:

Received an invoice from Mr B Sithole for the rent for January. The rent of R2 000 (VAT inclusive) for occupying part of a building situated on Mr B Sithole's land was paid by issuing cheque number 0004 on 4 January 20.6

Explanation:

Rent paid is an expense that decreases the profit for the year. Therefore, equity decreases and rent paid account must be debited.

Paid money for rent, therefore, the bank account (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Cheque counterfoil**

Date	*04/01/20.6*	90–00–00–01 **NOT TRANSFERABLE**	
To	*Mr B Sithole*	**Helping Bank Limited** **Pretoria**	
For	*Rent paid*	**Date:** *4 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Mr B Sithole* **~~or Bearer~~**	
Subtotal	R	**The sum of:** *Two thousand rand only*	*2 000,00*
This cheque	*R2 000,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0004		**0004:900000•:9000 123456!!• 01**	

Transaction 6:

On 10 January 20.6, Mr B Sithole rendered services to three different clients, Mr P Lucky, Mrs V Happy and Mr T Busy. Original sales invoices number 0001, 0002, and 0003 were issued to them respectively. They have paid the amounts and receipt numbers 0002 and 0003 were issued to Mr P Lucky and Mrs V Happy respectively. Mrs S Peterson only deposited these amounts into the bank account on 11 January 20.6.

Explanation:

Received money for services rendered. Therefore, the bank account (an asset) increases and must be debited.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited.

Money received; therefore this transaction will be entered into the cash receipts journal.

Source documents:

- **Duplicate cash sales invoices**

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750		P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *10 January 20.6*	**TAX INVOICE**		**No:** 0001
To: *Cash*			Payment method Cheque/debit card **Cash** Credit card Account
Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* *– 10% cash discount*	*2 hours*	*1 140,36* *(114,04)*
	VAT @ 15%		*1 026,32* *153,95*
Invoice total			*1 180,27*
Amount tendered			*1 200,00*
Change			*19,73*
VAT included @ 15%			*153,95*
E & OE			

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *10 January 20.6*	**TAX INVOICE**	**No:** 0002
To: *Cash*		Payment method **Cheque/debit card** Cash Credit card Account

Code	Description	Qty	Total price
SR001	*Electrical services* *– 10% cash discount*	*5 hours*	*2 850,88* *(285,09)*
	VAT @ 15%		*2 565,79* *384,87*
Invoice total			*2 950,66*
Amount tendered			*2 950,66*
Change			*0,00*
VAT included @ 15%			*384,87*
E & OE			

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *10 January 20.6*	**TAX INVOICE**	**No:** 0003
To: *Cash*		Payment method Cheque/debit card Cash **Credit card** Account

Code	Description	Qty	Total price
SR001	*Electrical services* *– 5% cash discount*	*6 hours*	*3 421,05* *(171,05)*
	VAT @ 15%		*3 250,00* *487,50*
Invoice total			*3 737,50*
Amount tendered			*3 737,50*
Change			*0,00*
VAT included @ 15%			*487,50*
E & OE			

- **Duplicate receipts**

No. 0002	Date: *10 January 20.6*	
Received from: *Mr P Lucky*		
	R	**c**
Amount: *One thousand one hundred and eighty rand* Rand		
Cent: *Twenty seven cents*	*1 180*	*27*
For: *Services rendered (cash)*	**BS Electrical**	
Signature: *S Peterson*		

No. 0003	Date: *10 January 20.6*	
Received from: *Mrs V Happy*		
	R	**c**
Amount: *Two thousand nine hundred and fifty rand* Rand		
Cent: *Sixty six cents*	*2 950*	*66*
For: *Services rendered (cheque)*	**BS Electrical**	
Signature: *S Peterson*		

- **Credit card slip**

CARD TRANSACTION

Pretoria
BS Electrical

NO.: **********20.7 0 EXP DATE: 04/10

AMOUNT: R3 737,50
CARD NAME: LIVING BANK VISA CARD
10/03/20.6 9:30 AUTH: 641055
EPS No. 173

0415 017 8044288 0039

T Busy

CUSTOMER SIGNATURE

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *11 January 20.6*		
Name/Naam *BS Electrical*																
Bank notes				Banknote											*1 180*	*00*
Coins				Munte											*0*	*27*
Money and postal orders				Poswissels en posorders												
SUBTOTAL/SUBTOTAAL															*1 180*	*27*
	Drawer's name Trekker se naam			Bank				Branch no Taknr								
1	*Mrs V Happy*			*Growing Bank Limited*				*90–05–60*							*2 950*	*66*
2																
3																
4																
5																
6																
7																
				Total/Totaal											*4 130*	*93*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																

Transaction 7:

On 15 January 20.6 Mr B Sithole decided that he would buy the different types of cables and other fittings necessary for the services he is rendering and keep it in the entity's inventory. Clients could then buy the necessary cable and fittings from BS Electrical and Mr B Sithole could advise them on what is needed for a specific service rendered. BS Electrical would get 20% discount if the entity buys at bulk from Huge Wholesalers.

Mr B Sithole handed Mrs S Peterson the following list of items she had to order from Huge Wholesalers:

- 1 000 m of two-phase electrical cable
- 1 000 m of three-phase electrical cable
- 1 box of 100 rolls of insulation tape
- 2 boxes of 100 light fittings each

- 1 box of 100 fluorescent light fittings
- 2 boxes of 100 light switches each
- 2 boxes of 100 plug switches each

The total amount of the order was R48 547,25 before discount. This amount included VAT at 15%. Mrs S Peterson placed an order and made an internet payment of R38 837,80 directly into the bank account of Huge Wholesalers. After she had faxed the proof in the form of a notice of payment through to Mr P Moodley, the sales manager at Huge Wholesalers, they delivered the goods ordered.

The delivered goods were checked by Mrs S Peterson to see if everything was delivered and she signed the delivery note. The original delivery note and original cash invoice were handed to her and the delivery guy kept the duplicate signed delivery note and cash invoice.

Explanation:

Purchases is an expense that decreases the profit for the year. Therefore, equity decreases and purchases account must be debited.

Paid by internet; bank (an asset) decreases and must be credited.

Paid by internet; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original delivery note**

HUGE WHOLESALERS							
1667 Marine Drive PRETORIA Tel (012) 336–3433		VAT Registration number 5591223986			P O Box 1550 PRETORIA 0001 Fax (012) 336–3434		
Date: *15 January 20.6*		**DELIVERY NOTE**			**No:** SP6058		
Supplied to: *BS Electrical* *499 Tshwane Drive* *Pretoria*					*P O Box 392* *PRETORIA* *0001*		
Code	**Description**	**Qty**	**Unit price (VAT excl.)**		**Total price**		**Checked**
EC1002	*Two-phase eletrical cable*	*1 000 m*	*10*	*00*	*10 000*	*00*	√
EC1003	*Three-phase electrical cable*	*1 000 m*	*13*	*00*	*13 000*	*00*	√
IT1001	*Insulation tape*	*1 box*	*300*	*00*	*300*	*00*	√
LF1002	*Light fittings*	*2 boxes*	*3 245*	*00*	*6 490*	*00*	√
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999*	*00*	*7 999*	*00*	√
LS1002	*Light switches*	*2 boxes*	*998*	*00*	*1 996*	*00*	√
PS1002	*Plug switches*	*2 boxes*	*1 215*	*00*	*2 430*	*00*	√
					42 215	*00*	
	VAT @ 15%				*6 332*	*25*	
Total					*48 547*	*25*	
VAT included @ 15%					*6 332*	*25*	
Note: *Discount of 20% applicable*							
Checked by: *Mrs S Peterson*		Signature: *S Peterson*			Date: *15 January 20.6*		
E & OE							

- **Original cash invoice**

HUGE WHOLESALERS		
1667 Marine Drive PRETORIA Tel (012) 336–3433	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012) 336–3434
Date: *15 January 20.6*	**TAX INVOICE**	**No:** 5996
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method Cheque/debit card **Cash** Credit card Account

Code	**Description**	**Qty**	**Total price**
EC1002	*Two-phase eletrical cable*	*1 000 m*	*10 000,00*
EC1003	*Three-phase eletrical cable*	*1 000 m*	*13 000,00*
IT1001	*Insulation tape*	*1 box*	*300,00*
LF1002	*Light fittings*	*2 boxes*	*6 490,00*
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999,00*
LS1002	*Light switches*	*2 boxes*	*1 996,00*
PS1002	*Plug switches*	*2 boxes*	*2 430,00*
			42 215,00
	– 20% cash discount		*(8 443,00)*
			33 772,00
	VAT @ 15%		*5 065,80*
Invoice total			*38 837,80*
Amount tendered			*38 837,80*
Change			*0,00*
VAT included @ 15%			*5 065,80*
E & OE			

- **Internet banking: Notice of payment**

HELPING BANK LIMITED

Internet Banking: Notice of Payment **15 January 20.6**

Dear BS Electrical

Subject: Notice of Payment: Huge Wholesalers

Please be advised that a payment has been made as indicated below.

Transaction number:	**905520X611363667435578**
Payment date:	**20.6/01/15**
Payment made by:	**BS Electrical**
Payment made to:	**Huge Wholesalers**
Beneficiary account number:	**9000522968**
For the amount of	**R38 837,80**
Reference on beneficiary statement:	**BS Electrical**

Please remember that the following apply to internet banking payments to non-Helping bank accounts.

- Payments made on weekdays before 15:30 will be credited to the receiving bank account by midnight of the same day.
- Payments made on weekdays after 15:30 will be credited by midnight the following day.
- Payments made on a Saturday, Sunday or Public holiday will be credited to the account by midnight of the 1st following weekday.

If you need more information or assistance, please call Helping Bank Limited on 08600 08600 or +27 11 276 7900 (International calls).

Yours sincerely
General Manager: Digital Channel

This document is intended for use by the addressee and is privileged and confidential. If the transmission has been misdirected to you, please contact us immediately. Thank you.

Helping Bank Limited, Reg No 19X0/005959/05

Transaction 8:

On 16 January 20.6, Mrs S Peterson issued cheque number 0005 for R200 as the impress amount to start the petty cash float of BS Electrical. The cheque was cashed and the money is kept by Mrs S Peterson who acted as petty cashier.

Explanation:

Petty cash (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Money received – petty cash; therefore this transaction will be entered into the petty cash journal.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Cheque counterfoil**

		90–00–00–01	
Date	*16/01/20.6*		
To	*Cash*	**Helping Bank Limited**	
For	*Petty cash*	**Pretoria** **Date:** *16 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Cash* **or Bearer**	
Subtotal	R	**The sum of:** *Two hundred rand only*	
This cheque	*R200,00*		*200,00*
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0005		**0005:900000•:9000 123456!!• 01**	

Transaction 9:

On 16 January 20.6 BS Electrical bought a computer worth R16 269 (VAT included) for which it paid by cheque number 0006 and received tax invoice number B145 from Computer World.

Explanation:

Computer equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original cash invoice**

COMPUTER WORLD		
590 Delphi Drive PRETORIA Tel (012) 435–1615	VAT registration number 7704337090	P O Box 5116 PRETORIA 0001 Fax (012) 435–1639
Date: *16 January 20.6*	**TAX INVOICE**	**No:** B145
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
C755	*Compy 755 computer* VAT @ 15%	*1*	*14 146,96* *2 122,04*
Invoice total			*16 269,00*
Amount tendered			*16 269,00*
Change			*0,00*
VAT included @ 15%			*2 122,04*
E & OE			

- **Cheque counterfoil**

		90–00–00–01	
Date	*16/01/20.6*	**NOT TRANSFERABLE**	
To	*Computer World*	**Helping Bank Limited**	
For	*Computer equipment*	**Pretoria**	**Date:** *16 January 20.6*
Balance	R		
Deposit	R	**Pay:** *Computer World*	**~~or Bearer~~**
Subtotal	R	**The sum of:** *Sixteen thousand two hundred and sixty nine rand only*	*16 269,00*
This cheque	*R16 269,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0006		**0006:900000•:9000 123456!!• 01**	

Transaction 10:

On 16 January 20.6 the entity bought an accounting computer program to manage their inventory from IT Perfect for R15 600 (VAT included). It received original tax invoice number 1569 from IT Perfect and paid IT Perfect by cheque number 0007.

Explanation:

Computer equipment (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original cash invoice**

IT PERFECT			
730 Windows Drive PRETORIA Tel (012) 997–1010	VAT registration number 6805736098		P O Box 1069 PRETORIA 0001 Fax (012) 997–1111
Date: *16 January 20.6*	**TAX INVOICE**		**No:** 1569
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*			Payment method **Cheque/debit card** Cash Credit card Account
Code	**Description**	**Qty**	**Total price**
PE101	*Point of sales inventory programme* VAT @ 15%	*1*	*13 565,22* *2 034,78*
Invoice total			*15 600,00*
Amount tendered			*15 600,00*
Change			*0,00*
VAT included @ 15%			*2 034,78*
E & OE			

- **Cheque counterfoil**

		90–00–00–01	
Date	*16/01/20.6*	**NOT TRANSFERABLE**	
To	*IT Perfect*	**Helping Bank Limited**	
For	*Computer equipment*	**Pretoria** **Date:** *16 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *IT Perfect* ~~**or Bearer**~~	
Subtotal	R	**The sum of:** *Fifteen thousand six hundred rand only*	*15 600,00*
This cheque	*R15 600,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0007		**0007:900000•:9000 123456!!• 01**	

Transaction 11:

On 17 January 20.6, Mrs S Peterson bought postage stamps and took R50 (VAT inclusive) out of petty cash to pay for it.

Explanation:

Postage is an expense that decreases the profit for the year. Therefore, equity decreases and postage account must be debited.

Petty cash (an asset) decreases and must be credited.

Money paid cash – petty cash; therefore this transaction will be entered into the petty cash journal.

Source documents:

- **Petty cash voucher**

PETTY CASH VOUCHER	**No.** *001*	
Date: *17 January 20.6*	**Amount**	
Required for:	**R**	**c**
Postmaster – postage stamps	*50*	*00*
Signature: *S Peterson*		
Authorised by: *B Sithole*		

Transaction 12:

On 17 January 20.6, Mr T Wiseman bought electrical cables and fittings to be installed by Mr B Sithole in his new home. He purchased:

- 50 m two phase electrical cable, R712,50
- 4 rolls insulation tape, R17,10
- 27 plug switches, R233,93
- 20 light switches, R142,27
- 20 light fittings, R924,77
- 3 fluorescent light fittings, R341,96

Mr B Sithole delivered and installed the electrical cables and fittings. Original tax invoice number 0004 was issued to Mr T Wiseman. Mr T Wiseman paid both amounts by cheque (Growing Bank Limited – branch code 90–05–60). Mrs S Peterson issued receipt no 0005. The amount was deposited into the current bank account on 18 January 20.6.

Explanation:

Received money; therefore the bank account (an asset) increases and must be debited with the total amount of R2 372,53 + R9 750,00 = R12 122,53.

Sales is an income that increases the profit for the year. Therefore, equity increases and sales account must be credited with R2 063,07.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited with R8 478,26.

Money received; therefore this transaction will be entered into the cashreceipts journal.

Source documents:

- **Cash register roll**

BS ELECTRICAL	
17/01/20.6	
Till 01	
Two-phase electrical cable 50 @ R14,25 EC1002	712,50
Insulation tape 4 @ R4,275 IT1001	17,10
Plug switches 27 @ R8,664 PS1002	233,93
Light switches 20 @ R7,1136 LS1002	142,27
Light fittings 20 @ 46,2384 LF1002	924,77
Fluorescent light fittings 3 @ R113,9886 FLF1002	341,96
TOTAL	2 372,53
Cash	2 372,53
Change	0,00
15% VAT	R309,46
Slip no 0001	
VAT no 8960225750	
Thank you	

- **Duplicate cash sales invoice**

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111		VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *17 January 20.6*	**TAX INVOICE**		**No:** 0004
To: *Mr T Wiseman* *25 Park Street* *Pretoria* *VAT registration number 4301235678*			Payment method **Cheque/debit card** Cash Credit card Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* VAT @ 15%	*15hrs*	*8 478,26* *1 271,74*
Invoice total			*9 750,00*
Amount tendered			*9 750,00*
Change			*0,00*
VAT included @ 15%			*1 271,74*
E & OE			

- **Duplicate receipt**

No. 0005	Date: *17 January 20.6*	
Received from: *Mr T Wiseman*	**R**	**c**
Amount: *Twelve thousand one hundred and twenty two rand* Rand		
Cent: *Fifty three cents*	*12 122*	*53*
For: *Inventory* *(Cash slip no. 0001 – R2 372,53)* *Services rendered* *(Cash invoice no. 0004 – R9 750,00) (cheque)*	**BS Electrical**	
Signature: *S Peterson*		

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie				
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *18 January 20.6*				
Name/Naam *BS Electrical*																		
Bank notes						Banknote												
Coins						Munte												
Money and postal orders						Poswissels en posorders												
SUBTOTAL/SUBTOTAAL																		
	Drawer's name Trekker se naam				Bank				Branch no Taknr									
1	*Mr T Wiseman*				*Growing Bank Limited*				*90–05–60*						*12 122*		*53*	
2																		
3																		
4																		
5																		
6																		
7																		
					Total/Totaal										*12 122*		*53*	
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik				
Deposited by/Gedeponeer deur: *S Peterson*																		

Transaction 13:

On 18 January 20.6 Mr B Sithole rendered services to Mrs B Mini and issued original tax invoice number 0005 to her. Mrs B Mini paid R2 600 (VAT inclusive) cash and Mrs S Peterson issued receipt number 0006 to her. Mrs S Peterson deposited the money received into the bank account on 19 January 20.6.

Explanation:

Received money for services rendered; therefore the bank account (an asset) increases and must be debited.

Services rendered is an income that increases the profit for the year. Therefore, equity increases and services rendered account must be credited.

Money received; therefore this transaction will be entered into the cash receipts journal.

Source documents:

- **Duplicate cash sales invoice**

BS ELECTRICAL			
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750		P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *18 January 20.6*	**TAX INVOICE**		**No:** 0005
To: *Cash*			Payment method Cheque/debit card **Cash** Credit card Account
Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services* VAT @ 15%	*4hrs*	*2 260,87* *339,13*
Invoice total			*2 600,00*
Amount tendered			*2 600,00*
Change			*0,00*
VAT included @ 15%			*339,13*
E & OE			

- **Duplicate receipt**

No. 0006	Date: *18 January 20.6*	
Received from: *Mrs B Mini*		
	R	**c**
Amount: *Two thousand six hundred rand only* Rand		
Cent: *None*	*2 600*	*00*
For: *Services rendered (cash)*		
Signature: *S Peterson*	**BS Electrical**	

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**				Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*9 0 0 0 - 1 2 3 4 5 6*		Date Datum *19 January 20.6*		
Name/Naam *BS Electrical*						
Bank notes	Banknote				*2 600*	*00*
Coins	Munte					
Money and postal orders	Poswissels en posorders					
SUBTOTAL/SUBTOTAAL					*2 600*	*00*
	Drawer's name Trekker se naam	Bank	Branch no Taknr			
1						
2						
3						
4						
5						
6						
7						
		Total/Totaal			*2 600*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.					* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*						

Transaction 14:

On 20 January 20.6, Mr S Big bought electric switches, fittings and insulation tape. He purchased:

- 5 rolls of insulation tape (IT1001) for a total of R21,38
- 10 plug switches (PS1002) for a total of R86,64
- 6 light switches (LS1002) for a total of R42,68
- 6 light fittings (LF1002) for a total of R277,43

He paid with R430 cash and the money was deposited by Mrs S Peterson on 21 January 20.6.

Explanation:

Received money; therefore the bank account (an asset) increases and must be debited.

Sales is an income that increases the profit for the year. Therefore, equity increases and sales account must be credited.

Money received; therefore this transaction will be entered into the cash receipts journal.

Source documents:

- **Cash register roll**

BS ELECTRICAL	
20/01/20.6	
Till 01	
Insulation tape 5 @ R4,275 IT1001	21,38
Plug switches 10 @ R8,664 PS1002	86,64
Light switches 6 @ R7,1136 LS1002	42,68
Light fittings 6 @ R46,2384 LF1002	277,43
TOTAL	428,13
Cash	430,00
Change	1,87
15% VAT	R55,84
Slip no 0002	
VAT no 8960225750	
Thank you	

Note: In practice, due to the fact that 2 cent coins and 1 cent coins are not part of our currency anymore, entities round down or round up an amount to the nearest 5 cents to make it possible to give change when paid in cash. We will however not adopt this principle in this module.

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie			
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *21 January 20.6*			
Name/Naam *BS Electrical*																	
Bank notes						Banknote								*		*420*	*00*
Coins						Munte								*		*8*	*13*
Money and postal orders						Poswissels en posorders											
SUBTOTAL/SUBTOTAAL																*428*	*13*
	Drawer's name Trekker se naam					Bank				Branch no Taknr							
1																	
2																	
3																	
4																	
5																	
6																	
7																	
						Total/Totaal										*428*	*13*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.															* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *S Peterson*																	

***Note:** These can vary as long as the subtotal is R428,13.

Transaction 15:

On 21 January 20.6, Mr B Strong bought electrical cable and fittings to be installed in his new home. He purchased:

- 40 m of three-phase electrical cable (EC1003) for R741,00
- 10 rolls of insulation tape (IT1001) for R42,75
- 50 plug switches (PS1002) for R433,20
- 45 light switches (LS1002) for R320,11
- 30 light fittings (LF1002) for R1 387,15
- 10 fluorescent light fittings (FLF1002) for R1 139,89

Mr B Sithole installed the electrical cable and fittings in Mr B Strong's new home and issued original tax invoice number 0006 to him for R2 600,00. He paid the amount of R4 064,10 for the electrical cable and fittings, and the service rendered for R2 600,00 cash. Mrs S Peterson issued receipt number 0007 to him. The money was deposited on 22 January 20.6.

Explanation:

Received money; therefore the bank account (an asset) increases and must be debited with the total amount of R4 064,10 + R2 600,00 = R6 664,10.

Sales is an income that increases the profit for the year. Therefore, equity increases and sales account must be credited with R3 534,00.

Services rendered is an income that increases the profit for the year. Therefore equity increases and services rendered account must be credited with R2 260,87.

Money received; therefore this transaction will be entered into the cash receipts journal.

Source documents:

- **Cash register roll**

BS ELECTRICAL	
21/01/20.6	
Till 01	
Three-phase electrical cable 40 @ R18,525 EC1003	741,00
Insulation tape 10 @ R4,275 IT1001	42,75
Plug switches 50 @ R8,664 PS1002	433,20
Light switches 45 @ R7,1136 LS1002	320,11
Light fittings 30 @ R46,2384 LF1002	1 387,15
Fluorescent light fittings 10 @ R113,9886 FLF1002	1 139,89
TOTAL	4 064,10
Cash	4 064,10
Change	0,00
15% VAT	R530,10
Slip no 0003	
VAT no 8960225750	
Thank you	

- **Duplicate cash sales invoice**

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *21 January 20.6*	**TAX INVOICE**	**No:** 0006
To: *Cash*		Payment method Cheque/debit card **Cash** Credit card Account

Code	**Description**	**Qty**	**Total price**
SR001	*Electrical services*	*4hrs*	*2 260,87*
	VAT @ 15%		*339,13*
Invoice total			*2 600,00*
Amount tendered			*2 600,00*
Change			*0,00*
VAT included @ 15%			*339,13*
E & OE			

- **Duplicate receipt**

No. 0007	Date: *21 January 20.6*	
Received from: *Mr B Strong*		
	R	**c**
Amount: *Six thousand six hundred and sixty four rand* Rand		
Cent: *Ten cents*	*6 664*	*10*
For: *Inventory (Cash slip no. 0003 – R4 064,10)* *Services rendered (Cash invoice no. 0006 – R2 600,00) (cash)*	**BS Electrical**	
Signature: *S Peterson*		

- **Duplicate deposit slip**

Helping Bank Limited **Helpende Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie			
Credit Krediteer	Acc no Rek nr	*9*	*0*	*0*	*0*	-	*1*	*2*	*3*	*4*	*5*	*6*		Date Datum *22 January 20.6*			
Name/Naam *BS Electrical*																	
Bank notes		Banknote													*6 660*	*00*	
Coins		Munte													*4*	*10*	
Money and postal orders		Poswissels en posorders															
SUBTOTAL/SUBTOTAAL															*6 664*	*10*	
	Drawer's name Trekker se naam		Bank			Branch no Taknr											
1																	
2																	
3																	
4																	
5																	
6																	
7																	
		Total/Totaal													*6 664*	*10*	
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik		
Deposited by/Gedeponeer deur: *S Peterson*																	

Transaction 16:

On 22 January 20.6 the entity ordered some fittings and switches from Huge Wholesalers. Since the first payment was made via the internet and it was for a significant amount of R38 837,80 they will now accept cheques from BS Electrical. Mrs S Peterson received the following delivery and paid per cheque number 0008.

Explanation:

Purchases is an expense that decreases the profit for the year. Therefore, equity decreases and purchases account must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Original delivery note**

HUGE WHOLESALERS							
1667 Marine Drive PRETORIA Tel: (012) 336–3433			VAT Registration number 5591223986		P O Box 1550 PRETORIA 0001 Fax (012) 336–3434		
Date: *22 January 20.6*		**DELIVERY NOTE**			**No:** SP6058		
Supplied to: *BS Electrical* *499 Tshwane Drive* *Pretoria*					*P O Box 392* *PRETORIA* *0001*		
Code	**Description**	**Qty**	**Unit price (VAT excl.)**		**Total price**		**Checked**
IT1001 *LF1002* *FLF1002* *LS1002* *PS1002*	*Insulation tape* *Light fittings* *Fluorescent light fittings* *Light switches* *Plug switches*	*1 box* *2 boxes* *1 box* *2 boxes* *2 boxes*	*300* *3 245* *7 999* *998* *1 215*	*00* *00* *00* *00* *00*	*300* *6 490* *7 999* *1 996* *2 430*	*00* *00* *00* *00* *00*	√ √ √ √ √
					19 215	*00*	
	VAT @ 15%				*2 882*	*25*	
Total					*22 097*	*25*	
VAT included @ 15%					*2 882*	*25*	
Note: *Discount of 20% applicable*							
Checked by: *Mrs S Peterson*		Signature: *S Peterson*			Date: *22 January 20.6*		
E & OE							

- **Original cash invoice**

HUGE WHOLESALERS		
1667 Marine Drive PRETORIA Tel (012) 336–3433	VAT registration number 5591223986	P O Box 1550 PRETORIA 0001 Fax (012) 336–3434
Date: 22 *January 20.6*	**TAX INVOICE**	**No:** 5996
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750*		Payment method **Cheque/debit card** Cash Credit card Account

Code	Description	Qty	Total price
IT1001	*Insulation tape*	*1 box*	*300,00*
LF1002	*Light fittings*	*2 boxes*	*6 490,00*
FLF1002	*Fluorescent light fittings*	*1 box*	*7 999,00*
LS1002	*Light switches*	*2 boxes*	*1 996,00*
PS1002	*Plug switches*	*2 boxes*	*2 430,00*
			19 215,00
	– 20% cash discount		*(3 843,00)*
			15 372,00
	VAT @ 15%		*2 305,80*
Invoice total			*17 677,80*
Amount tendered			*17 677,80*
Change			*0,00*
VAT included @ 15%			*2 305,80*
E & OE			

- **Cheque counterfoil**

		90–00–00–01	
Date	*22/01/20.6*	**NOT TRANSFERABLE**	
To	*Huge Wholesalers*	**Helping Bank Limited** **Pretoria**	
For	*Trading inventory*	**Date:** *22 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Huge Wholesalers* **~~or Bearer~~**	
Subtotal	R	**The sum of:** *Seventeen thousand six hundred and seventy seven rand and eighty cents*	*17 677,80*
This cheque	*R17 677,80*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0008		**0008:900000•:9000 123456!!• 01**	

Transaction 17:

On 23 January 20.6 Mrs S Peterson took R56 from the petty cash to buy stationery from Pen and Pencils.

Explanation:

Stationery is an expense that decreases the profit for the year. Therefore, equity decreases and stationery account must be debited.

Petty cash (an asset) decreases and must be credited.

Money paid cash – petty cash; therefore this transaction will be entered into the petty cash journal.

Source documents:

- **Cash slip**

PEN AND PENCILS	
23/01/20.6	
Till 02	
Pens 2 @ R14,00 BPI1001	28,00
Printing paper PP1003	28,00
TOTAL	56,00
Cash	56,00
Change	0,00
15% VAT	R7,30
Slip no 0012	
VAT no 5690233875	
Thank you	

- **Petty cash voucher**

PETTY CASH VOUCHER	**No.** *002*	
Date: *23 January 20.6*	**Amount**	
Required for:	**R**	**c**
Pen and Pencils – stationery	*56*	*00*
Signature: *S Peterson*		
Authorised by: *B Sithole*		

Transaction 18:

On 25 January Mrs S Peterson's salary was paid to her by issuing cheque number 0009 for R12 300.

Explanation:

Salary is an expense that decreases the profit for the year. Therefore, equity decreases and salaries account must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Cheque counterfoil**

Date	*25/01/20.6*	90–00–00–01 **NOT TRANSFERABLE**	
To	*Mrs S Peterson*	**Helping Bank Limited** **Pretoria**	
For	*Salary*	**Date:** *25 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Mrs S Peterson* **~~or Bearer~~**	
Subtotal	R	**The sum of:** *Twelve thousand three hundred rand only*	*12 300,00*
This cheque	*R12 300,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0009		**0009:900000•:9000 123456!!• 01**	

Transaction 19:

On 29 January Mrs S Peterson wrote out cheque number 0010 for R106 to restore the petty cash impress amount to R200.

Explanation:

Petty cash (an asset) increases and must be debited.

Paid by cheque; bank (an asset) decreases and must be credited.

Money received – petty cash; therefore this transaction will be entered into the petty cash journal.

Paid by cheque; therefore this transaction will be entered into the cash payments journal.

Source documents:

- **Cheque counterfoil**

Date	*29/01/20.6*	90–00–00–01	
To	*Cash*	**Helping Bank Limited**	
For	*Petty cash*	**Pretoria** **Date:** *29 January 20.6*	
Balance	R		
Deposit	R	**Pay:** *Cash* **or Bearer**	
Subtotal	R	**The sum of:** *Hundred and six rand only*	*106,00*
This cheque	*R106,00*		
Balance	R		
		B Sithole *S Peterson* **For: BS Electrical**	
0010		**0010:900000•:9000 123456!!• 01**	

5.4.1 Cash receipts journal

The cash receipts journal is a subsidiary book in which the cash receipts of an entity are recorded. All moneys received are recorded in the cash receipts journal. At the end of the month only one amount, which represents the entire month's cash receipts, is debited to the bank account in the general ledger.

Different columns are used to analyse the different types of receipts and to find the total of each for a certain period. The number and headings of these columns will be determined by the type of entity and the frequency of transactions that can be grouped together. It is, however, not possible to provide individual columns for every type of receipt. Therefore, the less frequent receipts (once or twice a month) will be entered in a column for sundry accounts.

Entries in the cash receipts journal are recorded from:

- duplicates of receipts issued (when money was received)
- the cash register roll (when cash was received for sales)
- the duplicate deposit slip (when money was deposited at the bank)
- the original credit card/debit card slip (money will be automatically banked by the bank on our account)
- internet banking: notice of payment faxed to self (money deposited directly into bank account)

Provision is made for a VAT output column in the cash receipts journal (tax collected by the entity on behalf of the South African Revenue Service). See paragraph 4.6 for a discussion of VAT.

BS ELECTRICAL

CASH RECEIPTS JOURNAL – JANUARY 20.6

CRJ1

Doc No.	Day	Details	Fol	Analysis of receipts	Bank	Sales	Services rendered	VAT output	Sundry accounts		
									Amount	Fol	Details
				R	R	R	R	R	R		
R0001	2	Mr B Sithole		100 000,00	100 000,00				100 000,00	B1	Capital
R0002	10	Mr P Lucky		1 180,27			1 026,32	153,95			
R0003		Mrs V Happy		2 950,66	4 130,93		2 565,79	384,87			
R0004		Mr T Busy		3 737,50	3 737,50		3 250,00	487,50			
R0005	17	Mr T Wiseman		12 122,53	12 122,53	2 063,07	8 478,26	1 581,20			
R0006	18	Mrs B Mini		2 600,00	2 600,00		2 260,87	339,13			
CRR0002	20	Cash sales		428,13	428,13	372,29		55,84			
CRR0003	21	Cash sales		6 664,10	6 664,10	3 534,00	2 260,87	869,23			
					129 683,19	5 969,36	19 842,11	3 871,72	100 000,00		
					B2	N2	N1	B7			

- The folio numbers B2, N2, N1, B7 and B1 are for reference purposes and will be discussed in paragraph 5.5.
- At the end of the month the cash receipts journal is closed off by totalling each column.
- The analysis of receipts column does not have a total because all the cash, cheques and credit card payments received have been deposited as soon as possible. The amount is entered into the analysis of receipts column when the money is received and it will be entered into the bank column when it is deposited. If two amounts are deposited together, the amounts are added and only the total of the deposit slip will be entered in the bank column.
- The internet payments received will be entered directly into the bank column because it is deposited automatically into the bank account of the entity.
- On the 17th and 21st the VAT of the sales and the services rendered were added and only one amount was entered in the VAT column.
- The sales amount and services rendered amounts are the total amounts on the invoices less the VAT received because the VAT has to be paid over to the South African Revenue Service.
- The total of the bank column must be equal to the sum of the totals of the other columns, that is R5 969,36 + R19 842,11 + R3 871,72 + R100 000 = R129 683,19.
- The totals of the columns must be posted to the appropriate accounts in the general ledger at the end of the month. Each transaction in the sundry accounts column will be posted individually to the appropriate account identified in the details column in the general ledger at the date of the transaction.

5.4.2 Cash payments journal

The cash payments journal is a subsidiary book in which the cash payments of an entity are recorded. All payments are made by cheque, via the internet or by credit card and each amount must be recorded in the bank column as well as in one of the analysis columns.

Different columns are used to analyse the different types of payment and to find the total of each for a certain period. The number and heading of these columns will be determined by the type of entity and will include those transactions that occur frequently during the month. It is, however, not possible to provide individual columns for every type of payment. Therefore, the less frequent payments (once or twice a month) will be entered in the column for sundry accounts.

Entries in the cash payments journal are made from:

- cheque counterfoils (payments made by cheque)
- internet banking: notice of payment send to them (money paid directly into the bank account of another person or entity)

Provision is made for a VAT input column in the cash payments journal to record any input VAT associated with purchases.

- The folio numbers B2, N3, B8, B3, B4, N4, B5, N5 and PCJ1 are for reference purposes and will be discussed in paragraph 5.5.
- At the end of the month the cash payments journal is closed off by totalling each column.
- The purchases amount, tools and equipment amount and computer equipment amount are the total amounts on the invoices less the VAT paid because the VAT input are claimed back from the South African Revenue Service.
- The amount entered in the bank column is the total amount paid (price + VAT).

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CASH PAYMENTS JOURNAL – JANUARY 20.6

CPJ1

Doc No.	Day	Name of payee	Fol	Bank	Purchases	VAT input	Tools and equipment	Computer equipment	Salaries	Sundry accounts		
										Amount	Fol	Details
				R	R	R	R	R	R	R		
0001	2	Big Builders		10 000,00		1 304,35	8 695,65					
0002		Wiseman Traders		3 040,99		396,65	2 644,34					
0003	3	Cash		300,00						300,00	B5	Cash float
0004	4	Mr B Sithole		2 000,00		260,87				1 739,13	N5	Rental expenses
BS01	15	Huge Wholesalers		38 837,80	33 772,00	5 065,80						
0005	16	Cash		200,00						200,00	PCJ1	Petty cash
0006		Computer World		16 269,00		2 122,04		14 146,96				
0007		IT Perfect		15 600,00		2 034,78		13 565,22				
0008	22	Huge Wholesalers		17 677,80	15 372,00	2 305,80						
0009	25	Mrs S Peterson		12 300,00					12 300,00			
0010	29	Cash		106,00						106,00	PCJ1	Petty cash
				116 331,59	49 144,00	13 490,29	11 339,99	27 712,18	12 300,00	2 345,13		
				B2	N3	B8	B3	B4	N4			

- The total of the bank column must be equal to the sum of the totals of the other columns, that is R49 144,00 + R13 490,29 + R11 339,99 + R27 712,18 + R12 300,00 + R2 345,13 = R116 331,59.
- The total of the columns must be posted to the appropriate accounts in the general ledger at the end of the month. Each transaction in the sundry accounts column will be posted individually to the appropriate account identified in the details column in the general ledger at the date of the transaction.
- If more than one person was paid a salary, a salaries journal must be opened to record all the salaries. Only the total amount for salaries will then be posted to the cash payments journal.

5.4.3 Petty cash journal

It is normal practice to bank all cash receipts (coins, notes, postal orders and cheques) daily. This is done to control all money received. Payments must also be controlled and are therefore made by cheque. However, when small payments, for example, expenses such as postage, telegrams, wages to casual labourers, small repairs and small donations are paid out, it is more convenient to make payments in cash rather than the drawing of a cheque.

All payments from petty cash are recorded in the petty cash journal. The number of analysis columns will vary according to the type of entity and the frequency ofpayments for a certain item/service. It is, however, not possible to provide individual columns for every type of payment. Therefore, the less frequent payments (once or twice a month) will be entered in the column for sundry accounts.

Before any payment can be made out of petty cash the payment must be authorised by a person appointed to do so. The signature of the person who authorises the payment must appear on the petty cash voucher. These vouchers will be numbered in sequence and filed with the external source document (mostly cash slips) received on payment.

When a payment is recorded in the petty cash journal, the amount is entered in the petty cash column as well as in the appropriate analysis column.

The imprest system is most widely used. In terms of this system, an amount that should cover petty cash requirements for a month is estimated. This amount is then given to the petty cashier as the imprest amount – an amount in advance.

The petty cashier is reimbursed – usually at the end of the month – by means of a cheque which is equal to the amount that he/she has spent. Thus the petty cashier starts each month with the same amount of petty cash on hand.

If the petty cashier runs short of money, because of additional expenses, he/she receives a cheque. The amount the petty cashier will receive at the end of the month to restore the “imprest” amount will be equal to expense less amounts received during the month.

Provision is made for a VAT input column in the petty cash journal because it is the VAT paid by the entity to another person or entity (the person or entity must be a registered VAT vendor).

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PETTY CASH JOURNAL – JANUARY 20.6

PCJ1

Receipts			Payments									
										Sundry accounts		
Day	Fol	Amount	Day	Details	No	Fol	Total	VAT input	Postage	Amount	Fol	Details
		R					R	R	R	R		
16	CPJ1	200,00	17	Post office	001		50,00	6,52	43,48			
29	CPJ1	106,00	23	Pen and Pencils	002		56,00	7,30		48,70	N7	Stationery
		306,00					106,00	13,82	43,48	48,70		
		B6					B6	B8	N6			

- The folio numbers B6, B8, N6 and N7 are for reference purposes and will be discussed in paragraph 5.5.
- At the end of the month the petty cash journal is closed off by totalling each column.
- The stationery amount is the total amount on the cash slips less the VAT paid because the VAT is claimed from the South African Revenue Service.
- The amount entered in the total column is the total amount paid (price + VAT).
- The total of the total column must be equal to the sum of the totals of the other columns, that is R13,82 + R43,48 + R48,70 = R106,00.
- The total of the columns must be posted to the appropriate accounts in the general ledger at the end of the month. Each transaction in the sundry accounts column will be posted individually to the appropriate account identified in the details column in the general ledger at the date of the transaction.

5.5 POSTING TO THE GENERAL LEDGER

All cash transactions are entered into one of the subsidiary journals (books of first entry). At the end of the month the totals of these journals must be posted to the appropriate accounts in the general ledger.

In the general ledger accounts are grouped as follows:

- All the assets, liabilities and equity accounts are grouped together in the financial position section in the general ledger and indicated by the reference *B*. These accounts will have balances at the end of the financial year and will be reported in the statement of financial position.
- All the income and expense accounts are grouped together in the nominal accounts section in the general ledger and indicated by the reference *N*. These accounts will all be closed off at the end of the year (ie they will not have balances). These accounts are closed off to the profit or loss account.

The entries in the cash receipts journal are posted to the general ledger as follows:

- The total of the bank column is debited to the bank account. In the bank account the words “total receipts” are written as cross-reference. The reason for the words “total receipts” is because different accounts will be credited (sales account, services rendered account, capital account and VAT output account).
- The total of the sales column is credited to the sales account. In the sales account the word “bank” is written as cross-reference.
- The total of the services rendered column is credited to the services rendered account. In the services rendered account the word “bank” is written as cross-reference.
- The total of the VAT output column is credited to the VAT output account. In the VAT output account the word “bank” is written as cross-reference.
- The amounts in the column for sundry accounts are credited individually to the appropriate accounts in the general ledger as indicated in the column for details. For example, the capital account is credited using the cross-reference “bank”.
- In the general ledger accounts the folio reference *CRJ* (for cash receipts journal) and the number of the cash receipts journal is used. In the cash receipts journal the folio reference *B* and the number of the account or *N* and the number of the account is used.

The entries in the cash payments journal are posted to the general ledger as follows:

- The total of the bank column is credited to the bank account. In the bank account the words “total payments” are written as cross-reference. The reason for the words “total payments” is because different accounts will be debited (purchases account, VAT input account, tools and equipment account, computer equipment account, salaries account, cash float account, rent expenses account and petty cash account).
- The total of the purchases column is debited to the purchases account. In the purchases account the word “bank” is written as cross-reference.

- The total of the VAT input column is debited to the VAT input account. In the VAT input account the word “bank” is written as cross-reference.
- The total of the tools and equipment column is debited to the tools and equipment account. In the tools and equipment account the word “bank” is written as cross-reference.
- The total of the computer equipment column is debited to the computer equipment account. In the computer equipment account the word “bank” is written as cross-reference.
- The total of the salaries column is debited to the salaries account. In the salaries account the word “bank” is written as cross-reference.
- The amounts in the column for sundry accounts are debited individually to the appropriate accounts in the general ledger as indicated in the column for details.For example, the cash float account is debited using the cross-reference “bank”.
- In the general ledger accounts the folio reference *CPJ* (for cash payments journal) and the number of the cash payments journal is used. In the cash payments journal the folio reference *B* and the number of the account or *N* and the number of the account or *PCJ* (for petty cash journal) and the number of the petty cash journal is used.

The entries in the petty cash journal are posted to the general ledger as follows:

- The total of the receipts side of the petty cash journal is debited to the petty cash account. In the petty cash account the words “total receipts” are written as cross-reference.
- The total of the total column on the payments side of the petty cash journal is credited to the petty cash account. In the petty cash account the words “total payments” are written as cross-reference. The reason for the words “total payments” is because different accounts will be debited (VAT input account, postage account and stationery account).
- The total of the VAT input column is debited to the VAT input account. In the VAT input account the words “petty cash” are written as cross-reference.
- The total of the postage column is debited to the postage account. In the postage account the words “petty cash” are written as cross-reference.
- The amounts in the column for sundry accounts are debited individually to the appropriate accounts in the general ledger as indicated in the column for details. For example, the stationery account is debited using the cross-reference “petty cash”.
- In the general ledger accounts the folio reference *PCJ* (for petty cash journal) and the number of the petty cash journal is used. In the petty cash journal the folio reference *B* and the number of the account or *N* and the number of the account or *CPJ* (for cash payments journal) and the number of the cash payments journal is used.

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GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

						20.6 Jan	2	Bank	CRJ1	100 000	00

Dr **Bank** **B2** **Cr**

20.6 Jan	31	Total receipts	CRJ1	129 683	19	20.6 Jan	31	Total payments Balance	CPJ1 c/d	116 331 13 351	59 60
				129 683	19					129 683	19
Feb	1	Balance	b/d	13 351	60						

Dr **Tools and equipment** **B3** **Cr**

20.6 Jan	31	Bank	CPJ1	11 339	99						

Dr **Computer equipment** **B4** **Cr**

20.6 Jan	31	Bank	CPJ1	27 712	18						

Dr **Cash float** **B5** **Cr**

20.6 Jan	3	Bank	CPJ1	300	00						

Dr **Petty cash** **B6** **Cr**

20.6 Jan	31	Total receipts	PCJ1	306	00	20.6 Jan	31	Total payments Balance	PCJ1 c/d	106 200	00 00
				306	00					306	00
Feb	1	Balance	b/d	200	00						

Dr **VAT output** **B7** **Cr**

						20.6 Jan	31	Bank	CRJ1	3 871	72

Dr **VAT input** **B8** **Cr**

20.6 Jan	31	Bank Petty cash	CPJ1 PCJ1	13 490 13	29 82						
				13 504	11						

At the end of the two month period the VAT return must be submitted to the South African Revenue Service, a VAT control account must be opened and the VAT input account as well as the VAT output account must be closed off to the VAT control account to determine whether an amount must be paid over to the Receiver of Revenue (VAT output is bigger than the VAT input) or an amount must be refunded by the Receiver of Revenue (VAT input is bigger than the VAT output).

NOMINAL ACCOUNTS SECTION

Dr **Services rendered** **N1** **Cr**

						20.6					
						Jan	31	Bank	CRJ1	19 842	11

Dr **Sales** **N2** **Cr**

						20.6					
						Jan	31	Bank	CRJ1	5 969	36

Dr **Purchases** **N3** **Cr**

20.6											
Jan	31	Bank	CPJ1	49 144	00						

Dr **Salaries** **N4** **Cr**

20.6											
Jan	31	Bank	CPJ1	12 300	00						

Dr **Rental expenses** **N5** **Cr**

20.6											
Jan	4	Bank	CPJ1	1 739	13						

Dr **Postage** **N6** **Cr**

20.6											
Jan	31	Petty cash	PCJ1	43	48						

Dr **Stationery** **N7** **Cr**

20.6											
Jan	23	Petty cash	PCJ1	48	70						

5.6 EXERCISE AND SOLUTION

EXERCISE 1

The following transactions must be recorded from the source documents of PP Traders:

No. 001	Date: *1 September 20.6*	
Received from: *P Benroy*		
	R	**c**
Amount: *Eight hundred and fifty three thousand rand only* Rand		
Cent: *None*	*853 000*	*00*
For: *Capital contribution by the owner (cheque)*	**PP Traders**	
Signature: *P Bright*		

Easy Bank Limited **Easy Bank Beperk**													Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*	Date Datum *1 September 20.6*		
Name/Naam *PP Traders*															
Bank notes		Banknote													
Coins		Munte													
Money and postal orders		Poswissels en posorders													
SUBTOTAL/SUBTOTAAL															
	Drawer's name Trekker se naam		Bank			Branch no Taknr									
1	*P Benroy*		*Easy Bank Limited*			*80-00-00*								*853 000*	*00*
2															
3															
4															
5															
6															
7															
		Total/Totaal												*853 000*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.													* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*															

Date	*02/09/20.6*
To	*Astor Agency*
For	*Business vehicle*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R50 000,00*
Balance	R
0001	

Date	*04/09/20.6*
To	*SR Manufacturers*
For	*Merchandise*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R150 000,00*
Balance	R
0002	

Date	*05/09/20.6*
To	*Cash*
For	*Petty cash*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R400,00*
Balance	R
0003	

PETTY CASH VOUCHER	**No.** *1*	
Date: *8 September 20.6*	**Amount**	
Required for:	**R**	**c**
Wages	*120*	*00*
Signature: *P Bright*		
Authorised by: *P Benroy*		

Date	*11/09/20.6*
To	*Speedy Suppliers*
For	*Goods*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R32 000,00*
Balance	R
0004	

Date	*13/09/20.6*
To	*CNA*
For	*Stationery*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R320,00*
Balance	R
0005	

Date	*14/09/20.6*
To	*Protea Shopfitters*
For	*Cabinets and shelves*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R14 000,00*
Balance	R
0006	

Date	*15/09/20.6*
To	*Cash*
For	*Cash float*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R400,00*
Balance	R
0007	

On 18 September 20.6 the total cash sales as per cash register roll number 1 were R7 200,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *19 September 20.6*		
Name/Naam *PP Traders*																
Bank notes						Banknote									*7 200*	*00*
Coins						Munte										
Money and postal orders						Poswissels en posorders										
SUBTOTAL/SUBTOTAAL															*7 200*	*00*
	Drawer's name Trekker se naam					Bank					Branch no Taknr					
1																
2																
3																
4																
5																
6																
7																
						Total/Totaal									*7 200*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*																

On 19 September 20.6 the total cash sales as per cash register roll number 2 were R28 000,00. The amount of R28 000,00 includes two cheques from:

- P Potgieter, Bridging Bank Limited (Branch code 80–10–00), for R1 400,00; and
- T Little, Easy Bank Limited (Branch code 80–00–00), for R720,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	-	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *20 September 20.6*		
Name/Naam *PP Traders*																
Bank notes				Banknote											*25 880*	*00*
Coins				Munte												
Money and postal orders				Poswissels en posorders												
SUBTOTAL/SUBTOTAAL															*25 880*	*00*

	Drawer's name Trekker se naam	Bank	Branch no Taknr			
1	*P Potgieter*	*Bridging Bank Limited*	*80-10-00*		*1 400*	*00*
2	*T Little*	*Easy Bank Limited*	*80-00-00*		720	00
3						
4						
5						
6						
7						
		Total/Totaal			*28 000*	*00*

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur: *P Bright*

* For bank use

* Vir bank gebruik

On 20 September 20.6 the total cash sales as per cash register roll number 3 were R21 210,00. The amount of R21 210,00 includes credit card payments to the value of R8 900,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	-	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *21 September 20.6*		
Name/Naam *PP Traders*																
Bank notes						Banknote									*10 210*	*00*
Coins						Munte										
Money and postal orders						Poswissels en posorders										
SUBTOTAL/SUBTOTAAL															*10 210*	*00*
	Drawer's name Trekker se naam				Bank				Branch no Taknr							
1	*P Dollie*				*Good Bank Limited*				*80-20-00*						*2 100*	*00*
2																
3																
4																
5																
6																
7																
					Total/Totaal										*12 310*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*																

PETTY CASH VOUCHER	**No.** *2*	
Date: *21 September 20.6*	**Amount**	
Required for:	**R**	**c**
Wages	*80*	*00*
Signature: *P Bright*		
Authorised by: *P Benroy*		

On 21 September 20.6 the total cash sales as per cash register roll number 4 were R21 000,00. The amount of R21 000,00 includes credit card payments to the value of R8 900,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	-	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *22 September 20.6*		
Name/Naam *PP Traders*																
Bank notes						Banknote									*10 000*	*00*
Coins						Munte										
Money and postal orders						Poswissels en posorders										
SUBTOTAL/SUBTOTAAL															*10 000*	*00*
	Drawer's name Trekker se naam					Bank					Branch no Taknr					
1	*P Dollie*					*Good Bank Limited*					*80-20-00*				*2 100*	*00*
2																
3																
4																
5																
6																
7																
						Total/Totaal									*12 100*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*																

PETTY CASH VOUCHER	**No.** *3*	
Date: *22 September 20.6*	**Amount**	
Required for:	**R**	**c**
CNA – Stationery	*56*	*00*
Signature: *P Bright*		
Authorised by: *P Benroy*		

Date	*22/09/20.6*
To	*CP Wholesalers*
For	*Merchandise*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R76 000,00*
Balance	R
0008	

On 22 September 20.6 the total cash sales as per cash register roll number 5 were R35 000,00. The amount of R35 000,00 includes credit card payments to the value of R15 000,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *23 September 20.6*		
Name/Naam *PP Traders*																
Bank notes						Banknote									*15 000*	*00*
Coins						Munte										
Money and postal orders						Poswissels en posorders										
SUBTOTAL/SUBTOTAAL															*15 000*	*00*
	Drawer's name Trekker se naam					Bank							Branch no Taknr			
1	*P Long*					*Easy Bank Limited*							*80-00-00*		*5 000*	*00*
2																
3																
4																
5																
6																
7																
						Total/Totaal									*20 000*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*																

On 23 September 20.6 the total cash sales as per cash register roll number 6 were R14 140,00. The amount of R14 140,00 includes credit card payments to the value of R4 140,00.

No. 002	Date: *23 September 20.6*	
Received from: *B Hasty*		
	R	**c**
Amount: *Four thousand five hundred and fifty rand only* Rand		
Cent: *None*	*4 550*	*00*
For: *Rent income (cheque)*	**PP Traders**	
Signature: *P Bright*		

Easy Bank Limited **Easy Bank Beperk**					Cheque Account Deposit Slip Tjekrekeningdepositostrokie	
Credit Krediteer	Acc no Rek nr	*8 0 0 0 - 1 1 2 3 4 5*			Date Datum *26 September 20.6*	
Name/Naam *PP Traders*						
Bank notes		Banknote			*10 000*	*00*
Coins		Munte				
Money and postal orders		Poswissels en posorders				
SUBTOTAL/SUBTOTAAL					*10 000*	*00*
	Drawer's name Trekker se naam	Bank	Branch no Taknr			
1	*B Hasty*	*Good Bank Limited*	*80-20-00*		*4 550*	*00*
2						
3						
4						
5						
6						
7						
		Total/Totaal			*14 550*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.					* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*						

On 26 September 20.6 the total cash sales as per cash register roll number 7 were R24 500,00. The amount of R24 500,00 includes credit card payments to the value of R5 150,00.

PETTY CASH VOUCHER	**No.** *4*	
Date: *26 September 20.6*	**Amount**	
Required for:	**R**	**c**
Post office – postage	*66*	*00*
Signature: *P Bright*		
Authorised by: *P Benroy*		

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *27 September 20.6*		
Name/Naam *PP Traders*																
Bank notes		Banknote													*19 350*	*00*
Coins		Munte														
Money and postal orders		Poswissels en posorders														
SUBTOTAL/SUBTOTAAL															*19 350*	*00*
	Drawer's name Trekker se naam			Bank					Branch no Taknr							
1																
2																
3																
4																
5																
6																
7																
		Total/Totaal													*19 350*	*00*

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur: *P Bright*

* For bank use

* Vir bank gebruik

On 27 September 20.6 the total cash sales as per cash register roll number 8 were R36 400,00.

Date	*27/09/20.6*
To	*Telkom*
For	*Telephone*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R820,00*
Balance	R
0009	

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *28 September 20.6*		
Name/Naam *PP Traders*																
Bank notes		Banknote													*36 400*	*00*
Coins		Munte														
Money and postal orders		Poswissels en posorders														
SUBTOTAL/SUBTOTAAL															*36 400*	*00*
	Drawer's name Trekker se naam			Bank				Branch no Taknr								
1																
2																
3																
4																
5																
6																
7																
		Total/Totaal													*36 400*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.														* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*																

Date	*28/09/20.6*
To	*Municipality*
For	– *Water and electricity, R3 200* – *Rates and taxes, R200*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R3 400,00*
Balance	R
0010	

Date	*28/09/20.6*
To	*Cash*
For	*P Benroy (owner)*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R1 000,00*
Balance	R
0011	

On 28 September 20.6 the total cash sales as per cash register roll number 9 were R42 642,00.

Easy Bank Limited **Easy Bank Beperk**													Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	-	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum	*29 September 20.6*
Name/Naam *PP Traders*															
Bank notes			Banknote											*42 640*	*00*
Coins			Munte											*2*	*00*
Money and postal orders			Poswissels en posorders												
SUBTOTAL/SUBTOTAAL														*42 642*	*00*
	Drawer's name Trekker se naam		Bank				Branch no Taknr								
1															
2															
3															
4															
5															
6															
7															
			Total/Totaal											*42 642*	*00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.													* For bank use * Vir bank gebruik	
Deposited by/Gedeponeer deur: *P Bright*															

On 29 September 20.6 the total cash sales as per cash register roll number 10 were R43 656,00.

Easy Bank Limited **Easy Bank Beperk**														Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *30 September 20.6*		
Name/Naam *PP Traders*																
Bank notes														Banknote		*43 650* *00*
Coins														Munte		*6* *00*
Money and postal orders														Poswissels en posorders		
SUBTOTAL/SUBTOTAAL																*43 656* *00*
	Drawer's name Trekker se naam													Bank	Branch no Taknr	
1																
2																
3																
4																
5																
6																
7																
														Total/Totaal		*43 656* *00*
Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected. Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.															* For bank use * Vir bank gebruik
Deposited by/Gedeponeer deur: *P Bright*																

Date	*30/09/20.6*
To	*Simi and Son*
For	*– Repairs, R210* *– Packing material, R320*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R530,00*
Balance	R
0012	

Date	*30/09/20.6*
To	*Cash*
For	*Petty cash*
Balance	R
Deposit	R
Subtotal	R
This cheque	*R322,00*
Balance	R
0013	

On 30 September 20.6 the total cash sales as per cash register roll number 11 were R26 400,00. The amount of R26 400,00 includes credit card payments to the value of R10 000,00.

Easy Bank Limited **Easy Bank Beperk**													Cheque Account Deposit Slip Tjekrekeningdepositostrokie		
Credit Krediteer	Acc no Rek nr	*8*	*0*	*0*	*0*	*-*	*1*	*1*	*2*	*3*	*4*	*5*		Date Datum *1 October 20.6*	
Name/Naam *PP Traders*															
Bank notes						Banknote								*16 000*	*00*
Coins						Munte								*400*	*00*
Money and postal orders						Poswissels en posorders									
SUBTOTAL/SUBTOTAAL														*16 400*	*00*
	Drawer's name Trekker se naam			Bank				Branch no Taknr							
1															
2															
3															
4															
5															
6															
7															
				Total/Totaal										*16 400*	*00*

Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/account holders have lawful title to cheques, etc collected.

Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreëls tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.

Deposited by/Gedeponeer deur: *P Bright*

* For bank use

* Vir bank gebruik

REQUIRED

(a) Prepare the:

- cash receipts journal of PP Traders for September 20.6 with columns for analysis of receipts, bank, sales, VAT output and sundry accounts
- cash payments journal of PP Traders for September 20.6 with columns for bank, purchases, stationery, VAT input and sundry accounts
- petty cash journal of PP Traders for September 20.6 with columns for total, wages, VAT input, postage and sundry accounts

(b) At the end of September the journals must be closed off and the amounts posted to the general ledger of PP Traders.

SOLUTION: EXCERCISE 1

PP TRADERS

CASH RECEIPTS JOURNAL – SEPTEMBER 20.6

CRJ1

Doc no	Day	Details	Fol	Analysis of receipts	Bank	Sales	VAT output	Sundry accounts		
								Amount	Fol	Details
				R	R	R	R	R		
R001	1	P Benroy		853 000,00	853 000,00			853 000,00	B1	Capital
CRR1	18	Cash sales		7 200,00	7 200,00	6 260,87	939,13			
CRR2	19	Cash sales		28 000,00	28 000,00	24 347,83	3 652,17			
CRR3	20	Credit card sales		8 900,00						
		Cash sales		12 310,00	21 210,00	18 443,48	2 766,52			
CRR4	21	Credit card sales		8 900,00						
		Cash sales		12 100,00	21 000,00	18 260,87	2 739,13			
CRR5	22	Credit card sales		15 000,00						
		Cash sales		20 000,00	35 000,00	30 434,78	4 565,22			
R002	23	B Hasty	***	4 550,00			593,48	3 956,52	N4	Rental income
CRR6		Credit card sales	***	4 140,00						
		Cash sales	***	10 000,00	18 690,00	12 295,65	1 844,35			
CPR7	26	Credit card sales		5 150,00						
		Cash sales		19 350,00	24 500,00	21 304,35	3 195,65			
CRR8	27	Cash sales		36 400,00	36 400,00	31 652,17	4 747,83			
CRR9	28	Cash sales		42 642,00	42 642,00	37 080,00	5 562,00			
CRR10	29	Cash sales		43 656,00	43 656,00	37 961,74	5 694,26			
CRR11	30	Credit card sales		10 000,00						
CRR11		Cash sales		16 400,00	26 400,00	22 956,52	3 443,48			
					1 157 698,00	260 998,26	39 743,22	856 956,52		
					B3	N1	B8			

*** The VAT output on the rental income will be calculated separately.

*** On 23 September 20.6 the credit card sales, R4 140,00 and the cash sales, R10 000,00 = R14 140,00.
VAT output is equal to: R14 140,00/1 x 15/115 = R1 844,35.
Sales: R14 140,00 – R1 844,35 = R12 295,65.

The formula used to calculate VAT is:

$$\frac{\text{\%-rate of VAT}}{\text{100+\%-rate of VAT}} \times \frac{\text{Total amount}}{1}$$

For example:

$$\frac{15}{115} \times \frac{\text{R7 200,00}}{1} = \text{R939,13}$$

The sales amount is:

R7 200,00 (total amount of cheque) – R939,13 (VAT) = R6 260,87

PP TRADERS

CASH PAYMENTS JOURNAL – SEPTEMBER 20.6

CPJ1

Doc no	Day	Name of payee	Fol	Bank	Purchases	Stationery	VAT input	Sundry accounts		
								Amount	Fol	Details
				R	R	R	R	R		
0001	2	Astor Agency		50 000,00			6 521,74	43 478,26	B4	Vehicles
0002	4	SR Manufacturers		150 000,00	130 434,78		19 565,22			
0003	5	Cash		400,00				400,00	PCJ1	Petty cash
0004	11	Speedy Suppliers		32 000,00	27 826,09		4 173,91			
0005	13	CNA		320,00		278,26	41,74			
0006	14	Protea Shopfitters		14 000,00			1 826,09	12 173,91	B5	Furniture and equipment
0007	15	Cash		400,00				400,00	B6	Cash float
0008	22	CP Wholesalers		76 000,00	66 086,96		9 913,04			
0009	27	Telkom		820,00			106,96	713,04	N5	Telephone expenses
0010	28	Municipality		3 400,00			417,39	2 782,61	N6	Water en electricity
								200,00	N7	Rates and taxes
0011		Cash		1 000,00				1 000,00	B2	Drawings
0012	30	Simi and Son		530,00			27,39	182,61	N8	Repairs
							41,74	278,26	N9	Packing material
0013		Cash		322,00				322,00	PCJ1	Petty cash
				329 192,00	224 347,83	278,26	42 635,22	61 930,69		
				B3	N2	N3	B9			

Cheque no 0011 is drawings of cash by the owner for his personal use. Because the owner provided the capital with which to start the business, he is entitled to the income earned by the entity. He therefore has the right to withdraw money for his personal use. The withdrawal results in a reduction of the amount in the bank and also in equity. The amount withdrawn by the owner is called drawings and the bank account will be credited and the drawings account will be debited. At the end of the financial period (usually a year) the drawings account will be closed off (credited) and the capital account will be debited with the amount, thus capital decreases.

Cheques no 0010 and 0012 are split cheques because each cheque was used to make more than one payment. The total amount of the cheque will be entered in the bank column, but all the expenses paid plus the amount paid for each must be indicated separately.

The formula used to calculate VAT is:

$$\frac{\text{\% rate of VAT}}{\text{100+\% rate of VAT}} \times \frac{\text{Total amount}}{1}$$

For example:

$$\frac{15}{115} \times \frac{\text{R50 000,00}}{1} = \text{R6 521,74}$$

The vehicles amount is:

R50 000,00 (total amount of cheque) – R6 521,74 (VAT) = R43 478,26

PP TRADERS

PETTY CASH JOURNAL – SEPTEMBER 20.6

PCJ1

Receipts			Payments										
											Sundry accounts		
Day	Fol	Amount	Day	Details	No	Fol	Total	Wages	VAT input	Postage	Amount	Fol	Details
		R					R	R	R	R	R		
5	CPJ1	400,00	8	Cash	1		120,00	120,00					
30	CPJ1	322,00	21	Cash	2		80,00	80,00					
			22	CNA	3		56,00		7,30		48,70	N3	Stationery
			26	Post office	4		66,00		8,61	57,39			
		722,00					322,00	200,00	15,91	57,39	48,70		
		B7					B7	N11	B9	N10			

The formula used to calculate VAT is:

$$\frac{\%\ \text{rate of VAT}}{100+\%\ \text{rate of VAT}} \times \frac{\text{Total amount}}{1}$$

For example:

$$\frac{15}{115} \times \frac{R56{,}00}{1} = R7{,}30$$

The stationery amount is:

R56,00 (total amount of cheque) – R7,30 (VAT) = R48,70

PP TRADERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

						20.6					
						Sep	1	Bank	CRJ1	853 000	00

Dr **Drawings** **B2** **Cr**

20.6											
Sep	28	Bank	CPJ1	1 000	00						

Dr **Bank** **B3** **Cr**

20.6						20.6					
Sep	30	Total receipts	CRJ1	1 157 698	00	Sep	30	Total payments	CPJ1	329 192	00
								Balance	c/d	828 506	00
				1 157 698	00					1 157 698	00
Oct	1	Balance	b/d	828 506	00						

Dr **Vehicles** **B4** **Cr**

20.6											
Sep	2	Bank	CPJ1	43 478	26						

Dr **Furniture and equipment** **B5** **Cr**

20.6											
Sep	14	Bank	CPJ1	12 173	91						

Dr **Cash float** **B6** **Cr**

20.6											
Sep	15	Bank	CPJ1	400	00						

Dr **Petty cash** **B7** **Cr**

20.6						20.6						
Sep	30	Total receipts	PCJ1	722	00	Sep	30	Total payments	PCJ1	322	00
								Balance	c/d	400	00
				722	00					722	00
Oct	1	Balance	b/d	400	00						

Dr **VAT output** **B8** **Cr**

						20.6						
						Sep	30	Bank	CRJ1	39 743	22

Dr **VAT input** **B9** **Cr**

20.6												
Sep	30	Bank	CPJ1	42 635	22							
		Petty cash	PCJ1	15	91							
				42 651	13							

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

						20.6						
						Sep	30	Bank	CRJ1	260 998	26

Dr **Purchases** **N2** **Cr**

20.6												
Sep	30	Bank	CPJ1	224 347	83							

Dr **Stationery** **N3** **Cr**

20.6												
Sep	22	Petty cash	PCJ1	48	70							
	30	Bank	CPJ1	278	26							
				326	96							

Dr **Rental income** **N4** **Cr**

						20.6						
						Sep	23	Bank	CRJ1	3 956	52

Dr **Telephone expenses** **N5** **Cr**

20.6												
Sep	27	Bank	CPJ1	713	04							

Dr				Water and electricity					N6		Cr
20.6 Sep	28	Bank	CPJ1	2 782	61						

Dr				Rates and taxes					N7		Cr
20.6 Sep	28	Bank	CPJ1	200	00						

Dr				Repairs					N8		Cr
20.6 Sep	30	Bank	CPJ1	182	61						

Dr				Packing material					N9		Cr
20.6 Sep	30	Bank	CPJ1	278	26						

Dr				Postage					N10		Cr
20.6 Sep	30	Petty cash	PCJ1	57	39						

Dr				Wages					N11		Cr
20.6 Sep	30	Petty cash	PCJ1	200	00						



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• define a split cheque?	☺	😐	☹
• define drawings?	☺	😐	☹
• prepare a cash receipts journal?	☺	😐	☹
• prepare a cash payments journal?	☺	😐	☹
• prepare a petty cash journal?	☺	😐	☹
• post to the general ledger from the cash receipts journal, cash payments journal or petty cash journal?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 6

CREDIT TRANSACTIONS



Introductory Financial Accounting

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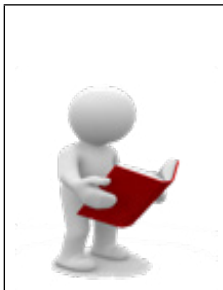
LEARNING OUTCOMES

After studying this learning unit , you should be able to:

- prepare a purchases journal
- prepare a purchases returns journal
- prepare a creditors control account in the general ledger
- prepare a creditors ledger
- prepare a sales journal
- prepare a sales returns journal
- prepare a debtors control account in the general ledger
- prepare a debtors ledger
- record credit losses in the general journal and general ledger
- record VAT transactions that relate to credit transactions
- prepare a general journal

KEY CONCEPTS

- Purchases journal
- Purchases returns journal
- Creditors ledger
- Creditors control account
- Sales journal
- Sales returns journal
- Debtors ledger
- Debtors control account
- Credit purchase invoice
- Credit sales invoice
- Credit note
- General journal



ASSESSMENT CRITERIA

- Source documents applicable to credit transactions are identified using appropriate example from entities.
- The ability to complete business documents applicable to credit transactions from relevant financial data is demonstrated.
- The ability to record credit transactions of a sole proprietor in the appropriate subsidiary books and the various ledgers from source documents is demonstrated.
- The ability to identify incorrect entries made by the entity and correct these errors in the appropriate subsidiary journal.

6.1 INTRODUCTION

There are two types of transactions, namely cash transactions and credit transactions. In this learning unit, we deal only with credit transactions. In learning unit 4 we dealt with cash transactions.

If goods are sold or a service is rendered for cash, the transaction is recorded as follows:

Dr	Bank
Cr	Sales/Services rendered

What happens if a client is not able to pay cash for goods sold or a service rendered? The person selling the goods or rendering the service has the choice of granting credit to the client. Think of all the clothing, furniture and vehicles bought on credit. Due to the high risk associated with this, many business entities do not allow credit, as people may not have the money to pay their debts. It remains the entity's choice whether to allow goods to be bought on credit, but if the items sold by the entity are fairly expensive, for example vehicles, many buyers may not be able to afford buying the product for cash.

Just as individuals cannot afford to pay cash for all purchases, entities too (irrespective of their size), cannot always pay cash for transactions. So entities sometimes also need to make use of credit, mostly to purchase goods or to buy non-current assets. With credit purchases of this nature, it is very important that comprehensive records be kept, as the purchases must be settled at some stage and great care should be taken to ensure that the necessary funds are available to pay these liabilities.

This learning unit covers the purchases journal, creditors ledger, creditors control account in the general ledger, creditors reconciliation, disclosure of creditors in the financial statements, sales journal, debtors ledger and the debtors control account in the general ledger. It also covers entries in the general journal.

6.2 PURCHASES JOURNAL

This journal records credit transactions where goods, in which the entity trades, have been purchased.

The implications of such credit purchases are important. If goods have been purchased and have not yet been paid for, it means that money is still owed to the entity it has been purchased from. An entity to which money is owed is known as a creditor and the entity remains responsible for that debt until it has been settled. A creditor's account has a credit balance, as it is a liability for the entity (a current liability).

All transactions where purchases are made on credit, are recorded in the purchases journal. If goods are purchased on credit, the entity from which they are purchased issues a credit invoice in duplicate. The entity from which the goods are purchased keeps the duplicate and gives the original to the purchasing entity. The entry is therefore made from the original invoice.

EXAMPLE OF A CREDIT PURCHASES INVOICE

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date:	**TAX INVOICE**	**No:**
To: **Terms: 30 days less 10%**		

Code	Description	Qty	Total price (R)
Subtotal			
VAT @ 15%			
Total			
Amount tendered			
Amount due			
E & OE			

EXAMPLE OF A PURCHASES JOURNAL

PURCHASES JOURNAL – SEPTEMBER 20.1 *PJ1*

Doc no	Day	Details	Fol	VAT input	Purchases	Creditors
				R	R	R

The source documents for the entries in the purchases journal are original invoices. Because these invoices come from different entities, they have different invoice numbers and formats.

Entries are recorded and analysed in date order in the purchases journal. The creditor's name and the amount for which purchases were made must be clearly shown. The amounts in the purchases and the creditors columns are different because VAT is also taken into consideration when determining the amount to be entered in the creditors column.

At the end of the month, the columns in the purchases journal are added up. The totals of the columns are posted to the relevant accounts in the general ledger and the individual entries are posted to the creditors accounts in the creditors ledger. This process is referred to as closing off the purchases journal. At the beginning of the next month, a new purchases journal is opened.

Where applicable, provision must be made for a VAT input column in the purchases journal. This column may not always be used, as the entity from which the goods were purchased might not be registered as a VAT vendor with SARS.

If, on the other hand, the entity is registered for VAT, VAT in the purchases journal must be accounted for at the current rate of 15%.

The entity, from which the merchandise was purchased, is responsible for paying the VAT to SARS. The VAT included in the purchase price by the entity is debited against the VAT input account when the purchases journal is closed off at the end of the month. The purchases column will only show the net amount of purchases. The net amount of purchases is the amount paid/payable for the purchases less the VAT that was added to the purchase price.

The purchases journal is closed off at the end of each month. The closing off procedure can be summarised as follows:

- Add the purchases and VAT columns of the purchases journal and make sure that the figures cross-balance with the total of the creditors column.
- Transfer the individual entries to the corresponding creditor's personal accounts in the creditors ledger.
- Post the column totals of the purchases journal to the relevant accounts in the general ledger, taking care to observe the golden rule of accounting: for each debit entry there must be an equal credit entry.
- Enter the folio numbers from the general ledger and creditors ledger in the appropriate column in the purchases journal.

RECORDING OF TRANSACTIONS FROM CREDIT PURCHASES INVOICES

The following transactions took place in BS Electrical during September 20.1:

RG WHOLESALERS		
7 Smart Street PRETORIA Tel (012) 429–3931	VAT registration number 2277227756	P O Box 3336 PRETORIA 0001 Fax (012) 429–3931
Date: *12 September 20.1*	**TAX INVOICE**	**No:** A7712
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750* **Terms: 30 days less 10%**		

Code	Description	Qty	Total price (R)
LS025	*Light fittings*	*5 boxes*	*12 000,00*
Subtotal			*12000,00*
VAT @ 15%			*1800,00*
Total			*13800,00*
Amount tendered			*0,00*
Amount due			*13800,00*
E & OE			

ST WHOLESALERS		
776 Wood Street JOHANNESBURG Tel (011) 429–3933	VAT registration number 7894561233	P O Box 635 JOHANNESBURG 1528 Fax (011) 429–3424
Date: *25 September 20.1*	**TAX INVOICE**	**No:** B1821
To: *BS Electrical* *499 Tshwane Drive* *Pretoria* *VAT registration number 8960225750* **Terms: 30 days less 10%**		

Code	Description	Qty	Total price (R)
C5623	*Two phase electrical cable*	*2 000 m*	*15 000,00*
Subtotal			*15 000,00*
VAT @ 15%			*2 250,00*
Totaal			*17 250,00*
Amount tendered			*0,00*
Amount due			*17 250,00*
E & OE			

REQUIRED

Record the above transactions in the purchases journal of BS Electrical for the month of September 20.1.

BS ELECTRICAL

PURCHASES JOURNAL – SEPTEMBER 20.1 *PJ1*

Doc no	Day	Details	Fol	VAT input	Purchases	Creditors
				R	R	R
A7712	12	RG Wholesalers	CL1	1 800	12 000	13 800
B1821	25	ST Wholesalers	CL2	2 250	15 000	17 250

6.3 PURCHASES RETURNS JOURNAL

If an entity buys merchandise or other items on credit and are not entirely satisfied with their purchase, they are entitled to return these items. When an item is returned by an entity the transaction is recorded on a debit note. This debit note is sent together with the item to the entity it was purchased from. Upon receipt of the debit note and returned item the selling entity issues a credit note in duplicate. This credit note acknowledges that they received the returned goods and that they are crediting the account of the entity who returned the goods. Remember that the purchasing entity is a debtor in their book and when the goods are originally purchased their account was debited. By crediting their account with the amount of the returned goods they now owe the selling entity less. As in the case of the purchases journal, only goods in which the entity trades are recorded in the purchase returns journal, whereas all other items, for example stationery bought and returned, is recorded in the general journal.

A debit note is sent to the seller, together with the returned goods; that entity acknowledges receipt of the goods and issues a credit note. The entry is made from this credit note which is similar to the credit note illustrated in the section on sales returns.

EXAMPLE OF A CREDIT NOTE

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date:	**CREDIT NOTE**	**No:**
To:		

Code	Description	Qty	Amount credited (R)
Subtotal			
VAT @ 15%			
Total credit due			
E & OE			

EXAMPLE OF A PURCHASES RETURNS JOURNAL

PURCHASES RETURNS JOURNAL – SEPTEMBER 20.1 *PRJ1*

Doc no	Day	Details	Fol	VAT input	Purchases returns	Creditors
				R	R	R

The procedure at the end of the month is the same as for the purchases journal.

RECORDING OF TRANSACTIONS FROM A CREDIT NOTE

The following transaction took place in BS Electrical during September 20.1:

RG WHOLESALERS		
7 Smart Street PRETORIA Tel (012) 429–3931	VAT registration number 2277227756	P O Box 3336 PRETORIA 0001 Fax (012) 429–3424
Date: *16 September 20.1*	**CREDIT NOTE**	**No:** 5859
To: *BS Electrical* *499 Tshwane Drive* *Pretoria*		

Code	Description	Qty	Amount credited (R)
LS025	*Light fittings*	*1*	*2 400,00*
Subtotal			*2 400,00*
VAT @ 15%			*360,00*
Total credit due			*2 760,00*
E & OE			

REQUIRED

Record the above transaction in the purchases returns journal of BS Electrical for the month of September 20.1.

BS ELECTRICAL

PURCHASES RETURNS JOURNAL – SEPTEMBER 20.1 *PRJ1*

Doc no	Day	Details	Fol	VAT input	Purchases returns	Creditors
				R	R	R
5859	16	RG Wholesalers	CL1	360	2 400	2 760

6.4 CREDITORS LEDGER

Just as records of all transactions that the entity had, are kept in the general ledger, record need to be kept of all transactions with individual creditors. Apart from the general ledger, a subsidiary ledger called the creditors ledger, is kept. In this ledger an account is opened for each individual creditor. The transactions from the purchases journal and purchases returns journal are posted to these individual accounts. The purpose of this ledger is to enable the entity to, at any time, know what amount is payable to each individual creditor. It is also important that if the balances of the individual accounts are added, they should correspond with the balance of the creditors control account in the general ledger.

6.5 PAYMENT TO A CREDITOR AND SETTLEMENT DISCOUNT RECEIVED

When creditors are paid within a specified period according to an agreement, the entity may get a discount on the outstanding amount. We refer to this discount as settlement discount received.

6.6 CREDITORS CONTROL ACCOUNT IN THE GENERAL LEDGER

The creditors control account in the general ledger must reflect a summary of all the transactions with creditors recorded in the creditors ledger. The creditors control account is prepared from the total of the creditors column in the purchases journal and the purchases returns journal. Creditors are recorded in two ledgers, namely as a control account in the general ledger and as individual accounts in the creditors ledger. An entity should be able to tell, at any time, what amount is owed to all outstanding creditors as a collective.

ILLUSTRATIVE EXAMPLE OF POSTING FROM THE SUBSIDIARY JOURNALS FOR CREDIT PURCHASES TO THE CREDITORS CONTROL ACCOUNT IN THE GENERAL LEDGER

BS ELECTRICAL

PURCHASES JOURNAL – SEPTEMBER 20.1 *PJ1*

Doc no	Day	Details	Fol	VAT input	Purchases	Creditors
				R	R	R
A7712	12	RG Wholesalers	CL1	1 800	12 000	13 800
B1821	25	ST Wholesalers	CL2	2 250	15 000	17 250
				4 050	27 000	31 050
						B10

BS ELECTRICAL

PURCHASES RETURNS JOURNAL – SEPTEMBER 20.1 *PRJ1*

Doc no	Day	Details	Fol	VAT input	Purchases returns	Creditors
				R	R	R
5859	16	RG Wholesalers	CL1	360	2 400	2 760
				360	2 400	2 760
						B10

REQUIRED

Post the creditors totals of the above journals to the creditors control account in the general ledger.

BS ELECTRICAL

GENERAL LEDGER

Dr **Creditors control** **B10** **Cr**

20.1					20.1				
Sep	30	Purchases returns and VAT	PRJ1	2 760	Sep	30	Purchases and VAT	PJ1	31 050
		Balance	c/d	28 290					
				31 050					31 050
					Oct	1	Balance	b/d	28 290

6.7 CREDITORS RECONCILIATION

At the end of each month, an entity receives statements of account from each creditor, indicating the amounts owing. The balances shown on these statements should correspond with the creditors individual accounts in the creditors ledger. If not, an investigation will have to be carried out to determine the reasons for the difference. The easiest way to try to trace errors is by means of a creditors reconciliation.

This is done in the same way as a bank reconciliation, which will be dealt with in a later learning unit .

- Tick off all the corresponding items on the statement and on the creditor's personal account.
- Circle the items that do not correspond on the statement and the creditor's personal account.
- Correct the errors on the relevant creditor's account and the control account.

Rectifying of errors in a creditor's reconciliation:

- If errors appear in a creditor's account in the creditors ledger, these must be rectified in the general ledger (creditors control account). It will also be necessary to update the individual creditor's account.
- If errors appear on the statement received from a creditor, the creditor should be notified to enable him/her to correct his/her own records. In the entity's records, the errors will appear on the creditors reconciliation statement.

6.8 DISCLOSURE OF CREDITORS IN THE FINANCIAL STATEMENTS

- Creditors will be disclosed as trade and other payables in the statement of financial position under the heading "current liabilities".
- Purchases will appear in the statement of profit or loss and other comprehensive income as part of cost of sales.
- Purchases returns is deducted from purchases. This is done as a closing entry by way of the general journal and is discussed in a later learning unit .

6.9 SALES JOURNAL

All transactions in respect of goods (in which the entity trades) sold or services rendered on credit are entered in the sales journal. When a client buys goods, an invoice is issued and the entry is made from the copy of the invoice (which remains in the invoice book, with the original invoice being issued to the client). The person who buys merchandise from the entity on credit is referred to as a debtor and he/she will remain as a debtor until he/she pays all the money he/she owes the entity.

EXAMPLE OF A CREDIT SALES INVOICE

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date:	**TAX INVOICE**	**No:**
To: **Terms: 30 days less 10%**		

Code	Description	Qty	Unit price (R)	Total price (R)
Subtotal				
VAT @ 15%				
Total				
Amount tendered				
Amount due				
E & OE				

Note: There is no special difference between the invoice used for cash sales and the one used for credit sales. In most entities the layout of the cash and credit invoices are exactly the same.

EXAMPLE OF A SALES JOURNAL

SALES JOURNAL – SEPTEMBER 20.1 *SJ1*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors
				R	R	R

The source documents for the entries in the sales journal are the duplicates of sales invoices.

The debtor's name and the amount of the transaction should be clearly indicated. Entries are recorded and analysed in date order in the sales journal. The amounts in the sales and the debtors columns are different as we are taking VAT into consideration in the debtors column.

At the end of the month, the columns in the sales journal are added. The totals of the columns are posted to the relevant accounts in the general ledger and the individual entries are posted to the debtors accounts in the debtors ledger. This process is referred to as closing off the sales journal. At the beginning of the next month, a new sales journal is opened.

Where applicable, provision must be made for a VAT output column in the sales journal. VAT in the sales journal must be accounted for at the current rate of 15%.

The VAT included in the selling price by the entity is credited against the VAT output account when the sales journal is closed off at the end of the month.

The sales journal is closed off at the end of each month. This procedure can thus be summarised as follows:

- Add the sales and VAT output columns of the sales journal together and make sure that the figures cross-balance with the total of the debtors column.
- Transfer the individual entries to the corresponding debtor's personal account in the debtors ledger.
- Post the column totals of the sales journal to the relevant accounts in the general ledger, taking care to observe the golden rule of accounting: for each debit entry there must be an equal credit entry.
- Enter the folio numbers from the general ledger and debtors ledger in the appropriate column in the sales journal.

ILLUSTRATIVE EXAMPLE OF RECORDING TRANSACTIONS IN A SALES JOURNAL

BS Electrical issued the following invoices during September 20.1:

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	PO Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *12 September 20.1*	**TAX INVOICE**	**No:** BS001
To: *Mr P Peter* **Terms: 30 days less 10%**		

Code	Description	Qty	Unit price (R)	Total price (R)
PS1005	*Plug switches*	*2*	*1 250,00*	*2 500,00*
Subtotal				*2 500,00*
VAT @ 15%				*375,00*
Total				*2 875,00*
Amount tendered				*0,00*
Amount due				*2 875,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	PO Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *12 September 20.1*	**TAX INVOICE**	**No:** BS002

To: *Mrs J Johnson*
10 Leyd Street
Pretoria
VAT registration number 4325102345

Terms: 30 days less 10%

Code	Description	Qty	Unit price (R)	Total price (R)
FLF1002	*Fluorescent light fittings*	*1 box*	*7 000,00*	*7 000,00*
Subtotal				*7 000,00*
VAT @ 15%				*1 050,00*
Total				*8 050,00*
Amount tendered				*0,00*
Amount due				*8 050,00*
E & OE				

REQUIRED

Record the above transactions in the sales journal of BS Electrical for the month of September 20.1.

BS ELECTRICAL

SALES JOURNAL – SEPTEMBER 20.1 *SJ1*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors
				R	R	R
BS001	12	Mr P Peter	DL1	375	2 500	2 875
BS002		Mrs J Johnson	DL2	1 050	7 000	8 050
				1 425	9 500	10 925

6.10 SALES RETURNS JOURNAL

If a service is rendered or goods (in which the entity trades) sold on credit and the client is not entirely satisfied, the entity may demand to be refunded in part or in full. If, however, the account has not yet been settled, the amount paid back to the client will simply be credited to the debtors account. These types of transactions, however, must also be recorded in a book of first entry (journal) and the journal used in this particular case is the sales returns journal.

A credit note must be issued to the client to acknowledge the fact that the goods/merchandise was returned. A credit note is completed in duplicate and the original is handed to the client.

EXAMPLE OF A CREDIT NOTE

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	PO Box 392 PRETORIA 0001 Fax (012) 429–3424

Date:	**CREDIT NOTE**	**No:**
To:		

Product no	**Description**	**Qty**	**Unit price (R)**	**Amount credited (R)**
Total				
VAT @ 15%				
Total credit due				
E & OE				

EXAMPLE OF A SALES RETURNS JOURNAL

SALES RETURNS JOURNAL – SEPTEMBER 20.1 *SRJ1*

Doc no	**Day**	**Details**	**Fol**	**VAT output**	**Sales returns**	**Debtors**
				R	**R**	**R**

The procedure at the end of the month is the same as that for the sales journal.

ILLUSTRATIVE EXAMPLE OF RECORDING TRANSACTIONS IN A SALES RETURNS JOURNAL

The following source documents were obtained from BS Electrical during September 20.1:

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	PO Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *18 September 20.1*	**CREDIT NOTE**	**No:** CN001
To: *Mr P Peter*		

Product no	**Description**	**Qty**	**Unit price (R)**	**Amount credited (R)**
PS1005	*Plug switches*	*1*	*1 200,00*	*1 200,00*
Total				*1 200,00*
VAT @ 15%				*180,00*
Total credit due				*1 380,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 Email:accounts@bselectrical.co.za	VAT registration number 8960225750	PO Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *19 September 20.1*	**CREDIT NOTE**	**No:** CN002
To: *Mrs J Johnson* *10 Leyd Street* *Pretoria* *VAT registration number 4325102345*		

Product no	**Description**	**Qty**	**Unit price (R)**	**Amount credited (R)**
FLF1002	*Fluorescent light fittings*	*1 box*	*7 000,00*	*7 000,00*
Total				*7 000,00*
VAT @ 15%				*1 050,00*
Total credit due				*8 050,00*
E & OE				

REQUIRED

Record the above transactions in the sales returns journal of BS Electrical for the month of September 20.1.

SOLUTION

BS ELECTRICAL

SALES RETURNS JOURNAL – SEPTEMBER 20.1 *SRJ1*

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors
				R	R	R
CN001	18	Mr P Peter	DL1	180	1 200	1 380
CN002	19	Mrs J Johnson	DL2	1 050	7 000	8 050
				1 230	8 200	9 430

6.11 DEBTORS LEDGER

Just as records of all transactions of the entity are kept in the general ledger, record need to be kept of all transactions with individual debtors. Apart from the general ledger a subsidiary ledger, called the debtors ledger, is kept. In this ledger an account is opened for each individual debtor. The transactions from the sales journal and sales returns journal are posted to these individual accounts. The purpose of this ledger is to enable the entity to, at any time, know what amount is owed by each individual debtor. It is also important that, if the balances of the individual accounts are added, they should correspond with the balance of the debtors control account in the general ledger.

6.12 PAYMENT BY A DEBTOR AND SETTLEMENT DISCOUNT GRANTED

Discount is often offered to debtors in order to encourage a quick settlement of their debts within the stated credit term. The credit term will be shown on the credit invoice, for example 30 days from date of sale. This means that if a debtor pays off his/her account before 30 days from date of sale, the debtor will receive a discount on the total amount owing.

6.13 DEBTORS CONTROL ACCOUNT IN THE GENERAL LEDGER

The total of the individual debtors account balances in the debtors ledger should be equal to the balance of the debtors control account in the general ledger. When there are differences, it may be that the entity has forgotten to transfer a transaction or that a transaction has been transferred incorrectly. Debtors are recorded in two ledgers, namely as a control account in the general ledger and as individual accounts in the debtors ledger. An entity should be able to tell, at any time, what amount is owed by all outstanding debtors as a collective.

ILLUSTRATIVE EXAMPLE OF POSTING FROM THE SUBSIDIARY JOURNALS FOR CREDIT SALES TO THE DEBTORS CONTROL ACCOUNT IN THE GENERAL LEDGER

BS ELECTRICAL

SALES JOURNAL – SEPTEMBER 20.1 *SJ2*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors
				R	R	R
BS001	12	Mr P Peter	DL1	375	2 500	2 875
BS002		Mrs J Johnson	DL2	1 050	7 000	8 050
				1 425	9 500	10 925
						B11

BS ELECTRICAL

SALES RETURNS JOURNAL – SEPTEMBER 20.1 *SRJ2*

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors
				R	R	R
CN001	18	Mr P Peter	DL1	180	1 200	1 380
CN002	19	Mrs J Johnson	DL2	1 050	7 000	8 050
				1 230	8 200	9 430
						B11

REQUIRED

Post the debtors' totals of the above journals to the debtors control account in the general ledger.

SOLUTION

BS ELECTRICAL

GENERAL LEDGER

Dr **Debtors control** **B11** **Cr**

20.1					20.1				
Sep	30	Sales and VAT	SJ2	10 925	Sep	30	Sales returns and VAT	SRJ2	9 430
							Balance	c/d	1 495
				10 925					10 925
Oct	1	Balance	b/d	1 495					

6.14 DISCLOSURE OF DEBTORS IN THE FINANCIAL STATEMENTS

- Debtors will be disclosed as trade and other receivables in the statement of financial position under heading “current assets”.
- Sales will appear in the statement of profit or loss and other comprehensive income.
- Sales returns wil be deducted from sales. This is done as a closing entry by way of the general journal and is discussed in a later learning unit .

6.15 GENERAL JOURNAL

The general journal is used for recording all transactions that do not “fit” or cannot be recorded into any of the other subsidiary journals.

EXAMPLE OF A GENERAL JOURNAL

GENERAL JOURNAL – JANUARY 20.4 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
4	Stationery **(account to be debited)**		xxx	
	ABC Traders **(account to be credited)**			xxx
	Stationery bought on credit – Invoice A2151 (Journal narration)			

The account which is entered first is the account which has to be debited in the general ledger. The account that is going to be credited is entered on the next line and a little to the right so that it can stand out from the account that is going to be debited.

The journal narration is very important since it gives the reason for the entry and must also refer to the source documents.

The general journal is a book of first entry. The double-entry principle must be applied in the general ledger when posting this journal.

6.15.1 Interest charged on overdue accounts

Many entities charge interest on the outstanding debt if an account is not paid within the credit term. Interest charged on overdue accounts, is regarded as an interest income. Interest income is classified as an income account and is therefore credited because it increases equity. The debtors control account/personal account of debtor is debited, because it is an asset account and the interest charged on the overdue account is added to the original amount owed by the debtor.

6.15.2 Credit losses

With every credit transaction there is always a possibility that the debt might not be paid. These unpaid debts must be written off as a credit loss. If a debtor owes money to an entity and he/she cannot pay, and if all the proper measures were taken by the entity to recover the outstanding debt but failed, then the amount the debtor owes must be written off as a credit loss.

6.15.3 Correction of errors

Sometimes transactions are entered in the incorrect ledger accounts. The correction of these errors is made in the general journal.

ILLUSTRATIVE EXAMPLE OF RECORDING TRANSACTIONS IN A GENERAL JOURNAL

The following transactions took place in BS Electrical during September 20.1:

30	Mrs J Johnson's account of R800 was six months overdue and interest was charged at 10% per annum.
	Mr T Thomas's account of R230 must be written off as irrecoverable.
	It was found that repairs done to the delivery vehicle for R1 200 was incorrectly debited to the insurance account. This error must be corrected.

REQUIRED

Record the above transactions in the general journal and general ledger of BS Electrical for the month of September 20.1.

BS ELECTRICAL

GENERAL JOURNAL – SEPTEMBER 20.1 *GJ9*

Day	Details	Fol	Debit	Credit
			R	**R**
30	Mrs J Johnson (Debtors control) Interest income Interest charged at 10% per annum for six months on outstanding amount	B5 N3	40,00	 40,00
	Credit losses VAT input Mr T Thomas (Debtors control) Wrote off account as irrecoverable	N4 B9 B5	200,00 30,00	 230,00
	Repairs Insurance Error corrected	N5 N6	1 200,00	 1 200,00

BS ELECTRICAL

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Debtors control** **B5** **Cr**

20.1 Sep	30	Interest income	GJ9	40	20.1 Sep	30	Credit losses and VAT	GJ9	230

Dr **VAT input** **B9** **Cr**

20.1 Sep	30	Debtors control	GJ9	30					

NOMINAL ACCOUNTS SECTION

Dr **Interest income** **N3** **Cr**

					20.1 Sep	30	Debtors control	GJ9	40

Dr **Credit losses** **N4** **Cr**

20.1 Sep	30	Debtors control	GJ9	200					

Dr **Repairs** **N5** **Cr**

20.1 Sep	30	Insurance	GJ9	1 200					

Dr **Insurance** **N6** **Cr**

					20.1 Sep	30	Repairs	GJ9	1 200

COMPREHENSIVE EXAMPLE ONE:
RECORDING CREDIT TRANSACTIONS ON SOURCE DOCUMENTS

The following transactions took place in BS Electrical during January 20.1:

2	Mr P Smith bought 20 boxes of energy saving light bulbs (product no WT217) on credit for R240 per box (exclusive of VAT). Invoice no 003 was issued to Mr P Smith who's address is 12 Harriet Street, Pretoria.
8	Mr P Smith returned 10 boxes of energy saving light bulbs worth R2 400 (VAT exclusive) that was bought on 2 January. Credit note no CN003 was issued.
10	Sold 20 three point plugs (product no WT895) for R12 each to Mr H Matlock on credit. Invoice no 004 was issued to Mr H Matlock who's address is 2 Wade Street, Valhalla.

REQUIRED

Record the above transactions on the source documents provided below.

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date:	**TAX INVOICE**	**No:**
To: **Terms: 30 days less 10%**		

Code	Description	Qty	Unit price (R)	Total price (R)
Subtotal				
VAT @ 15%				
Total				
Amount tendered				
Amount due				
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date:	CREDIT NOTE	No:
To:		

Product no	Description	Qty	Unit Price (R)	Amount Credited (R)
Total				
VAT @ 15%				
Total credit due				
E & OE				

SOLUTION: COMPREHENSIVE EXAMPLE ONE

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *2 January 20.1*	**TAX INVOICE**	**No:** 003
To: *Mr P Smith* *12 Harriet Street* *Pretoria* *VAT registration number 4375891234* **Terms: 30 days less 10%**		

Code	Description	Qty	Unit Price (R)	Total price (R)
WT217	*Energy saving light bulbs*	*20 boxes*	*240,00*	*4 800,00*
Subtotal				*4 800,00*
VAT @ 15%				*720,00*
Total				*5 520,00*
Amount tendered				*0,00*
Amount due				*5 520,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *8 January 20.1*	**CREDIT NOTE**	**No:** CN003

To: *Mr P Smith*
12 Harriet Street
Pretoria

Product no	**Description**	**Qty**	**Unit Price (R)**	**Amount credited (R)**
WT217	*Energy saving light bulbs*	*10 boxes*	*240,00*	*2 400,00*
Total				*2 400,00*
VAT @ 15%				*360,00*
Total credit due				*2 760,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *10 January 20.1*	**TAX INVOICE**	**No:** 004

To: *Mr H Matlock*
2 Wade Street
Valhalla

Terms: 30 days less 10%

Code	**Description**	**Qty**	**Unit Price (R)**	**Total price (R)**
WT895	*Three point plugs*	*20*	*12,00*	*240,00*
Subtotal				*240,00*
VAT @ 15%				*36,00*
Total				*276,00*
Amount tendered				*0,00*
Amount due				*276,00*
E & OE				

COMPREHENSIVE EXAMPLE TWO:
RECORDING OF CREDIT TRANSACTIONS IN SUBSIDIARY JOURNALS

You are supplied with the following source documents from BS Electrical:

BS Electrical is registered as a VAT vendor. All the suppliers of the entity are also registered for VAT.

BS ELECTRICAL

499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *3 June 20.1*	**TAX INVOICE**	**No:** 003

To: *Mrs P Singh*
30 Wessels Street
Pretoria
VAT registration number 4355501234

Terms: 30 days less 10%

Code	Description	Qty	Unit Price (R)	Total price (R)
EC1002	*Two phase electrical cable*	*6 m*	*800,00*	*4 800,00*
Subtotal				*4 800,00*
VAT @ 15%				*720,00*
Total				*5 520,00*
Amount tendered				*0,00*
Amount due				*5 520,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *10 June 20.8*	**TAX INVOICE**	**No:** 004

To: *Mr J Mtuli*

Terms: 30 days less 10%

Code	Description	Qty	Unit Price (R)	Total price (R)
TCK789	*Light fittings*	*4*	*750,00*	*3 000,00*
Subtotal				*3 000,00*
VAT @ 15%				*450,00*
Total				*3 450,00*
Amount tendered				*0,00*
Amount due				*3 450,00*
E & OE				

HALL TRADERS		
123 Main Street PRETORIA Tel (012) 429–1234 E-mail:accounts@halltraders.co.za	VAT registration number 1234567890	PO Box 6006 PRETORIA 0001 Fax (012) 429–5678

Date: *13 June 20.8*	**TAX INVOICE**	**No:** T29

To: *BS Electrical*
499 Tshwane Drive
Pretoria
VAT registration number 8960225750

Terms: 30 days less 10%

Code	Description	Qty	Unit price (R)	Total price (R)
XYZ897	*Three phase electrical cable*	*250 m*	*46,00*	*11 500,00*
Subtotal				*11 500,00*
VAT @ 15%				*1 725,00*
Total				*13 225,00*
Amount tendered				*0,00*
Amount due				*13 225,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424
Date: *14 June 20.8*	**CREDIT NOTE**	**No:** 023
To: *Mr J Mtuli*		

Product no	**Description**	**Qty**	**Unit Price (R)**	**Amount credited (R)**
TCK789	*Light fittings*	*1*	*700,00*	*700,00*
Total				*700,00*
VAT @ 15%				*105,00*
Total credit due				*805,00*
E & OE				

HALL TRADERS		
123 Main Street PRETORIA Tel (012) 429–1234 E-mail:accounts@halltraders.co.za	VAT registration number 123456780	P O Box 6006 PRETORIA 0001 Fax (012) 429–5678
Date: *16 June 20.8*	**CREDIT NOTE**	**No:** 012
To: *BS Electrical*		

Product no	**Description**	**Qty**	**Unit Price (R)**	**Amount credited (R)**
XYZ897	*Thre phase electrical cable*	*50 m*	*46,00*	*2 300,00*
Total				*2 300,00*
VAT @ 15%				*345,00*
Total credit due				*2 645,00*
E & OE				

BS ELECTRICAL		
499 Tshwane Drive PRETORIA Tel (012) 429–3111 E-mail:accounts@bselectrical.co.za	VAT registration number 8960225750	P O Box 392 PRETORIA 0001 Fax (012) 429–3424

Date: *17 June 20.8*	**CREDIT NOTE**	**No:** 024

To: *Mrs P Singh*

Product no	**Description**	**Qty**	**Unit Price (R)**	**Amount credited (R)**
EC1002	*Two phase electrical cable*	*2 m*	*800,00*	*1 600,00*
Subtotal				*1 600,00*
VAT @ 15%				*240,00*
Total credit due				*1 840,00*
E & OE				

KZN DEALERS		
456 Tambotie Road JOHANNESBURG Tel (011) 429–3830 E-mail:accounts@kzndealers.co.za	VAT registration number 4567891230	PO Box 753 LITTLE FALLS 0002 Fax (011) 429–3933

Date: *18 June 20.8*	**TAX INVOICE**	**No:** 789

To: *BS Electrical*
499 Tshwane Drive
Pretoria
VAT registration number 8960225750

Terms: 30 days less 10%

Code	**Description**	**Qty**	**Unit price (R)**	**Total price (R)**
PLP456 *JYH123*	*Cash register* *Electrical plugs*	*1* *1 000*	*2 500,00* *3,50*	*2 500,00* *3 500,00*
Subtotal				*6 000,00*
VAT @ 15%				*900,00*
Total				*6 900,00*
Amount tendered				*0,00*
Amount due				*6 900,00*
E & OE				

REQUIRED

Complete the following books of prime entry for BS Electrical for June 20.8. Make use of the column headings as indicated.

BS ELECTRICAL

PURCHASES JOURNAL – JUNE 20.8 *PJ 6*

Doc no	Day	Details	Fol	VAT input	Purchases	Creditors
				R	R	R

BS ELECTRICAL

PURCHASES RETURNS JOURNAL – JUNE 20.8 *PRJ 6*

Doc no	Day	Details	Fol	VAT input	Purchases returns	Creditors
				R	R	R

BS ELECTRICAL

SALES JOURNAL – JUNE 20.8 *SJ 6*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors
				R	R	R

BS ELECTRICAL

SALES RETURNS JOURNAL – JUNE 20.8 *SRJ 6*

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors
				R	R	R

BS ELECTRICAL

GENERAL JOURNAL – JUNE 20.8 *GJ 6*

Day	Details	Fol	Debit	Credit
			R	R

(1) Post the journals after closing to the appropriate accounts in the general, debtors and creditors ledgers. Balance all accounts.
(2) Prepare the debtors and creditors lists.

SOLUTION: COMPREHENSIVE EXAMPLE TWO

BS ELECTRICAL

PURCHASES JOURNAL – JUNE 20.8 *PJ 6*

Doc no	Day	Details	Fol	VAT input	Purchases	Creditors
				R	R	R
T29	13	Hall Traders	C1	1 725	11 500	13 225
789	18	KZN Dealers	C2	525	3 500	4 025
				2 250	15 000	17 250
				B9	N2	B8

BS ELECTRICAL

PURCHASES RETURNS JOURNAL – JUNE 20.8 *PRJ 6*

Doc no	Day	Details	Fol	VAT input	Purchases returns	Creditors
				R	R	R
012	16	Hall Traders	C1	345	2 300	2 645
				345	2 300	2 645
				B9	N4	B8

BS ELECTRICAL

SALES JOURNAL – JUNE 20.8 *SJ 6*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors
				R	R	R
003	3	Mrs P Singh	D1	720	4 800	5 520
004	10	Mr J Mtuli	D2	450	3 000	3 450
				1 170	7 800	8 970
				B10	N1	B5

BS ELECTRICAL

SALES RETURNS JOURNAL – JUNE 20.8 *SRJ 6*

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors
				R	R	R
023	14	Mr J Mtuli	D2	105	700	805
024	17	Mrs P Singh	D1	240	1 600	1 840
				345	2 300	2 645
				B10	N3	B5

BS ELECTRICAL

GENERAL JOURNAL – JUNE 20.8

GJ6

Day	Details	Fol	Debit	Credit
			R	R
18	Equipment	B3	2 500	
	VAT input	B9	375	
	KZN Dealers/Creditors control	B8/C2		2 875
	Shop equipment bought on credit per invoice no: 789			

BS ELECTRICAL

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Equipment** **B3** **Cr**

20.8									
Jun	18	Creditors control	GJ6	2 500					

Dr **Debtors control** **B5** **Cr**

20.8					20.8				
Jun	30	Sales and VAT	SJ6	8 970	Jun	30	Sales returns and VAT	SRJ6	2 645
							Balance	c/d	6 325
				8 970					8 970
Jul	1	Balance	b/d	6 325					

Dr **Creditors control** **B8** **Cr**

20.8					20.8				
Jun	30	Purchases returns and VAT	PRJ6	2 645	Jun	18	Equipment and VAT	GJ6	2 875
		Balance	c/d	17 480		30	Purchases and VAT	PJ6	17 250
				20 125					20 125
					Jul	1	Balance	b/d	17 480

Dr **VAT input** **B9** **Cr**

20.8					20.8				
Jun	18	Creditors control	GJ6	375	Jun	30	Creditors control	PRJ6	345
	30	Creditors control	PJ6	2 250			Balance	c/d	2 280
				2 625					2 625
Jul	1	Balance	b/d	2 280					

Dr		VAT output						B10	Cr
20.8					20.8				
Jun	30	Debtors control	SRJ6	345	Jun	30	Debtors control	SJ6	1 170
		Balance	c/d	825					
				1 170					1 170
					Jul	1	Balance	b/d	825

NOMINAL ACCOUNTS SECTION

Dr		Sales						N1	Cr
					20.8				
					Jun	30	Debtors control	SJ6	7 800

Dr		Purchases						N2	Cr
20.8									
Jun	30	Creditors control	PJ6	15 000					

Dr		Sales returns						N3	Cr
20.8									
Jun	30	Debtors control	SRJ6	2 300					

Dr		Purchases returns						N4	Cr
					20.8				
					Jun	30	Creditors control	PRJ6	2 300

BS ELECTRICAL

DEBTORS LEDGER

Dr		Mrs P Singh						D1	Cr
20.8					20.8				
Jun	3	Sales and VAT	SJ6	5 520	Jun	17	Sales returns and VAT	SRJ6	1 840
						30	Balance	c/d	3 680
				5 520					5 520
Jul	1	Balance	b/d	3 680					

Dr		Mr J Mtuli						D2	Cr
20.8					20.8				
Jun	10	Sales and VAT	SJ6	3 450	Jun	14	Sales returns and VAT	SRJ6	805
						30	Balance	c/d	2 645
				3 450					3 450
Jul	1	Balance	b/d	2 645					

BS ELECTRICAL

CREDITORS LEDGER

Dr		Hall Traders						C1	Cr
20.8					20.8				
Jun	16	Purchases returns and VAT	PRJ6	2 645	Jun	13	Purchases and VAT	PJ6	13 225
	30	Balance	c/d	10 580					
				13 225					13 225
					Jul	1	Balance	b/d	10 580

Dr		KZN Dealers						C2	Cr
20.8					20.8				
Jun	30	Balance	c/d	6 900	Jun	18	Purchases and VAT	PJ6	4 025
							Equipment and VAT	GJ6	2 875
				6 900					6 900
					Jul	1	Balance	b/d	6 900

DEBTORS LIST AS AT 30 JUNE 20.8

Debtors	Fol	R
Mrs P Singh	D1	3 680
Mr J Mtuli	D2	2 645
		6 325

CREDITORS LIST AS AT 30 JUNE 20.8

Creditors	Fol	R
Hall Traders	C1	10 580
KZN Dealers	C2	6 900
		17 480

COMPREHENSIVE EXAMPLE THREE: RECORDING OF CREDIT AND CASH TRANSACTIONS IN THE SUBSIDIARY JOURNALS

The following transactions at 15% VAT inclusive took place in Sunshine Glass Traders for February 20.4:

		R
Feb 1	The owner, S Shine, increased his capital.	15 000
	Paid the City Council for water and electricity by cheque.	3 105
3	Purchased merchandise from Glasco Ltd and paid by cheque.	8 855
	Purchased merchandise on credit from Ferguson Limited.	9 200
	Sold trading inventory on credit to J Jason.	14 950
4	Purchased a desk on credit from City Furnishers.	3 680
6	Purchased receipt books and pens from Pen and Pencil and paid by cheque.	230
	Drew a cash cheque to pay the week's wages.	954
8	Paid Glasco Ltd on account.	4 000
	Received settlement discount.	230
10	Cash sales of merchandise.	3 910
12	Issued a credit note to J Jason for an overcharge on 3 February.	115
	Drew a cash cheque to pay the week's wages.	940
15	Cash sales amounted to	2 415
	Received a cheque from J Jason in payment of his account.	6 000
	Settlement discount granted to him on this payment.	345
18	Sold goods on credit to F Brown.	4 945
	Cash purchases of trading inventory paid for by cheque.	2 760
	Purchased glassware on credit from Glasco Ltd.	5 750
20	Returned damaged goods to Glasco Ltd.	575
21	Drew a cash cheque to pay for wages.	989
	Received damaged goods returned by F Brown and issued a credit note.	230
25	Cash sales amounted to	6 210
	Received a payment from F Brown.	2 560
	Settlement discount granted to him on this payment.	230
26	Drew a cash cheque to pay for wages.	945
	Paid the telephone account by cheque.	575
	Received an account from Printo Limited for the printing of business documents.	805
27	Purchased inventory on credit from Glasco Ltd.	2 760
	The account of Ferguson Limited was paid by cheque.	5 500
	Received settlement discount.	276
28	Paid the owner's house instalment by business cheque to HP Bank.	2 500
	Received a cheque from Z Zittace for rent for a part of the building.	920

REQUIRED

(1) Record the above transactions in the following subsidiary journals of Sunshine Glass Traders for February 20.4:

(a) Cash receipts journal (analysis columns for bank, sales, VAT output, debtors, settlement discount granted [Dr], VAT input [Dr] and sundry accounts)
(b) Cash payments journal (analysis columns for bank, purchases, creditors, settlement discount received [Cr], wages, VAT input, VAT output [Cr] and sundry accounts)
(c) Sales journal (analysis columns for VAT output, sales and debtors)
(d) Purchases journal (analysis columns for VAT input, purchases and creditors)
(e) Sales returns journal (analysis columns for VAT output, sales returns and debtors)
(f) Purchases returns journal (analysis columns for VAT input, purchases returns and creditors)
(g) General journal

(2) Post the entries recorded in the subsidiary journals to the relevant accounts in the general ledger of Sunshine Traders (all the accounts must be properly balanced/totalled at 28 February 20.4).

For purpose of this example document numbers are not required.

SOLUTION: COMPREHENSIVE EXAMPLE THREE

SUNSHINE GLASS TRADERS

(1) SUBSIDIARY JOURNALS

(a) CASH RECEIPTS JOURNAL – FEBRUARY 20.4

CRJ2

Day	Details	Fol	Analyis of receipts	Bank	Sales	VAT output	Debtors	Settlement discount granted (Dr)	VAT input (Dr)	Sundry accounts		
										Amount	Fol	Details
1	S Shine		15000	15000						15000	B7	Capital
10	Cash sales		3910	3910	3400	510						
15	Cash sales		2415		2100	315						
	J Jason		6 000	8415			6345	(300)	(45)			
25	Cash sales		6 210		5400	810						
	F Brown		2 560	8770			2790	(200)	(30)			
28	Z Zittace		920	920		120				800	N3	Rental income
				37015	10900	1755	9135	(500)	(75)	15800		
				B5	N1	B10	B4	N7	B9			

SUNSHINE GLASS TRADERS

(b) CASH PAYMENTS JOURNAL – FEBRUARY 20.4

CPJ2

Day	Details	Fol	Bank	Purchases	Creditors	Settlement discount received (Cr)	Wages	VAT input	VAT output (Cr)	Sundry accounts		
										Amount	Fol	Details
			R	R	R	R	R	R	R	R		
1	City Council		3 105					405		2 700	N6	Water and electricity
3	Glasco Ltd		8 855	7 700				1 155				
6	Pen and Pencil		230					30		200	N10	Stationery
	Cash		954				954					
8	Glasco Ltd		4 000		4 230	(200)			(30)			
12	Cash		940				940					
18	Cash		2 760	2 400				360				
21	Cash		989				989					
26	Cash		945				945					
	Telkom		575					75		500	N5	Telephone expenses
27	Ferguson Ltd		5 500		5 776	(240)			(36)			
28	HP Bank		2 500							2 500	B8	Drawings
			31 353	10 100	10 006	(440)	3 828	2 025	(66)	5 900		
			B5	N2	B6	N8	N9	B9	B10			

SUNSHINE GLASS TRADERS

(c) SALES JOURNAL – FEBRUARY 20.4 *SJ2*

Day	Details	Fol	VAT output	Sales	Debtors
			R	R	R
3	J Jason		1 950	13 000	14 950
18	F Brown		645	4 300	4 945
			2 595	17 300	19 895
			B10	N1	B4

SUNSHINE GLASS TRADERS

(d) PURCHASES JOURNAL – FEBRUARY 20.4 *PJ2*

Day	Details	Fol	VAT input	Purchases	Creditors
			R	R	R
3	Ferguson Ltd		1 200	8 000	9 200
18	Glasco Ltd		750	5 000	5 750
27	Glasco Ltd		360	2 400	2 760
			2 310	15 400	17 710
			B9	N2	B6

SUNSHINE GLASS TRADERS

(e) SALES RETURNS JOURNAL – FEBRUARY 20.4 *SRJ2*

Day	Details	Fol	VAT output	Sales returns	Debtors
			R	R	R
12	J Jason		15	100	115
21	F Brown		30	200	230
			45	300	345
			B10	N11	B4

SUNSHINE GLASS TRADERS

(f) PURCHASES RETURNS JOURNAL – FEBRUARY 20.4 *PRJ2*

Day	Details	Fol	VAT input	Purchases returns	Creditors
			R	R	R
20	Glasco Ltd		75	500	575
			75	500	575
			B9	N12	B6

SUNSHINE GLASS TRADERS

(g) GENERAL JOURNAL – FEBRUARY 20.4 *GJ2*

Day	Details	Fol	Debit	Credit
			R	**R**
4	Furniture	B1	3 200	
	VAT input	B9	480	
	City Furniture/Creditors control	B6		3 680
	Desk purchased on credit			
26	Printing	N13	700	
	VAT input	B9	105	
	Printo Limited/Creditors control	B6		805
	Printing of documents on credit			

SUNSHINE GLASS TRADERS

(2) GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Furniture at cost** **B1** **Cr**

20.4									
Feb	4	Creditor control	GJ2	3 200					

Dr **Debtors control** **B4** **Cr**

20.4					20.4				
Feb	28	Sales and VAT	SJ2	19 895	Feb	28	Bank and discount	CRJ2	9 135
							Sales returns and VAT	SRJ2	345
							Balance	c/d	10 415
				19 895					19 895
Mar	1	Balance	b/d	10 415					

Dr **Bank** **B5** **Cr**

20.4					20.4				
Feb	28	Total receipts	CRJ2	37 015	Feb	28	Total payments	CPJ2	31 353
							Balance	c/d	5 662
				37 015					37 015
Mar	1	Balance	b/d	5 662					

Dr **Creditors control** **B6** **Cr**

20.4					20.4				
Feb	28	Bank and discount	CPJ2	10 006	Feb	4	Furniture and VAT	GJ2	3 680
		Purchases returns				26	Printing and VAT	GJ2	805
		and VAT	PRJ2	575		28	Purchases and VAT	PJ2	17 710
		Balance	c/d	11 614					
				22 195					22 195
					Mar	1	Saldo	b/d	11 614

Dr **Capital** **B7** **Cr**

					20.4				
					Feb	1	Bank	CRJ2	15 000

Dr **Drawings** **B8** **Cr**

20.4									
Feb	28	Bank	CPJ2	2 500					

Dr **VAT input** **B9** **Cr**

20.4					20.4				
Feb	4	Creditors control	GJ2	480	Feb	28	Creditors control	PRJ2	75
	26	Creditors control	GJ2	105			Balance	c/d	4 920
	28	Bank	CPJ2	2 025					
		Debtors control	CRJ2	75					
		Creditors control	PJ2	2 310					
				4 995					4 995
Mar	1	Balance	b/d	4 920					

Dr **VAT output** **B10** **Cr**

20.4					20.4				
Feb	28	Debtors control	SRJ2	45	Feb	28	Debtors control	SJ2	2 595
		Balance	c/d	4 371			Bank	CRJ2	1 755
							Creditors control	CPJ2	66
				4 416					4 416
					Mar	1	Balance	b/d	4 371

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

					20.4					
					Feb	28	Bank	CRJ2		10 900
							Debtors control	SJ2		17 300
										28 200

Dr **Purchases** **N2** **Cr**

20.4										
Feb	28	Bank	CPJ2	10 100						
		Creditors control	PJ2	15 400						
				25 500						

Dr **Rental income** **N3** **Cr**

					20.4					
					Feb	28	Bank	CRJ2		800

Dr **Telephone expenses** **N5** **Cr**

20.4										
Feb	26	Bank	CPJ2	500						

Dr **Water and electricity** **N6** **Cr**

20.4										
Feb	1	Bank	CPJ2	2 700						

Dr **Settlement discount granted** **N7** **Cr**

20.4										
Feb	28	Debtors control	CRJ2	500						

Dr **Settlement discount received** **N8** **Cr**

					20.4					
					Feb	28	Creditors control	CPJ2		440

Dr **Wages** **N9** **Cr**

20.4										
Feb	28	Bank	CPJ2	3 828						

Dr				Stationery				N10	Cr
20.4 Feb	6	Bank	CPJ2	200					

Dr				Sales returns				N11	Cr
20.4 Feb	28	Debtors control	SRJ2	300					

Dr				Purchases returns				N12	Cr
					20.4 Feb	28	Creditors control	PRJ2	500

Dr				Printing				N13	Cr
20.4 Feb	26	Creditors control	GJ2	700					



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• correctly enter credit purchases and credit purchase returns transactions in the respective journals?	☺	😐	☹
• correctly enter credit sales and credit sales returns transactions in the respective journals?	☺	😐	☹
• correctly prepare the creditors control and debtors control accounts in the general ledger?	☺	😐	☹
• correctly prepare a creditors and debtors list?	☺	😐	☹
• provide for VAT implications on credit transactions?	☺	😐	☹
• correctly enter transactions in the general journal?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit.

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 7

INVENTORY



Introductory Financial Accounting

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LEARNING OUTCOMES

After studying this learning unit, you should be able to:

- define a perpetual inventory control system
- define a periodic inventory control system
- explain the difference between a periodic and a perpetual inventory control system
- define the different valuation methods, such as first-in, first-out (FIFO) and the weighted average methods

KEY CONCEPTS

- Perpetual inventory control system
- Periodic inventory control system
- FIFO
- LIFO
- Weighted average



ASSESSMENT CRITERIA

- The difference between a perpetual and a periodic inventory control system is explained.
- The calculation of the value of cost of sales and gross profit explained.

7.1 INTRODUCTION

Most business entities carry inventory, so it is important that you have a clear and full understanding of how to account for it. This not only involves ledger account entries but also the valuation of inventory and presentation in financial statement.

In most cases inventory is the largest current asset of a trading entity. It is important that a trading entity at all times is able to supply the demand for its different types of merchandise. For that reason trading entities keep a supply of inventory that is constantly replenished and from which sales are made. This means that the expenditure of funds on the purchase of inventory during a particular period will not always equal the cost of the goods that are sold during the same period.

In determining the profit of a trading entity, it is thus important to determine the cost of the goods that were indeed sold during a period. This is known as the cost of sales. The cost of sales and the cost price of inventory on hand can be determined according to one of the following two inventory control methods:

- perpetual inventory method
- periodic inventory method

7.2 INVENTORY VALUATION METHODS

When an entity purchases various batches of an inventory item at different prices, and not all goods are sold during the year, the question arises as to which of the prices paid for the batches should be considered to be the purchase price of the batches still on hand.

The method used to allocate costs to inventory and to determine the cost of goods, should be the one that brings about the most realistic determination of profit in the particular entity.

The three most used valuation methods in practice are the following:

- ***First-in, first-out (FIFO) method:*** According to this method, it is accepted that the items which were purchased first are sold first. Inventory on hand is therefore valued at the latest prices.
- ***Last-in, first-out (LIFO) method:*** According to this method, it is accepted that the items which were purchased last are sold first. This method falls outside the scope of this module and therefore will not be discussed in any examples.
- ***Weighted average method:*** The total cost of the goods available for sale is divided by the total number of units in order to determine an average cost per unit.

7.3 INVENTORY CONTROL SYSTEMS

Inventory systems refers to the way in which inventory is recorded in the accounting records of a trading entity.

7.3.1 The perpetual (continuous) inventory control system

Under the perpetual inventory system, the purchase of inventory is recorded directly into the inventory account at cost price. At the time of sale, the cost price of goods sold is transferred from the inventory account to the cost of sales account.

The accounting entries under such a system can be summarised as follows (VAT is ignored in these examples):

Purchase inventory for cash:

Dr	Inventory	(because the asset **inventory** increases)
Cr	Bank	(because the asset **bank** decreases when money is paid out)

The transaction is recorded in the cash payments journal at cost price.

Purchase inventory on credit:

Dr	Inventory	(see above)
Cr	Creditor	(because a **liability** is created or increased) and
Cr	Creditors control	

The transaction is recorded in the purchases journal at cost price.

Sale of merchandise for cash:

Dr	Bank	(an asset increases with money received) (selling price)
Cr	Sales	(an income which increases equity) (selling price)
Dr	Cost of sales	(an expense that decreases equity) (cost price)
Cr	Inventory	(an asset decreases) (cost price)

The transaction is recorded in the cash receipts journal.

It is important to note that the difference between the cost of sales and the selling price is the gross profit, which is the amount by which the equity increases.

Merchandise sold on credit:

Dr	Debtor	(an asset is created or increased) (selling price) and
Dr	Debtors control	
Cr	Sales	(see above) (selling price)
Dr	Cost of sales	(see above) (cost price)
Cr	Inventory	(see above) (cost price)

The transaction is recorded in the sales journal.

When merchandise is returned by a debtor:

Dr	Sales returns	(this has the opposite effect of sales on equity – it decreases equity) (selling price)
Cr	Debtor	(the asset decreases because the debtor owes the business less) (selling price) and
Cr	Debtors control	
Cr	Cost of sales	(this has the opposite effect on equity to the effect when merchandise was sold) (cost price)
Dr	Inventory	(the asset increases by the amount of the merchandise returned) (cost price)

The transaction is recorded in the sales returns journal.

Merchandise returned, previously sold for cash:

If the entity has a policy of not repaying cash, a credit note will be issued to the client that can be exchanged for other merchandise.

If the business is willing to refund cash:

Dr	Sales returns	(see above) (selling price)
Cr	Bank	(the asset **bank** will decrease to cancel the previous increase) (selling price)

The transaction is recorded in the cash payments journal.

To reinstate the merchandise as part of the inventory:

Dr	Inventory	(the asset **inventory** increases) (cost price)
Cr	Cost of sales	(see above) (cost price)

The transaction is recorded in the general journal.

When merchandise is returned to a creditor:

Dr	Creditor	(because the liability decreases) (cost price) and
Dr	Creditors control	
Cr	Inventory	(an asset is decreased – there is less inventory because of the goods returned) (cost price)

The transaction is recorded in the purchases returns journal.

From the above discussion it is clear that the cost price of merchandise sold is recorded at the same time as the sale of the merchandise. This procedure enables the entity to determine the gross profit on each sale and to keep a continuous record of the Rand value of the inventory that has not yet been sold.

However, it remains necessary to do a physical inventory count at least once a year, usually at the end of the financial year. Theoretically the result of the inventory count should yield the same result as the balance on the inventory account. This seldom happens. Some of the main reasons why there is a difference are the theft of inventory, breakages, leakages and evaporation. This loss of inventory will, of course, not be recorded in the inventory account and will only be detected when a physical count of inventory is done.

7.3.2 The periodic inventory control system

Under the periodic inventory system, the purchase of inventory is **not recorded in the inventory account.** A separate account, known as the **purchases account**, is used to record these purchases. It follows that if inventory is returned to the seller, for one reason or another, the return of inventory cannot be recorded in the inventory account but must be recorded in a separate account known as the **purchases returns account**.

It should thus be clear that under a periodic inventory system, the cost of sales is not determined at the time of the recording of the sale. The cost of sales can thus only be determined at the end of the financial period after a physical inventory count has been done.

The cost price of inventory sold during an accounting period will thus be determined as follows:

Cost price of inventory at the beginning of the financial year (closing inventory of previous year)

Add: Cost price of inventory purchased during the financial year (the total amount spent on purchases)

Less: Cost price of inventory at the end of the financial year, determined by a physical inventory count (the unsold inventory)

The accounting entries associated with a periodic inventory system can be summarised as follows (VAT is ignored in the examples):

Purchase of inventory for cash:

Dr	Purchases	(under the periodic inventory system, purchases are regarded as an expense that reduces equity)
Cr	Bank	(the asset **bank** decreases when money is paid out)

The transaction is recorded in the cash payments journal at cost price.

Purchase of inventory on credit:

Dr	Purchases	(see above)
Cr	Creditor	(creditors is a liability account which is created or increased) and
Cr	Creditors control	

The transaction is recorded in the purchases journal at cost price.

Sale of merchandise for cash:

Dr	Bank	(the asset increases with the money received)
Cr	Sales	(an income account which increases equity)

The transaction is recorded in the cash receipts journal at selling price.

Sale of merchandise on credit:

Dr	Debtor	(an asset which is created or increased) and
Dr	Debtors control	
Cr	Sales	(see above)

The transaction is recorded in the sales journal at selling price.

When merchandise is returned by a debtor:

Dr	Sales returns	(equity decreases)
Cr	Debtor	(the asset decreases) and
Cr	Debtors control	

The transaction is recorded in the sales returns journal at selling price.

Merchandise returned, previously sold for cash:

The policy of the entity would determine whether a credit note will be issued (refer to the perpetual inventory system) or whether the cash will be refunded to the client.

The entry for a cash refund will be as follows:

Dr	Sales returns	(the equity decreases)
Cr	Bank	(the asset **bank** will decrease to cancel the previous increase)

The transaction is recorded in the cash payments journal.

When inventory is returned to a creditor:

Dr	Creditors	(the liability decreases) and
Dr	Creditors control	
Cr	Purchases returns	(the actual purchase is reduced)

The transaction is recorded in the purchases returns journal at cost price.

Physical inventory count at the end of the financial year:

Dr	Inventory	(an asset account which is created with the inventory on hand at the end of the financial year)
Cr	Trading account	(a nominal account which is used to determine the gross profit and which increases equity if a gross profit is made)

The transaction is recorded in the general journal.

From the above summary it is clear that, under a periodic inventory system, there is no cost of sales account but a purchases account and that the column headings of subsidiary journals will have to be adapted to accommodate this inventory system. Some of the accounts kept in the general ledger will also have to be changed when the periodic inventory system is in use.

It is very important, in assignments and in the examination, to make sure that you know which inventory system an entity uses as this will determine how the subsidiary journals and the general ledger will be laid out.

7.4 ADDITIONAL PURCHASE COSTS

Carriage on purchases and railage are examples of expenses that an entity may have to pay in order to transport the inventory which has been purchased to the entity's premises. Custom and excise duties may also have to be incurred when inventory is imported.

When the perpetual (continuous) inventory system is used, carriage on purchases, and the like, are debited directly to the inventory account, since the cost of sales must be brought into account with each sales transaction, and carriage paid on purchases constitutes an integral part of the cost per unit.

When the periodic inventory system is used, all purchases of inventory during a financial year are debited to the purchases account. Consequently this account will show the total of all purchases at the end of the financial year. Carriage on purchases (paid for in cash, as well as on credit) by an entity which uses this inventory system, will be debited to the carriage on purchases account. This account will show the total amount spent on transporting inventory to the premises of the entity. When the cost of sales is calculated at the end of the financial year, carriage on purchases must also be taken into account. Custom and excise duties will be treated in a similar manner.

The following illustration will demonstrate how accounts under the different inventory systems will be affected when additional purchase costs are incurred:

Transaction	Perpetual inventory control system	Periodic inventory control system
Payment of delivery costs on inventory purchased	Dr Inventory Cr Bank or Cr Creditor (and creditors control) if on credit	Dr Carriage on purchases Cr Bank or Cr Creditor (and creditors control) if on credit

Use the following information from the books of Gogo Dealers to calculate the cost of sales:

	R
Inventory (1 January 20.1)	95 000
Purchases	260 000
Carriage on purchases	3 600

A physical inventory count on 31 December 20.1 indicated that inventory on hand amounted to R80 000.

SOLUTION

	R
Inventory (1 January 20.1)	95 000
Add: Purchases	260 000
Carriage on purchases	3 600
	358 600
Less: Inventory (31 December 20.1)	(80 000)
Cost of sales	278 600

7.5 DRAWINGS AND DONATIONS OF INVENTORY

Drawings and donations of inventory are recorded by means of the general journal at cost price.

Please study the following table carefully:

Transaction	Perpetual inventory control system	Periodic inventory control system
Inventory taken by owner for personal use	Dr Drawings Cr Inventory	Dr Drawings Cr Purchases
Donation of inventory	Dr Donations Cr Inventory	Dr Donations Cr Purchases

When an entity is registered as a VAT Vendor drawings and donations are not exempted from VAT. The VAT is, however, calculated on the **cost price** and must be credited to the VAT output account.

7.6 SETTLEMENT DISCOUNT GRANTED

Discount is often offered to debtors in order to encourage a quick settlement of their debts within the stated credit term. The credit term will be shown on the credit invoice, for example 30 days from date of sale. This means that if a debtor pays off his/her account before 30 days from date of sale, the debtor will receive a discount on the total amount owing.

The accounting entries associated with the periodic and perpetual inventory system can be summarised as follows:

Dr Settlement discount granted (the account is an expense that reduces equity)

Cr Debtors (the asset account debtors decreases when a settlement discount is granted)

At the end of the financial year, you will close off the settlement discount granted account to the sales account in the general ledger.

7.7 SETTLEMENT DISCOUNT RECEIVED

When creditors are paid within a specified period according to an agreement, the entity may get a discount on the outstanding amount. We refer to this discount as settlement discount received.

The accounting entries associated with the periodic and perpetual inventory system can be summarised as follows:

Dr Creditors (creditors account is a liability and it decreases when a settlement discount is received)

Cr Settlement discount received (the account is an income that increases equity)

At the end of the financial year you will however close off settlement discount received differently under the perpetual and periodic inventory systems.

The accounting entries associated with the periodic inventory system can be summarised as follows:

Periodic inventory system

Dr Settlement discount received

Cr Purchases

The accounting entries associated with the perpetual inventory system can be summarised as follows:

Perpetual inventory system

Dr Settlement discount received

Cr Cost of sales

7.8 CARRIAGE/FREIGHT CHARGES ON SALES

The freight or carriage charges on sales account is an expense. This is the cost of transporting the goods sold from the entity to the customer and therefore it is an expense to the entity. Carriage/freight charges on sales will therefore be treated as an expense in the entity's statement of profit and loss and other comprehensive income.

7.9 MARK-UP ON COST

Cost of sales is the cost of the goods that were sold during a period. The mark-up percentage on cost is the gross profit percentage of the cost price.

Therefore to calculate the cost price when the mark-up percentage and selling price is given you will use the following formula.

Cost price = Selling price x 100 ÷ (100 + mark-up percentage on cost)

COMPREHENSIVE EXAMPLE ONE

BS Hardware sells a ladder for R390. The mark-up percentage on cost is 30%.

What is the cost price of the product?

Mark-up percentage on cost	=	30%		
Selling price	=	Cost price + mark-up % on cost		
Cost price	=	100%	=	R?
Selling price	=	130%	=	R390
Cost price	=	$\frac{100}{130}$	x	R390
	=	R300		

COMPREHENSIVE EXAMPLE TWO

You are supplied with the following source documents from BS Hardware:

BS Hardware is registered as a VAT vendor. All the suppliers of the entity are also registered for VAT. All goods are sold at a constant mark-up of 25% on cost and a perpetual inventory system is in use.

BS HARDWARE

TAX INVOICE

777 Church Street
PO Box 1001
Tshwane
0002

VAT no: **7891078956**
Tel: **012–429 3931**
Fax: **012–429 3933**
E-mail: **accounts@bshardware.co.za**

Sold to: Mrs P Singh
30 Wessels Street
Pretoria
VAT registration number 4355501234

Date: 3 June 20.8

Customer reference no: DB1

Invoice no: G31

Terms: 30 days less 10%

Product no	Description	Quantity	Unit price (R)	Amount R	Amount c
THG002	Paint	6 x 5 ℓ	800,00	4 800	00
Subtotal				4 800	00
VAT @ 15%				720	00
Total				5 520	00
Amount paid				0	00
Amount due				5 520	00

BS HARDWARE

TAX INVOICE

777 Church Street
PO Box 1001
Tshwane
0002

VAT no: **7891078956**
Tel: **012–429 3931**
Fax: **012–429 3933**
E-mail: **accounts@bshardware.co.za**

Sold to: Mr J Mtuli

Date: 10 June 20.8

Customer reference no: DB2

Invoice no: G32

Terms: 30 days less 10%

Product no	Description	Quantity	Unit price (R)	Amount R	Amount c
TCK789	Doors	4	750,00	3 000	00
Subtotal				3 000	00
VAT @ 15%				450	00
Total				3 450	00
Amount paid				0	00
Amount due				3 450	00

HALL TRADERS

TAX INVOICE

123 Main Street
PO Box 6006
Tshwane
0002

VAT no: **1234567890**
Tel: **012–429 3424**
Fax: **012–429 3425**
Email: **accounts@halltraders.co.za**

Sold to: BS Hardware
777 Church Street
Tshwane
VAT registration number 7891078956

Date: 13 June 20.8

Customer reference no: BS786

Invoice no: T29

Terms: 30 days less 10%

Product no	Description	Quantity	Unit price (R)	Amount R	Amount c
XYZ 897	PVC Pipes	250 x 2 m	46,00	11 500	00
Subtotal				11 500	00
VAT @15%				1 725	00
Total				13 225	00
Amount paid				0	00
Amount due				13 225	00

BS HARDWARE

CREDIT NOTE

VAT NO: 7891078956

PO Box 1001
Tshwane
0002

777 Church Street
Tel: 012–429 3931
Fax: 012–429 3933

Date: 14 June 20.8

To: Mr J Mtuli

CREDIT NOTE NUMBER: CN3

Product no	Description	Quantity	Unit price (R)	Amount credited R	c
TCK789	Doors	–	–	600	00
Total				600	00
VAT @ 15%				90	00
Total credit due				690	00

HALL TRADERS

CREDIT NOTE

VAT NO: 1234567890

PO Box 6006
Tshwane
0002

123 Main Street
Tel: 012–429 3424
Fax: 012–429 3425

Date: 16 June 20.8

To: BS Hardware

CREDIT NOTE NUMBER: Q12

Product no	Description	Quantity	Unit price (R)	Amount credited R	c
XYZ897	PVC Pipes	50	46,00	2 300	00
Total				2 300	00
VAT @ 15%				345	00
Total credit due				2 645	00

BS HARDWARE

CREDIT NOTE

VAT NO: 7891078956

PO Box 1001
Tshwane
0002

777 Church Street
Tel: 012–429 3931
Fax: 012–429 3933

Date: 17 June 20.8

To: Mrs P Singh

CREDIT NOTE NUMBER: CN4

Product no	Description	Quantity	Unit price (R)	Amount credited R	c
THG002	Paint	2 x 5 ℓ	800,00	1 600	00
Total				1 600	00
VAT @ 15%				240	00
Total credit due				1 840	00

KZN DEALERS

TAX INVOICE

456 Tambotie Road
PO Box 2002
Johannesburg
0003

VAT no: 4567891230
Tel: 011–429 3938
Fax: 011–429 3939
E-mail: accounts@kzndealers.co.za

Sold to: BS Hardware
777 Church Street
Tshwane
VAT registration number 7891078956

Date: 18 June 20.8

Customer reference no: KZN789

Invoice no: JK20

Terms: 30 days less 10%

Product no	Description	Quantity	Unit price (R)	Amount R	c
PLP456	Cash register	1	2 300,00	2 300	00
JYH123	Electrical plugs	1 000	3,50	3 500	00
Subtotal				5 800	00
VAT @ 15%				870	00
Total				6 670	00
Amount paid				0	00
Amount due				6 670	00

REQUIRED

(1) Prepare the following books of prime entry for BS Hardware for June 20.8, and make use of the column headings as indicated:

BS HARDWARE
PURCHASES JOURNAL – JUNE 20.8 *PJ6*

Doc no	Day	Details	Fol	VAT input	Inventory	Creditors
				R	R	R

BS HARDWARE
PURCHASES RETURNS JOURNAL – JUNE 20.8 *PRJ6*

Doc no	Day	Details	Fol	VAT input	Inventory	Creditors
				R	R	R

BS HARDWARE
SALES JOURNAL – JUNE 20.8 *SJ6*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors	Cost of sales
				R	R	R	R

BS HARDWARE
SALES RETURNS JOURNAL – JUNE 20.8 *SRJ6*

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors	Cost of sales
				R	R	R	R

BS HARDWARE
GENERAL JOURNAL – JUNE 20.8 *GJ6*

Day	Details	Fol	Debit	Credit
			R	R

(2) Post the journals after closing it to the appropriate accounts in the general, debtors and creditors ledger. Balance all accounts.
(3) Prepare the debtors and creditors lists.

SOLUTION: COMPREHENSIVE EXAMPLE TWO

BS HARDWARE
PURCHASES JOURNAL – JUNE 20.8 *PJ6*

Doc no	Day	Details	Fol	VAT input	Inventory	Creditors
				R	R	R
T29	13	Hall Traders	C1	1 725	11 500	13 225
JK20	18	KZN Dealers	C2	525	3 500	4 025
				2 250	15 000	17 250
				B9	B4	B8

BS HARDWARE
PURCHASES RETURNS JOURNAL – JUNE 20.8 *PRJ6*

Doc no	Day	Details	Fol	VAT input	Inventory	Creditors
				R	R	R
Q12	16	Hall Traders	C1	345	2 300	2 645
				B9	B4	B8

BS HARDWARE
SALES JOURNAL – JUNE 20.8 *SJ6*

Doc no	Day	Details	Fol	VAT output	Sales	Debtors	Cost of sales
				R	R	R	R
G31	3	Mrs P Singh	D1	720	4 800	5 520	3 840
G32	10	Mr J Mtuli	D2	450	3 000	3 450	2 400
				1 170	7 800	8 970	6 240
				B10	N1	B5	N2/B4

Calculations:

Cost of sales: Mrs P Singh R4 800 x $^{100}/_{125}$ = R3 840

Mr J Mtuli R3 000 x $^{100}/_{125}$ = R2 400

BS HARDWARE

SALES RETURNS JOURNAL – JUNE 20.8 SRJ6

Doc no	Day	Details	Fol	VAT output	Sales returns	Debtors	Cost of sales
				R	R	R	R
CN3	14	Mr J Mtuli	D2	90	600	690	480
CN4	17	Mrs P Singh	D1	240	1 600	1 840	1 280
				330	2 200	2 530	1 760
				B10	N3	B5	N2/B4

Calculations:

Cost of sales: Mr J Mtuli R600 x $^{100}/_{125}$ = R480

Mrs P Singh R1 600 x $^{100}/_{125}$ = R1 280

BS HARDWARE

GENERAL JOURNAL – JUNE 20.8 *GJ6*

Day	Details	Fol	Debit	Credit
			R	R
18	Equipment	B3	2 300	
	VAT input	B9	345	
	KZN Dealers/Creditors control	B8		2 645
30	VAT control	B11	2 250	
	VAT input	B9		2 250
	Transfer of VAT input to the VAT control account			
	VAT output	B10	840	
	VAT control	B11		840
	Transfer of VAT output to the VAT control account			

BS HARDWARE

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Equipment** **B3** **Cr**

20.8 Jun	18	Creditors control	GJ6	2 300					

Dr **Inventory** **B4** **Cr**

20.8 Jun	30	Creditors control	PJ6	15 000	20.8 Jun	18	Creditors control	PRJ6	2 300
		Cost of sales	SRJ6	1 760		30	Cost of sales	SJ6	6 240
							Balance	c/d	8 220
				16 760					16 760
Jul	1	Balance	b/d	8 220					

Dr **Debtors control** **B5** **Cr**

20.8 Jun	30	Sales and VAT	SJ6	8 970	20.8 Jun	30	Sales returns and VAT	SRJ6	2 530
							Balance	c/d	6 440
				8 970					8 970
Jul	1	Balance	b/d	6 440					

Dr **Creditors control** **B8** **Cr**

20.8 Jun	30	Purchases returns and VAT	PRJ6	2 645	20.8 Jun	30	Inventory and VAT	PJ6	17 250
		Balance	c/d	17 250			Equipment and VAT	GJ6	2 645
				19 895					19 895
					Jul	1	Balance	b/d	17 250

Dr **VAT input** **B9** **Cr**

20.8 Jun	30	Creditors control	PJ6	2 250	20.8 Jun	30	Creditors control	PRJ6	345
		Creditors control	GJ6	345			VAT control	GJ6	2 250
				2 595					2 595

Dr		VAT output						B10	Cr
20.8 Jun	30	Debtors control	SRJ6	330	20.8 Jun	30	Debtors control	SJ6	1 170
		VAT control	GJ6	840					
				1 170					1 170

Dr		VAT control						B11	Cr
20.8 Jun	30	VAT input	GJ6	2 250	20.8 Jun	30	VAT output	GJ6	840
							Balance	c/d	1 410
				2 250					2 250
Jul	1	Balance	b/d	1 410					

NOMINAL ACCOUNTS SECTION

Dr		Sales						N1	Cr
					20.8 Jun	30	Debtors control	SJ6	7 800

Dr		Cost of sales						N2	Cr
20.8 Jun	30	Inventory	SJ6	6 240	20.8 Jun	30	Inventory	SRJ6	1 760
							Total	c/d	4 480
				6 240					6 240
Jul	1	Total	b/d	4 480					

Dr		Sales returns						N3	Cr
20.8 Jun	30	Debtors control	SRJ6	2 200					

BS HARDWARE

DEBTORS LEDGER

Dr **Mrs P Singh** **D1** **Cr**

20.8					20.8				
Jun	3	Sales and VAT	SJ6	5 520	Jun	17	Sales returns and VAT	SRJ6	1 840
						30	Balance	c/d	3 680
				5 520					5 520
Jul	1	Balance	b/d	3 680					

Dr **Mr J Mtuli** **D2** **Cr**

20.8					20.8				
Jun	10	Sales and VAT	SJ6	3 450	Jun	14	Sales returns and VAT	SRJ6	690
						30	Balance	c/d	2 760
				3 450					3 450
Jul	1	Balance	b/d	2 760					

BS HARDWARE

CREDITORS LEDGER

Dr **Hall Traders** **C1** **Cr**

20.8					20.8				
Jun	16	Inventory and VAT	PRJ6	2 645	Jun	13	Inventory and VAT	PJ6	13 225
	30	Balance	c/d	10 580					
				13 225					13 225
					Jul	1	Balance	b/d	10 580

Dr **KZN Dealers** **C2** **Cr**

20.8					20.8				
Jun	30	Balance	c/d	6 670	Jun	18	Inventory and VAT	PJ6	4 025
							Equipment and VAT	GJ6	2 645
				6 670					6 670
					Jul	1	Balance	b/d	6 670

Debtors list as at 30 June 20.8

Debtors	Fol	R
Mrs P Singh	D1	3 680
Mr J Mtuli	D2	2 760
		6 440

Creditors list as at 30 June 20.8

Creditors	Fol	R
Hall Traders	C1	10 580
KZN Dealers	C2	6 670
		17 250

ADDITIONAL INFORMATION:

(a) The above example is similar to comprehensive example two from the learning unit 6 on credit transactions. However, in the previous example, the periodic inventory control system was used hence inventory in trade was debited to the purchases account.

(b) In the above example, the perpetual inventory system is used. Inventory in trade is debited to the inventory account and an inventory column is required instead of a purchases column in the subsidiary journals. When inventory is bought or returned, the entries for the transactions will affect the inventory account in the general ledger as the use of a purchases account and purchases returns account is not permitted when a perpetual inventory system is used.

7.10 EXERCISES AND SOLUTIONS

EXERCISE 1

The following information was obtained from the records of Pienaar Traders for the financial year ended 28 February 20.3:

	R
Inventory (1 March 20.2)	170 000
Sales	550 000
Purchases	350 000
Sales returns	1 500
Purchases returns	2 000
Inventory (28 February 20.3)	160 500

The entity applies the periodic inventory system.

REQUIRED

Calculate the cost of sales.

SOLUTION: EXERCISE 1

	R
Inventory (1 March 20.2)	170 000
Add: *Net purchases	348 000
	518 000
Less: Inventory (28 February 20.3)	(160 500)
Cost of sales	357 500

*Net purchases = Purchases – purchases returns

= R350 000 – R2 000

= R348 000

EXERCISE 2

The following information was obtained from the records of Cool Traders for the financial year ended 28 February 20.4:

	R
Inventory (1 March 20.3)	185 000
Sales	350 000
Purchases	265 000
Sales returns	700
Purchases returns	3 600
Freight charges on purchases	750
Freight charges on sales	1 300
Settlement discount granted	550
Settlement discount received	265

A physical inventory count on 28 February 20.4 indicated that inventory on hand amounted to R145 000. The periodic inventory system is in use.

REQUIRED

1. What is the cost of sales amount for the year ended 28 February 20.4?
2. Which amount represents the gross profit figure for the year ended 28 February 20.4?

SOLUTION EXERCISE 2

1. Cost of sales calculation

		R
	Inventory (1 March 20.3)	185 000
Plus	Net purchases: (Purchases – purchases returns – settlement discount received) (R265 000 – R3 600 – R265)	261 135
Plus	Freight charges on purchases	750
Less	Inventory (28 February 20.4)	(145 000)
	Cost of sales	301 885

2. Gross profit calculation

Gross profit = *Sales – cost of sales
= R348 750 – R301 885
= R46 865

*Sales = (Sales – sales return – settlement discount granted)
= (R350 000 – R700– R550)
= R348 750

	**SELF-ASSESSMENT** After you have worked through this learning unit, are you able to: ● explain the difference between a perpetual and a periodic inventory control system? ● correctly calculate the value of cost of sales and gross profit?	☺ ☺	😐 😐	☹ ☹

If you have marked all ☺ you may continue to the next learning unit.

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 8

BANK RECONCILIATION STATEMENTS



Introductory Financial Accounting

OVERVIEW

Learning outcomes 260
Key concepts 260
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8.1 Introduction 261
8.2 Steps when compiling a bank reconciliation statement 262
8.3 Bank reconciliation where a bank reconciliation statement was prepared in the previous period 269
Self-assessment 278

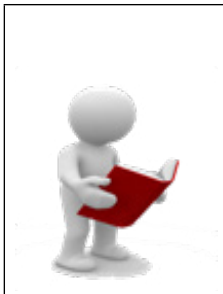
LEARNING OUTCOMES

After studing this learning unit you should be able to:

- identify the causes of the differences between the bank account balance and the bank statement balance
- update the cash receipts and cash payments journals
- prepare a bank account
- prepare a bank reconciliation statement

KEY CONCEPTS

- Bank reconciliation statement
- Outstanding cheques
- Outstanding deposits
- Direct deposits
- Bank charges
- Interest charged on overdraft
- Dishonoured cheques
- Cash receipts journal
- Cash payments journal
- Bank account



ASSESSMENT CRITERIA

- The student should be able to identify the reasons why the bank balance in the general ledger and the bank balance in the bank statement seldom agree.
- The ability to record outstanding cheques and outstanding deposits in the bank reconciliation statement is demonstrated.
- The ability to record direct deposits, bank charges, debit orders, dishonoured cheques, interest on overdraft or interest on current account in the appropriate subsidiary journal is demonstrated.
- The ability to record mistakes either made by the bank or the entity in either the bank reconciliation statement or the appropriate subsidiary journal is demonstrated

8.1 INTRODUCTION

An entity which has a cheque account can arrange with the bank to issue a bank statement at regular intervals, usually monthly.

The bank statement shows, among other things, the opening balance for the period, bank transactions made during that period and the closing balance at the end of that period.

Since bank transactions made by the entity are also recorded in its cash receipts and cash payments journals, the balance shown in the bank statement **should** agree with the balance in the bank account in the books of the entity. However, this is rarely the case.

Some of the reasons why the two balances do not agree are:

- **Outstanding cheques**: These are cheques issued to suppliers during the statement period but which have not yet been presented to the bank for payment.
- **Outstanding deposits**: These are deposits made by the entity during the statement period but which have not yet been credited by the bank.
- **Direct deposits**: These are deposits made by customers directly into the bank account of the entity.
- **Bank charges**: These comprise of service fees, cost of cheque books, commissions, ledger fees, and so on. Because of the nature of these charges, the entity only becomes aware of them when the bank statement is received.
- **Interest charged on overdraft**: This is the cost of overdrawing the bank balance. Again, the entity only gets to know of this type of cost when the bank statement is received.
- **Dishonoured cheques**: These are cheques received from customers but which were not paid by their respective banks because they (the customers) do not have sufficient funds.
- **Mistakes and omissions made by both the entity and the bank**

The reasons listed above can be classified under the following headings:

(1) Entries in the cash receipts and cash payments journals but which are not in the bank statement:
   - outstanding cheques
   - outstanding deposits

(2) Items in the bank statement but which are not in the cash receipts and cash payments journals:
   - direct deposits
   - bank charges
   - stop orders
   - dishonoured cheques
   - interest on overdraft

(3) Items affecting both the bank statement and the cash receipts and cash payments journals:
   - mistakes made by both the entity and the bank

8.2 STEPS WHEN COMPILING A BANK RECONCILIATION STATEMENT

After the reasons why the balances do not agree have been identified and classified, the bank reconciliation can begin. The following steps are taken to prepare the bank reconciliation statement:

Step 1

Compare the debit column of the bank statement with the cash payments journal and vice versa. Tick off items which appear in both the bank statement and the cash payments journal. Note any outstanding items.

Step 2

Compare the credit column of the bank statement with the cash receipts journal and vice versa. Tick off items which appear in both the bank statement and the cash receipts journal. Note any outstanding items.

Step 3

Adjust the cash receipts journal and the cash payments journal with items which are in the bank statement but not in the cash receipts and cash payments journals, for example, direct deposits, bank charges and dishonoured cheques.

Step 4

Use the totals obtained from the adjusted cash receipts and cash payments journals to prepare the bank account.

Step 5

Prepare a bank reconciliation statement using the outstanding cheques and deposits and correct any mistakes made by both the bank and the entity.

To simplify the preparation of the bank reconciliation statement, always start with the balance as per bank statement. The final balance on the bank reconciliation statement should agree with the balance of the bank account.

COMPREHENSIVE EXAMPLE ONE

The bank statement of AM Dealers for the month ended 30 September 20.1 are given below:

BANK STATEMENT OF AM DEALERS FOR SEPTEMBER 20.1

Address: 46 Kaskastreet
Tshwane
0003

Date	Details	Debits R	Credits R	Balance R
01.09.20.1	Balance			2 400
05.09.20.1	Deposit		500	2 900
06.09.20.1	Cheque no: B110	420		2 480
09.09.20.1	Deposit		1 240	3 720
13.09.20.1	Cheque no: B111	64		3 656
19.09.20.1	Cheque no: B112	104		3 552
20.09.20.1	Deposit		160	3 712
21.09.20.1	Cheque no: B113	1 288		2 424
22.09.20.1	Service fees	1		2 423
23.09.20.1	Cheque unpaid	160		2 263
26.09.20.1	Deposit		1 680	3 943
27.09.20.1	Cheque no: B114	600		3 343
28.09.20.1	Cheque no: B115	48		3 295
30.09.20.1	Cheque book	10		3 285
	Service fees	5		3 280
	Debit order – Insurance	300		2 980
	Direct deposit – Mr A Tlape		200	3 180

The balance of the bank account in the general ledger of AM Dealers as at 1 September 20.1 was a favourable balance of R2 400.

AM DEALERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CRJ9*

Day	Details	Analysis	Bank
		R	R
5	Cash sales	500	500
9	A Bean	1 240	1 240
20	Cash sales	160	160
26	B Cool	1 680	1 680
28	Cash sales	480	480
	Total		4 060

AM DEALERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CPJ9*

Cheque no	Day	Details	Bank
			R
B110	6	T Yoti	420
B111	12	PNA	64
B112	18	Municipality	104
B113	20	Town Furnishers	1 288
B114	26	Monate Ltd	600
B115	28	Green Stores	48
B116		Tak CC	212
B117	29	Rolke Engineers	400
		Total	3 136

REQUIRED

(1) Prepare the cash receipts journal and the cash payments journal (bank column only) for September 20.1.
(2) Prepare the bank account in the general ledger.
(3) Prepare the bank reconciliation statement as at 30 September 20.1.

SOLUTION: COMPREHENSIVE EXAMPLE ONE

Step 1

Compare the debit column of the bank statement with the cash payments journal.

Tick off items which appear in both the bank statement (debit column) and cash payments journal.

BANK STATEMENT OF AM DEALERS FOR SEPTEMBER 20.1

Address: 46 Kaskastreet
Tshwane
0003

Date	Details	Debits R	Credits R	Balance R
01.09.20.1	Balance			2 400
05.09.20.1	Deposit		500	2 900
06.09.20.1	Cheque no: B110	420√		2 480
09.09.20.1	Deposit		1 240	3 720
13.09.20.1	Cheque no: B111	64√		3 656
19.09.20.1	Cheque no: B112	104√		3 552
20.09.20.1	Deposit		160	3 712
21.09.20.1	Cheque no: B113	1 288√		2 424
22.09.20.1	Service fees	1		2 423
23.09.20.1	Cheque unpaid	160		2 263
26.09.20.1	Deposit		1 680	3 943
27.09.20.1	Cheque no: B114	600√		3 343
28.09.20.1	Cheque no: B115	48√		3 295
30.09.20.1	Cheque book	10		3 285
	Service fees	5		3 280
	Debit order – Insurance	300		2 980
	Direct deposit – Mr A Tlape		200	3 180

AM DEALERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CPJ9*

Cheque no	Day	Details	Bank	
			R	
B110	6	T Yoti	420	√
B111	12	PNA	64	√
B112	18	Municipality	104	√
B113	20	Town Furnishers	1 288	√
B114	26	Monate Ltd	600	√
B115	28	Green Stores	48	√
B116		Tak CC	212	
B117	29	Rolke Engineers	400	
		Total	3 136	

Outstanding items will be the service fees (R1,00 + R5,00 = R6,00), unpaid (dishonoured) cheque (R160,00), cheque book (R10,00), debit order (R300,00), cheque to Tak CC (R212,00), and the cheque to Rolke Engineers (R400,00).

Step 2

Compare the credit column of the bank statement with the cash receipts journal.

Tick off items which appear in both the bank statement (credit column) and the cash receipts journal.

BANK STATEMENT OF AM DEALERS FOR SEPTEMBER 20.1

Address: 46 Kaskastreet
Tshwane
0003

Date	Details	Debits R	Credits R	Balance R
01.09.20.1	Balance			2 400
05.09.20.1	Deposit		500√	2 900
06.09.20.1	Cheque no: B110	420√		2 480
09.09.20.1	Deposit		1 240√	3 720
13.09.20.1	Cheque no: B111	64√		3 656
19.09.20.1	Cheque no: B112	104√		3 552
20.09.20.1	Deposit		160√	3 712
21.09.20.1	Cheque no: B113	1 288√		2 424
22.09.20.1	Service fees	1		2 423
23.09.20.1	Cheque unpaid	160		2 263
26.09.20.1	Deposit		1 680√	3 943
27.09.20.1	Cheque no: B114	600√		3 343
28.09.20.1	Cheque no: B115	48√		3 295
30.09.20.1	Cheque book	10		3 285
	Service fees	5		3 280
	Debit order – Insurance	300		2 980
	Direct deposit – Mr A Tlape		200	3 180

AM DEALERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CRJ9*

Day	Details	Analysis	Bank	
		R	R	
5	Cash sales	500	500	√
9	A Bean	1 240	1 240	√
20	Cash sales	160	160	√
26	B Cool	1 680	1 680	√
28	Cash sales	480	480	
	Total		4 060	

Outstanding items will be the direct deposit (R200,00) and the cash sales (R480,00) deposited on 28 September 20.1.

Step 3

Adjust the cash receipts journal and the cash payments journal with items in the bank statement but which are not in those journals.

AM DEALERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CRJ9*

Day	Details		Bank
			R
30	Total	b/d	4 060
	Direct deposit – Mr A Tlape		200
			4 260

AM DEALERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – SEPTEMBER 20.1 *CPJ9*

Day	Details		Bank
			R
30	Total	b/d	3 136
	Bank charges		16
	Unpaid cheque		160
	Debit order – Insurance		300
			3 612

Step 4

Use the totals obtained from the adjusted cash receipts and cash payments journals to prepare a bank account.

AM DEALERS

GENERAL LEDGER

Dr **Bank** **Cr**

20.1					20.1				
Sep	1	Balance	b/d	2 400	Sep	30	Total payments	CPJ9	3 612
	30	Total receipts	CRJ9	4 260			Balance	c/d	3 048
				6 660					6 660
Oct	1	Balance	b/d	3 048					

Step 5

AM DEALERS

BANK RECONCILIATION STATEMENT AS AT 30 SEPTEMBER 20.1

		Debit	Credit
		R	R
Credit balance as per bank statement			3 180
Credit outstanding deposit			480
Debit outstanding cheques:	B116	212	
	B117	400	
Debit balance as per bank account		3 048	
		3 660	3 660

NOTE:

If the bank statement had a debit (overdrawn) balance, it would have been shown in the debit column of the bank reconciliation statement.

COMPREHENSIVE EXAMPLE TWO

The bank account in the books of RG Stores showed an overdrawn balance of R103,60 on 31 October 20.1.

On the same date, the entity's bank statement showed a favourable balance of R36,60.

A comparison of the bank statement with the cash receipts and cash payments journals revealed the following differences:

- The bank did not credit a deposit of R75,60 on 31 October 20.1.
- The following cheques had not yet been presented for payment by 31 October 20.1:
  - 789 for R143,10
  - 795 for R226,90

- The bank returned a cheque for R36,10, which was received from a customer, unpaid and marked "refer to drawer".
- The bank recorded the following charges:
  - interest on overdrawn account of R3,20
  - service fees of R11,30

- Totals in the cash journals before preparing the bank reconciliation
  - cash receipts journal, R913,08
  - cash payments journal, R1 016,68

REQUIRED

(1) Prepare the bank account in the general ledger.
(2) Prepare the bank reconciliation statement as at 31 October 20.1.

SOLUTION: COMPREHENSIVE EXAMPLE TWO

RG STORES

GENERAL LEDGER

Dr **Bank** **Cr**

20.1						20.1					
Oct	31	Total receipts	CRJ10	913	08	Oct	31	Balance	b/d	103	60
		Balance	c/d	257	80			Total payments	CPJ10	1 067	28
				1 170	88					1 170	88
						Nov	1	Balance	b/d	257	80

Calculation:

Total payments

Total cash payments journal, R1 016,68 + Customer's returned cheque, R36,10 + Bank charges, R14,50 (R3,20 + R11,30) = R1 067,28

RG STORES

BANK RECONCILIATION STATEMENT AS AT 31 OCTOBER 20.1

	Debit	Credit
	R	R
Credit balance as per bank statement		36,60
Credit outstanding deposit		75,60
Debit outstanding cheques: 789	143,10	
795	226,90	
Credit balance as per bank account		257,80
	370,00	370,00

8.3 BANK RECONCILIATION WHERE A BANK RECONCILIATION STATEMENT WAS PREPARED IN THE PREVIOUS PERIOD

When a bank reconciliation statement was prepared in the previous period (previous month), the first step is to ascertain if the outstanding cheques and the outstanding deposits in the previous period appear in the current period's bank statement.

If they appear in the current period's bank statement, they must be ticked off first and those items still outstanding from the previous period must be noted and shown in the current period's bank reconciliation statement.

The "normal" procedures for bank reconciliation statements will then be followed to prepare the bank reconciliation statement for the current period.

COMPREHENSIVE EXAMPLE THREE

(a) Spiza Traders prepared the following bank reconciliation statement at 31 July 20.1:

SPIZA TRADERS

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.1

	Debit	Credit
	R	R
Credit balance as per bank statement		974,00
Credit outstanding deposit		360,00
Debit outstanding cheques: 104	172,00	
107	420,00	
Debit balance as per bank account	742,00	
	1 334,00	1 334,00

(b) The business received the following bank statement for August 20.1

BANK STATEMENT OF SPIZA TRADERS FOR AUGUST 20.1

Address: 21 Kennedy Road
Midrand
1685

Date	Details	Debits R	Credits R	Balance R
Aug 1	Balance			974,00
	Deposit		360,00	1 334,00
3	Cheque 104	172,00		1 162,00
4	Cheque 107	420,00		742,00
6	Deposit		1 000,00	1 742,00
7	Cheque 108	900,00		842,00
	Cheque book	8,00		834,00
	Service fees	12,00		822,00
	Cheque 109	400,00		422,00
12	Deposit		384,00	806,00
13	Cheque 111	77,00		729,00
16	Cheque 113	136,00		593,00

19	Deposit		800,00	1 393,00
20	Deposit (direct)		80,00	1 473,00
27	Cheque 114	69,52		1 403,48
30	Cheque 115	750,00		653,48
	Debit order: UP Insurers	100,00		553,48

SPIZA TRADERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CRJ8*

Day	Details	Analysis	Bank
		R	R
6	S Singh	1 000,00	1 000,00
12	Cash sales	384,00	384,00
19	A Dune	800,00	800,00
31	Cash sales	582,92	582,92
	Total		2 766,92

SPIZA TRADERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CPJ8*

Cheque no	Day	Details	Bank
			R
108	7	XYZ Wholesalers	900,00
109		DWR Suppliers	400,00
110	8	Cash	168,00
111	12	Cash	77,00
112		Cash	70,40
113	16	Cash	136,00
114	26	Cash	69,52
115	29	RG Traders	750,00
			2 570,92

REQUIRED

(1) Prepare the cash receipts journal and the cash payments journal (bank column only) for August 20.1.
(2) Prepare the bank account in the general ledger.
(3) Prepare the bank reconciliation statement as at 31 August 20.1.

SOLUTION: COMPREHENSIVE EXAMPLE THREE

Step 1

Compare the debit column and credit column of the previous month's bank reconciliation statement with the current month's bank statement.

Tick off items which appear in both the bank statement (debit column and credit column) and the previous month's bank reconciliation statement.

SPIZA TRADERS

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.1

	Debit	Credit	
	R	R	
Credit balance as per bank statement		974,00	
Credit outstanding deposit		360,00	√
Debit outstanding cheques: 104	172, 00 √		
107	420,00 √		
Debit balance as per bank account	742,00		
	1 334,00	1 334,00	

BANK STATEMENT OF SPIZA TRADERS FOR AUGUST 20.1

Address: 21 Kennedy Road
Midrand
1685

Date	Details	Debits R	Credits R	Balance R
Aug 1	Balance			974,00
	Deposit		360,00 √	1 334,00
3	Cheque 104	172,00 √		1 162,00
4	Cheque 107	420,00 √		742,00
6	Deposit		1 000,00	1 742,00
7	Cheque 108	900,00		842,00
	Cheque book	8,00		834,00
	Service fees	12,00		822,00
	Cheque 109	400,00		422,00
12	Deposit		384,00	806,00
13	Cheque 111	77,00		729,00
16	Cheque 113	136,00		593,00
19	Deposit		800,00	1 393,00
20	Deposit (direct)		80,00	1 473,00
27	Cheque 114	69,52		1 403,48
30	Cheque 115	750,00		653,48
	Debit order: UP Insurers	100,00		553,48

Step 2

Compare the debit column of the bank statement with the cash payments journal.

Tick off items which appear in both the bank statement (debit column) and cash payments journal.

BANK STATEMENT OF SPIZA TRADERS FOR AUGUST 20.1 **Address:** 21 Kennedy Road Midrand 1685				
Date	**Details**	**Debits** **R**	**Credits** **R**	**Balance** **R**
Aug 1	Balance			974,00
	Deposit		360,00 √	1 334,00
3	Cheque 104	172,00 √		1 162,00
4	Cheque 107	420,00 √		742,00
6	Deposit		1 000,00	1 742,00
7	Cheque 108	900,00 √		842,00
	Cheque book	8,00		834,00
	Service fees	12,00		822,00
	Cheque 109	400,00 √		422,00
12	Deposit		384,00	806,00
13	Cheque 111	77,00 √		729,00
16	Cheque 113	136,00 √		593,00
19	Deposit		800,00	1 393,00
20	Deposit (direct)		80,00	1 473,00
27	Cheque 114	69,52 √		1 403,48
30	Cheque 115	750,00 √		653,48
	Debit order: UP Insurers	100,00		553,48

SPIZA TRADERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CPJ8*

Cheque no	**Day**	**Details**	**Bank**	
			R	
108	7	XYZ Wholesalers	900,00	√
109		DWR Suppliers	400,00	√
110	8	Cash	168,00	
111	12	Cash	77,00	√
112		Cash	70,40	
113	16	Cash	136,00	√
114	26	Cash	69,52	√
115	29	RG Traders	750,00	√
			2 570,92	

Outstanding items will be the bank charges (R8,00 + R12,00 = R20,00), the debit order (R100,00) and the outstanding cheques (R168,00 and R70,40).

Step 3

Compare the credit column of the bank statement with the cash receipts journal.

Tick off items which appear in both the bank statement (credit column) and the cash receipts journal.

BANK STATEMENT OF SPIZA TRADERS FOR AUGUST 20.1

Address: 21 Kennedy Road
Midrand
1685

Date	Details	Debits R	Credits R	Balance R
Aug 1	Balance			974,00
	Deposit		360,00 √	1 334,00
3	Cheque 104	172,00 √		1 162,00
4	Cheque 107	420,00 √		742,00
6	Deposit		1 000,00 √	1 742,00
7	Cheque 108	900,00 √		842,00
	Cheque book	8,00		834,00
	Service fees	12,00		822,00
	Cheque 109	400,00 √		422,00
12	Deposit		384,00 √	806,00
13	Cheque 111	77,00 √		729,00
16	Cheque 113	136,00 √		593,00
19	Deposit		800,00 √	1 393,00
20	Deposit (direct)		80,00	1 473,00
27	Cheque 114	69,52 √		1 403,48
30	Cheque 115	750,00 √		653,48
	Debit order: UP Insurers	100,00		553,48

SPIZA TRADERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CRJ8*

Day	Details	Analysis	Bank	
		R	R	
6	S Singh	1 000,00	1 000, 00	√
12	Cash sales	384,00	384, 00	√
19	A Dune	800,00	800 ,00	√
31	Cash sales	582, 92	582, 92	
	Totaal		2 766, 92	

Outstanding items will be the direct deposit (R80,00) and the cash sales (R582,92) deposited on 31 August 20.1.

Step 4

Adjust the cash receipts journal and the cash payment journals with the items that are in the bank statement but not in those journals.

SPIZA TRADERS

CASH RECEIPTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CRJ8*

Day	Details		Bank
			R
31	Total	b/d	2 766,92
	Direct deposit		80,00
			2 846,92

SPIZA TRADERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – AUGUST 20.1 *CPJ8*

Day	Details		Bank
			R
31	Total	b/d	2 570,92
	Bank charges		20,00
	Debit order: UP Insurers		100,00
			2 690,92

Step 5

Use the totals obtained from the adjusted cash receipts and cash payment journals to prepare the bank account.

SPIZA TRADERS

GENERAL LEDGER

Dr **Bank** **Cr**

20.1							20.1					
Aug	1	Balance	b/d	742	00		Aug	31	Total payments	CPJ8	2 690	92
	31	Total receipts	CRJ8	2 846	92				Balance	c/d	898	00
				3 588	92						3 588	92
Sep	1	Balance	b/d	898	00							

Step 6

SPIZA TRADERS

BANK RECONCILIATION STATEMENT AS AT 31 AUGUST 20.1

	Debit	Credit
	R	R
Credit balance as per bank statement		553,48
Credit outstanding deposit		582,92
Debit outstanding cheques: 110	168,00	
112	70,40	
Debit balance as per bank account	898,00	
	1 136,40	1 136,40

NOTE:

If the bank statement had a debit (overdrawn) balance, it would have been shown in the debit column of the bank reconciliation statement.

COMPREHENSIVE EXAMPLE FOUR

LP TRADERS

BANK RECONCILIATION STATEMENT AS AT 30 NOVEMBER 20.1

	Debit	Credit
	R	R
Credit balance as per bank statement		359,60
Credit outstanding deposit		160,70
Debit outstanding cheques: 110	3,30	
115	5,00	
118	7,50	
130	4,50	
Debit balance as per bank account	500,00	
	520,30	520,30

	R
The bank statement on 31 December 20.1 showed a favourable balance of:	299,57
The total of the cash payments journal on 31 December 20.1 was:	2 098,86
The total of the cash receipts journal on 31 December 20.1 was:	1 248,20

A comparison of the bank statement with the previous month's bank reconciliation statement, the cash receipts journal and the cash payments journal for December 20.1 showed the following differences:

Items in the bank statement but not in the cash receipts and cash payments journals for December 20.1:

		R
• Deposit on 30 November 20.1		160,70
• Cheques not yet presented to the bank for payment:	115	5,00
	118	7,50
	130	4,50
• Service fees		5,40

• Dishonoured cheque. This cheque of R15,00 was received from a client, D Dobson, as payment on his account.

Items in the cash receipts and cash payments journals but which are not in the bank statement for December 20.1:

		R
• Deposit on 30 December 20.1		192,03
• Cheques:	121	192,36
	129	196,00
	131	256,00
	136	215,00

REQUIRED

(1) Prepare the cash receipts journal and the cash payments journal (bank column only) for December 20.1.
(2) Prepare the bank account in the general ledger.
(3) Prepare the bank reconciliation statement as at 31 December 20.1.

SOLUTION: COMPREHENSIVE EXAMPLE FOUR

LP TRADERS

CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – DECEMBER 20.1 *CPJ12*

Day	Details		Bank
			R
31	Total	b/d	2 098,86
	Bank charges		5,40
	Unpaid cheque: D Dobson		15,00
			2 119,26

LP TRADERS

GENERAL LEDGER

Dr **Bank** **Cr**

20.1						20.1					
Dec	1	Balance	b/d	500	00	Dec	31	Total payments	CPJ12	2 119	26
	31	Total receipts	CRJ12	1 248	20						
		Balance	c/d	371	06						
				2 119	26					2 119	26
						20.2					
						Jan	1	Balance	b/d	371	06

LP TRADERS
BANK RECONCILIATION STATEMENT AS AT 31 DECEMBER 20.1

		Debit	Credit
		R	R
Credit balance as per bank statement			299,57
Credit outstanding deposit			192,03
Debit outstanding cheques:	110	3,30	
	121	192,36	
	129	196,00	
	131	256,00	
	136	215,00	
Credit balance as per bank account			371,06
		862,66	862,66



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• correctly identify non-corresponding items when comparing the cash receipts journal (CRJ) and cash payments journal (CPJ) with the bank statement received from the bank?	☺	😐	☹
• correctly identify non-corresponding items when comparing the cash receipts journal and cash payments journal with the bank reconciliation statement of the previous month and the bank statement received from the bank?	☺	😐	☹
• prepare the bank account in the general ledger?	☺	😐	☹
• correctly prepare a bank reconciliation statement?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit.

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 9

TRIAL BALANCE



Introductory Financial Accounting

OVERVIEW

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9.2 Errors which will not be revealed by a trial balance 281
9.3 Errors which will be revealed by a trial balance 281
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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- correctly prepare a trial balance from a given list of ledger account balances and totals
- identify those errors that will not be revealed by a trial balance
- identify those errors that will be revealed by a trial balance
- trace errors in a trial balance

Almost everything in life is easier to get into than out of.

KEY CONCEPTS

- Trial balance
- Financial position section
- Nominal accounts section



ASSESSMENT CRITERIA

The ability to trace errors that will be revealed in a trial balance and correctly prepare a trial balance is demonstrated.

9.1 INTRODUCTION

In order to determine whether the double-entry principle has been applied correctly when recording transactions, an entity needs to prepare a trial balance on a frequent basis. This is usually done at the end of the month after the subsidiary journals have been posted to the ledger accounts and these accounts have been properly balanced or totalled. A trial balance also checks the arithmetical accuracy of the bookkeeping and is prepared by using the balances or totals which appear in the ledger accounts of the general ledger.

A trial balance is a list of debit and credit balances taken from the general ledger accounts. It is divided into two sections, namely a financial position section and a nominal accounts section. The balances are entered on the same side as they appear in the ledger accounts. A debit balance brought down (b/d) is entered in the debit column of the trial balance and a credit balance brought down (b/d) is entered in the credit column of the trial balance.

9.2 ERRORS WHICH WILL NOT BE REVEALED BY A TRIAL BALANCE

The following are examples of errors that will not be revealed by a trial balance:

- Errors of omission – A transaction which has been completely omitted will not be disclosed by the trial balance.
- Posting to the wrong account – This refers to a transaction that has been entered on the correct side of a ledger account but has been posted to an incorrect account. For example, sales is correctly credited but instead of debiting J Vos, the account of H Vos is debited.
- Compensating errors – This include errors of addition, errors in balancing the account and posting errors. An error on one side of a ledger account is compensated for by the same error on the opposite side of another ledger account. When added, totals on both sides will be exactly the same so the error will not be revealed.

9.3 ERRORS WHICH WILL BE REVEALED BY A TRIAL BALANCE

The following are examples of errors that will be revealed by a trial balance:

- The trial balance has been incorrectly totalled.
- The balances in the ledger accounts have been incorrectly transferred to the trial balance.
  - An incorrect amount has been transferred to the correct side of the trial balance.
  - Debit balances have been transferred to the credit side of the trial balance or a credit balance has been transferred to the debit side of the trial balance.
  - A balance appearing in the ledger has been omitted from the trial balance.

- The balance of the ledger account has been incorrectly calculated.
  - The account has been totalled incorrectly, thus the balance will also be incorrect.
  - The account has been totalled correctly but the balance has been calculated incorrectly.

- Posting from the journals to the ledger accounts are incorrect.
  - A debit entry from a journal has been posted to the credit side of a ledger account, or vice versa.
  - The amount entered is incorrect.
  - Posting of one or more transactions has been omitted.

9.4 TRACING ERRORS IN A TRIAL BALANCE

The general approach is to work “backwards”. This means that the last step in the process is checked first. So you start off by first re-adding the trial balance, then checking the entries in the trial balance,

then checking the balances and totals in the ledger accounts, then checking the postings from the subsidiary journals to the ledger accounts and lastly checking the original entries with the details appearing on the source documents.

Example: Basic format of a trial balance

OCEAN RETAILERS
TRIAL BALANCE AS AT 31 DECEMBER 20.6

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		76 500,00
Drawings	B2	5 000,00	
Land and buildings	B3	80 000,00	
Vehicles	B4	25 000,00	
Inventory	B5	8 000,00	
Debtors control	B6	6 000,00	
Bank	B7	3 000,00	
Petty cash	B8	200,00	
Cash float	B9	800,00	
Nominal accounts section			
Sales	N1		120 000,00
Cost of sales	N2	60 000,00	
Sales returns	N3	1 000,00	
Bank charges	N4	500,00	
Property tax	N5	2 000,00	
Repairs	N6	500,00	
Stationery	N7	300,00	
Vehicle expenses	N8	700,00	
Water and electricity	N9	3 500,00	
		196 500,00	196 500,00

NOTE:

The trial balance is prepared from the balances and totals in the accounts of the general ledger. The balances of individual debtors and creditors accounts in the different subsidiary ledgers are represented by the balances on the debtors and creditors control accounts.

B refers to account that are utilized in the statement of financial position. These accounts have a closing balance and are not closed off to final accounts.

N refers to accounts that are closed off to final accounts.

EXERCISE 9.1

Use the information supplied in the general ledger of Hex Traders and prepare the trial balance as at 30 June 20.9.

HEX TRADERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

						20.9						
						Jun	1	Balance	b/d	46 770	00

Dr **Drawings** **B2** **Cr**

20.9												
Jun	1	Balance	b/d	4 650	00							
	11	Inventory	GJ1	282	72							
	21	Bank	CPJ1	300	00							
	29	Bank	CPJ1	965	00							
				6 197	72							

Dr **Vehicles** **B3** **Cr**

20.9												
Jun	1	Balance	b/d	32 775	00							

Dr **Equipment** **B4** **Cr**

20.9												
Jun	1	Balance	b/d	3 915	00							
	30	Creditors control	GJ1	800	00							
				4 715	00							

Dr **Inventory** **B5** **Cr**

20.9						20.9						
Jun	1	Balance	b/d	4 198	00	Jun	11	Drawings	GJ1	248	00
	30	Creditors control	PJ1	6 974	03		30	Creditors control	PRJ1	81	23
		Cost of sales	SRJ1	49	60			Cost of sales	SJ1	1 928	00
		Bank	CPJ1	1 765	00			Cost of sales	CRJ1	7 360	00
								Balance	c/d	3 369	40
				12 986	63					12 986	63
Jul	1	Balance	b/d	3 369	40						

Dr **Debtors control** **B6** **Cr**

20.9						20.9					
Jun	1	Balance	b/d	2 442	06	Jun	30	Sales returns and VAT	SRJ1	70	68
	30	Sales and VAT	SJ1	2 747	40			Bank and settlement			
		Bank (cheque R/D)	CRJ1	835	00			discount	CRJ1	1 197	00
		Interest income	GJ1	15	00			Credit losses and VAT	GJ1	228	00
								Balance	c/d	4 543	78
				6 039	46					6 039	46
Jul	1	Balance	b/d	4 543	78						

Dr **Bank** **B7** **Cr**

20.9						20.9					
Jun	1	Balance	b/d	3 420	00	Jun	30	Total payments	CPJ1	11 599	54
	30	Total receipts	CRJ1	12 064	00			Balance	c/d	3 884	46
				15 484	00					15 484	00
Jul	1	Balance	b/d	3 884	46						

Dr **Cash float** **B8** **Cr**

20.9					
Jun	1	Balance	b/d	250	00

Dr **Petty cash** **B9** **Cr**

20.9						20.9					
Jun	1	Balance	b/d	100	00	Jun	30	Total payments	PCJ1	72	44
	30	Bank	CPJ1	72	44			Balance	c/d	100	00
				172	44					172	44
Jul	1	Balance	b/d	100	00						

Dr **Creditors control** **B10** **Cr**

20.9						20.9					
Jun	30	Stationery and VAT	GJ1	18	24	Jun	1	Balance	b/d	1 225	50
		Packing material and VAT	GJ1	28	50		30	Inventory and VAT	PJ1	7 950	40
		Inventory and VAT	PRJ1	92	60			Equipment and VAT	GJ1	912	00
		Bank	CPJ1	729	60			Packing material and VAT	GJ1	382	40
		Balance	c/d	9 792	56			Stationery and VAT	GJ1	191	20
				10 661	50					10 661	50
						Jul	1	Balance	b/d	9 792	56

Dr **VAT input** **B11** **Cr**

20.9						20.9					
Jun	30	Debtors control	GJ1	28	00	Jun	30	Creditors control	PRJ1	17	11
		Creditors control	PJ1	1 158	81			VAT control	GJ1	1 600	70
		Bank	CPJ1	422	10						
		Bank	CRJ1	2	46						
		Petty cash	PCJ1	6	44						
				1 617	81					1 617	81

Dr **VAT output** **B12** **Cr**

20.9						20.9					
Jun	30	Debtors control	SRJ1	8	68	Jun	1	Balance	b/d	1 002	46
		VAT control	GJ1	2 706	54		11	Drawings	GJ1	34	72
							30	Debtors control	SJ1	337	40
								Bank	CRJ1	1 337	00
								Bank	CPJ1	3	64
				2 715	22					2 715	22

Dr **VAT control** **B13** **Cr**

20.9						20.9					
Jun	30	VAT input	GJ1	1 600	70	Jun	30	VAT output	GJ1	2 706	54
		SARS (VAT)	GJ1	1 105	84						
				2 706	54					2 706	54

Dr **SARS (VAT)** **B14** **Cr**

						20.9					
						Jun	30	VAT control	GJ1	1 105	84

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

						20.9					
						Jun	1	Balance	b/d	39 623	60
							30	Debtors control	SJ1	2 410	00
								Bank	CRJ1	9 200	00
										51 233	60

Dr **Sales returns** **N2** **Cr**

20.9											
Jun	30	Debtors control	SRJ1	62	00						

Dr **Cost of sales** **N3** **Cr**

20.9						20.9					
Jun	1	Balance	b/d	27 501	00	Jun	30	Inventory	SRJ1	49	60
	30	Inventory	SJ1	1 928	00			Balance	c/d	36 739	40
		Inventory	CRJ1	7 360	00						
				36 789	00					36 789	00
Jul	1	Balance	b/d	36 739	40						

Dr **Credit losses** **N4** **Cr**

20.9											
Jun	30	Debtors control	GJ1	200	00						

Dr **Bank charges** **N5** **Cr**

20.9											
Jun	1	Balance	b/d	114	00						
	30	Bank	CPJ1	100	00						
				214	00						

Dr **Settlement discount granted** **N6** **Cr**

20.9											
Jun	30	Debtors control	CRJ1	17	54						

Dr **Settlement discount received** **N7** **Cr**

						20.9					
						Jun	30	Creditors control	CPJ1	25	96

Dr **Donations** **N8** **Cr**

20.9											
Jun	22	Petty cash	PCJ1	20	00						

Dr **Packing material** **N9** **Cr**

20.9						20.9					
Jun	30	Creditors control	GJ1	335	44	Jun	30	Creditors control	GJ1	25	00
								Balance	c/d	310	44
				335	44					335	44
Jul	1	Balance	b/d	310	44						

Dr **Postage** **N10** **Cr**

20.9											
Jun	30	Petty cash	PCJ1	20	00						

Dr **Rental expenses** **N11** **Cr**

20.9											
Jun	1	Balance	b/d	1 881	00						

Dr **Salaries** **N12** **Cr**

20.9											
Jun	1	Balance	b/d	2 475	00						
	29	Bank	CPJ1	4 000	00						
				6 475	00						

Dr **Stationery** **N13** **Cr**

20.9						20.9					
Jun	1	Balance	b/d	399	00	Jun	30	Creditors control	GJ1	16	00
	30	Creditors control	GJ1	167	72			Balance	c/d	576	72
		Petty cash	PCJ1	26	00						
				592	72					592	72
Jul1		Balance	b/d	576	72						

Dr **Telephone expenses** **N14** **Cr**

20.9											
Jun	1	Balance	b/d	342	00						
	30	Bank	CPJ1	370	00						
				712	00						

Dr **Water and electricity** **N15** **Cr**

20.9											
Jun	1	Balance	b/d	3 484	50						
	11	Bank	CPJ1	780	00						
				4 264	50						

Dr **Wages** **N16** **Cr**

20.9											
Jun	1	Balance	b/d	675	00						
	30	Bank	CPJ1	1 290	00						
				1 965	00						

Dr **Credit losses recovered** **N17** **Cr**

						20.9					
						Jun	23	Bank	CRJ1	350	00

Dr **Interest income** **N18** **Cr**

						20.9					
						Jun	30	Debtors control	GJ1	15	00

SOLUTION: EXCERCISE 9.1

HEX TRADERS

TRIAL BALANCE AS AT 30 JUNE 20.9

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		46 770,00
Drawings	B2	6 197,72	
Vehicles	B3	32 775,00	
Equipment	B4	4 715,00	
Inventory	B5	3 369,40	
Debtors control	B6	4 543,78	
Bank	B7	3 884,46	
Cash float	B8	250,00	
Petty cash	B9	100,00	
Creditors control	B10		9 792,56
SARS (VAT)	B14		1 105,84
Nominal accounts section			
Sales	N1		51 233,60
Sales returns	N2	62,00	
Cost of sales	N3	36 739,40	
Credit losses	N4	200,00	
Bank charges	N5	214,00	
Settlement discount granted	N6	17,54	
Settlement discount received	N7		25,96
Donations	N8	20,00	
Packing material	N9	310,44	
Postage	N10	20,00	
Rental expenses	N11	1 881,00	
Salaries	N12	6 475,00	
Stationery	N13	576,72	
Telephone expenses	N14	712,00	
Water and electricity	N15	4 264,50	
Wages	N16	1 965,00	
Credit losses recovered	N17		350,00
Interest income	N18		15,00
		109 292, 96	109 292,96

EXERCISE 9.2

Prepare a trial balance from the following balances and totals taken from the general ledger of BJ Thomas and Son as at 30 November 20.1. Use your own folio references.

List of balances and totals:

Capital, R66 400; vehicles, R100 000; equipment, R20 000; debtors control, R14 000; creditors control, R23 000; bank, R4 500; inventory, R7 500; petty cash, R200; sales, R160 000; cash float, R500; drawings, R1 200; stationery, R400; bank charges, R600; interest expense, R700; credit losses, R300; petrol and oil, R4 800; cost of sales, R80 000; sales returns, R4 000; SARS (VAT) (Dr), R1 500; advertising, R1 800; telephone expenses, R6 000, packing material, R1 400

SOLUTION: EXCERCISE 9.2

BJ THOMAS AND SON

TRIAL BALANCE AS AT 30 NOVEMBER 20.1

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		66 400,00
Drawings	B2	1 200,00	
Vehicles	B3	100 000,00	
Equipment	B4	20 000,00	
Inventory	B5	7 500,00	
Debtors control	B6	14 000,00	
Bank	B7	4 500,00	
Cash float	B8	500,00	
Petty cash	B9	200,00	
Creditors control	B10		23 000,00
SARS (VAT)	B11	1 500,00	
Nominal accounts section			
Sales	N1		160 000,00
Sales returns	N2	4 000,00	
Cost of sales	N3	80 000,00	
Advertising	N4	1 800,00	
Credit losses	N5	300,00	
Bank charges	N6	600,00	
Interest expense	N7	700,00	
Packing material	N8	1 400,00	
Petrol and oil	N9	4 800,00	
Stationery	N10	400,00	
Telephone expenses	N11	6 000,00	
		249 400,00	249 400,00

EXERCISE 9.3

Use the information provided in the general ledger of Wilco Traders to prepare the trial balance of Wilco Traders as at 30 June 20.4.

WILCO TRADERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.4						20.4					
Jun	30	Balance	c/d	178 000	00	Jun	1	Balance	b/d	170 000	00
							5	Bank	CRJ4	8 000	00
				178 000	00					178 000	00
						Jul	1	Balance	b/d	178 000	00

Dr **Vehicles** **B2** **Cr**

20.4					
Jun	1	Balance	b/d	120 000	00

Dr **Office equipment** **B3** **Cr**

20.4					
Jun	1	Balance	b/d	35 000	00
	4	Bank	CPJ4	1 500	00
	4	Creditors control	GJ4	6 000	00
				42 500	00

Dr **Inventory** **B4** **Cr**

20.4						20.4					
Jun	1	Balance	b/d	18 000	00	Jun	30	Creditors control	PRJ4	800	00
	30	Bank	CPJ4	3 000	00			Cost of sales	CRJ4	22 600	00
		Creditors control	PJ4	16 500	00			Cost of sales	SJ4	2 126	90
		Cost of sales	SRJ4	166	66			Balance	c/d	12 139	76
				37 666	66					37 666	66
Jul	1	Balance	b/d	12 139	76						

Dr **Debtors control** **B5** **Cr**

20.4						20.4					
Jun	1	Balance	b/d	3 432	00	Jun	30	Bank and settlement			
	30	Sales and VAT	SJ4	3 637	00			discount	CRJ4	2 657	00
		Interest income	GJ4	18	00			Sales returns and VAT	SRJ4	285	00
								Credit losses and VAT	GJ4	700	00
								Balance	c/d	3 445	00
				7 087	00					7 087	00
Jul	1	Balance	b/d	3 445	00						

Dr **Creditors control** **B6** **Cr**

20.4						20.4					
Jun	30	Bank and settlement discount	CPJ4	12 302	00	Jun	1	Balance	b/d	21 012	00
		Inventory and VAT	PRJ4	912	00		30	Office equipment and VAT	GJ4	6 840	00
		Stationery and VAT	GJ4	46	00			Inventory and VAT	PJ4	18 810	00
		Balance	c/d	38 304	00			Stationery and VAT	GJ4	1 254	00
								Packing material and VAT	GJ4	798	00
								Repairs and VAT	GJ4	2 850	00
				51 564	00					51 564	00
						Jul	1	Balance	b/d	38 304	00

Dr **VAT input** **B7** **Cr**

20.4						20.4					
Jun	1	Balance	b/d	2 490	00	Jun	30	Creditors control	PRJ4	117	65
	30	Bank	CPJ4	1 315	02			VAT control	GJ4	7 537	00
		Bank	CRJ4	11	67						
		Debtors control	GJ4	85	96						
		Creditors control	PJ4	3 752	00						
				7 654	65					7 654	65

Dr **VAT output** **B8** **Cr**

20.4						20.4					
Jun	30	Debtors control	SRJ4	35	00	Jun	1	Balance	b/d	2 610	00
		VAT control	GJ4	7 871	79		30	Bank	CRJ4	4 746	00
								Bank	CPJ4	104	14
								Bank	CPJ4	446	65
				7 906	79					7 906	79

Dr **VAT control** **B9** **Cr**

20.4						20.4					
Jun	30	VAT input	GJ4	7 537	00	Jun	30	VAT output	GJ4	7 871	79
		SARS (VAT)	GJ4	334	79						
				7 871	79					7 871	79

Dr **SARS (VAT)** **B10** **Cr**

						20.4					
						Jun	30	VAT control	GJ4	334	79

Dr **Bank** **B11** **Cr**

20.4						20.4					
Jun	1	Balance	b/d	2 500	00	Jun	30	Total payments	CPJ4	33 562	00
	30	Total receipts	CRJ4	49 208	00			Balance	c/d	18 146	00
				51 708	00					51 708	00
Jul	1	Balance	b/d	18 146	00						

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

						20.4						
						Jun	30	Balance	b/d	120 000	00
								Bank	CRJ4	33 900	00
								Debtors control	SJ4	3 190	35
										157 090	35

Dr **Sales returns** **N2** **Cr**

20.4											
Jun	30	Debtors control	SRJ4	250	00						

Dr **Cost of sales** **N3** **Cr**

20.4						20.4						
Jun	30	Balance	b/d	80 000	00	Jun	30	Inventory	SRJ4	166	66
		Inventory	CRJ4	22 600	00			Balance	c/d	104 560	24
		Inventory	SJ4	2 126	90						
				104 726	90					104 726	90
Jul	1	Balance	b/d	104 560	24						

Dr **Settlement discount granted** **N4** **Cr**

20.4											
Jun	1	Balance	b/d	150	00						
	30	Debtors control	CRJ4	83	33						
				233	33						

Dr **Settlement discount received** **N5** **Cr**

						20.4					
						Jun	30	Creditors control	CPJ4	743	86

Dr **Rental expenses** **N6** **Cr**

20.4											
Jun	1	Balance	b/d	6 000	00						
	30	Bank	CPJ4	2 000	00						
				8 000	00						

Dr **Municipal services** **N7** **Cr**

20.4											
Jun	1	Balance	b/d	5 200	00						
	30	Bank	CPJ4	1 200	00						
				6 400	00						

Dr **Telephone expenses** **N8** **Cr**

20.4											
Jun	1	Balance	b/d	3 000	00						
	30	Bank	CPJ4	800	00						
				3 800	00						

Dr **Stationery** **N9** **Cr**

20.4						20.4					
Jun	1	Balance	b/d	800	00	Jun	30	Creditors control	GJ4	40	35
	30	Creditors control	GJ4	1 100	00			Balance	c/d	1 859	65
				1 900	00					1 900	00
Jul	1	Balance	b/d	1 859	65						

Dr **Packing material** **N10** **Cr**

20.4											
Jun	1	Balance	b/d	320	00						
	30	Creditors control	GJ4	700	00						
				1 020	00						

Dr **Bank charges** **N11** **Cr**

20.4											
Jun	1	Balance	b/d	430	00						
	30	Bank	CPJ4	192	98						
				622	98						

Dr **Wages** **N12** **Cr**

20.4											
Jun	1	Balance	b/d	9 000	00						
	30	Bank	CPJ4	3 000	00						
				12 000	00						

Dr **Salaries** **N13** **Cr**

20.4											
Jun	1	Balance	b/d	25 200	00						
	27	Bank	CPJ4	4 300	00						
	30	Bank	CPJ4	4 100	00						
				33 600	00						

Dr **Cell phone expenses** **N14** **Cr**

20.4											
Jun	1	Balance	b/d	2 100	00						
	29	Bank	CPJ4	700	00						
				2 800	00						

Dr **Repairs** **N15** **Cr**

20.4											
Jun	29	Creditors control	GJ4	2 500	00						

Dr **Interest income** **N16** **Cr**

						20.4					
						Jun	30	Debtors control	GJ4	18	00

Dr **Credit losses** **N17** **Cr**

20.4											
Jun	30	Debtors control	GJ4	614	04						

SOLUTION: EXCERCISE 9.3

WILCO TRADERS

TRIAL BALANCE AS AT 30 JUNE 20.4

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		178 000,00
Vehicles	B2	120 000,00	
Office equipment	B3	42 500,00	
Inventory	B4	12 139,76	
Debtors control	B5	3 445,00	
Creditors control	B6		38 304,00
SARS (VAT)	B10		334,79
Bank	B11	18 146,00	
Nominal accounts section			
Sales	N1		157 090,35
Sales returns	N2	250,00	
Cost of sales	N3	104 560,24	
Settlement discount granted	N4	233,33	
Settlement discount received	N5		743,86
Rental expenses	N6	8 000,00	
Municipal services	N7	6 400,00	
Telephone expenses	N8	3 800,00	
Stationery	N9	1 859,65	
Packing materials	N10	1 020,00	
Bank charges	N11	622,98	
Wages	N12	12 000,00	
Salaries	N13	33 600,00	
Cell phone expenses	N14	2 800,00	
Repairs	N15	2 500,00	
Interest income	N16		18,00
Credit losses	N17	614,04	
		374 491,00	374 491,00

	**SELF-ASSESSMENT** After you have worked through this learning unit, are you able to: ● identify those errors that will not be revealed by a trial balance? ● identify those errors that will be revealed by a trial balance? ● correctly prepare a trial balance?	☺ ☺ ☺	😐 😐 😐	☹ ☹ ☹

If you have marked all ☺ you may continue to the next learning unit.

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 10

FINAL ACCOUNTS



Introductory Financial Accounting

OVERVIEW

Learning outcomes 298
Key concepts 298
Assessment criteria 299
10.1 Introduction 299
10.2 Gross profit and net profit 299
10.3 Closing transfers 300
Self-assessment 330

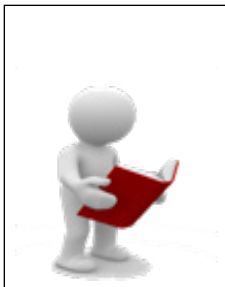
LEARNING OUTCOMES

After studying this learning unit you should be able to:

- discuss in your own words the difference between gross and net profit and describe how they are calculated
- do the closing entries at the end of a financial year for a retail entity using the perpetual inventory system
- do the closing entries at the end of a financial year for a retail entity using the periodic inventory system
- do the closing entries at the end of a financial year for a service entity
- prepare a trading account and profit or loss account
- prepare a post-closing trial balance

KEY CONCEPTS

- Gross profit
- Net profit (profit for the year)
- Closing transfers
- Year-end procedures
- Final accounts
- Trading account
- Profit or loss account



ASSESSMENT CRITERIA

- The ability to do the closing entries at the end of a financial year for a retail entity using the perpetual inventory system is demonstrated.
- The ability to do the closing entries at the end of a financial year for a retail entity using the periodic inventory system is demonstrated.
- The ability to do the closing entries at the end of a financial year for a service entity is demonstrate.
- The ability to prepare a trading account, profit or loss account and a post-closing trial balance for a retail entity as well as a service entity is demonstrated.

10.1 INTRODUCTION

A retailer purchases inventory with the purpose of selling it at a profit. If he/she purchases a bottle of coffee for R15 and sells it for R25, he/she makes a profit of R10. The profit is the difference between what he/she paid for the item and the selling price.

To determine the profit on one article is simple, because the cost price and the selling price are known and the profit will be the difference between the two. The term profit mark-up refers to the percentage profit a retailer wants to make on the item(s) he/she sells. If the retailer sells a large and varied quantity of articles and if the profit mark-up on these articles differs (and if operating expenses like salaries, water and electricity, telephone, etc are taken into consideration) the calculation of profit becomes increasingly more difficult and the retailer has to use special accounts in order to calculate the profit accurately.

Periodically it is important for an entity to determine its profit for a specific period. This enables the owner to run his/her business more effectively because errors in management can be detected more quickly and appropriate corrective measures can be taken.

The date on which an entity calculates its profit is called the accounting date and the period for which it is done is called the accounting period. This period is also called the financial year; this does not necessarily coincide with the calendar year. The financial year is any period which consists of 12 consecutive months. Normally entities choose their accounting period to coincide with the close of the tax year on the last day of February. An entity can, after consulting with SARS, close its financial year on any appropriate date.

10.2 GROSS PROFIT AND NET PROFIT

Profit is the amount by which the income of an entity (during a certain accounting period) exceeds the operating expenses (for the same period). The effect of a profit is to increase the equity. For accounting reasons this profit is calculated in two stages – first the gross profit is calculated, which forms the basis for calculating the net profit (profit for the year). In the case of a service entity there can be no gross profit because there is no cost of sales.

The gross profit of an entity is the amount by which its sales exceed the cost price of the items sold for a specific accounting period. The net profit (profit for the year) is the gross profit reduced by all the operating expenses which are incurred in the day-to-day running of the entity. Other income, like interest income, is then added. An entity can also suffer a loss. This happens when, for a specific accounting period, the expenses are more than the income.

Assume that an entity has kept proper records of all its transactions during the financial year. During this period inventory was purchased and sold and services rendered, documents were issued and

received and the transaction data thereon carefully entered in the appropriate subsidiary journals and then filed. The transaction data was then posted from the subsidiary journals to the different ledger accounts. At the end of the accounting period (financial year) the entity must determine if it has traded at a profit or a loss. In order to calculate the profit or loss, two special accounts have to be opened. These two accounts, referred to collectively as final accounts, are the trading account and the profit or loss account.

10.3 CLOSING TRANSFERS

At the end of the financial year, before the trading account and profit or loss accounts are opened, the total amounts that have accumulated in the different income and expenditure accounts of the entity must be determined. This implies that the different income and expenditure accounts must be closed off at the end of the year so that new accounts can be opened in the new financial year.

The income and expenditure accounts of the entity are nominal accounts and must be closed off at the end of the financial year by way of closing transfers. Closing transfers are entries in the accounting records whereby the accumulated totals in the accounting records are transferred to another account or accounts, called final accounts or to the owner's capital account.

Closing transfers are entered in the general journal. This journal is used as a book of first entry for all transactions which do not have a formal source document and as such cannot be entered in any of the other journals.

It was clearly stated that the final accounts are used to determine profit. The trading account is used for determining the gross profit and is only applicable to retail entities and not to service entities. The reason for this is that gross profit is the difference between total sales and total cost of sales. A service entity renders a service and does not sell any goods. The profit or loss account is used to determine the net profit (profit for the year) and is used for both retail and service entities.

The accounting procedure that must be followed at the end of the financial year by an entity (using a **perpetual inventory system**) is as follows:

(1) Balance the financial position accounts and calculate the totals of the nominal accounts in pencil.
(2) Prepare the trial balance from the pencil totals in the nominal accounts and the balances of the financial position accounts.
(3) The next step involves the writing-up of closing transfers, which involves the following phases:

- Close off the sales returns account to the sales account.
- Close off the settlement discount granted account to the sales account.
- Close off the settlement discount received account to the cost of sales account.
- Close off the sales account and cost of sales account to the trading account.
- Close off the trading account by transferring the gross profit to the profit or loss account.
- Close off the income and expense accounts by transferring their totals to the profit or loss account.
- Close off the profit or loss account by transferring the net profit (profit for the year) to the capital account.
- Close off the drawings account by transferring the balance to the capital account. Note that at each phase the necessary closing transfer is made in the general journal. In the case of a service entity the first five phases are skipped.

(4) After the closing transfers have been made, all the nominal accounts must balance, that is, the total of the debit side and the total of the credit side of each account will be the same. The capital account must also be balanced.

At this point a post-closing trial balance can be prepared which will contain only the balances of the financial position accounts.

If a **periodic inventory system is used by an entity** the closing transfers will be as follows:

(1) Close off the sales returns account to the sales account.
(2) Close off the settlement discount granted account to the sales account.
(3) Close off the purchases returns account to the purchases account.
(4) Close off the settlement discount received account to the purchases account.
(5) Close off the sales account and purchases account to the trading account.
(6) Close off the carriage on purchases account to the trading account.
(7) Transfer the opening inventory to the trading account.
(8) Transfer the closing inventory to the trading account.
(9) Close off the trading account by transferring the gross profit to the profit or loss account.
(10) Close off the income and expense accounts by transferring their totals to the profit or loss account.
(11) Close off the profit or loss account by transferring the net profit (profit for the year) to the capital account.
(12) Close off the drawings account by transferring the balance to the capital account.

The above procedures can be summarised as follows:

Transaction	**Perpetual (continuous) inventory system**		**Periodic inventory system**	
	General ledger		**General ledger**	
	Account debited	**Account credited**	**Account debited**	**Account credited**
Close off the sales returns account to the sales account	Sales	Sales returns	Sales	Sales returns
Close off the settlement discount granted account to the sales account	Sales	Settlement discount granted	Sales	Settlement discount granted
Close off the purchases returns account to the purchases account			Purchases returns	Purchases
Close off the settlement discount received account	Settlement discount received	Cost of sales	Settlement discount received	Purchases
Close off the sales account to the trading account	Sales	Trading account	Sales	Trading account
Close off the cost of sales account to the trading account	Trading account	Cost of sales		
Close off the purchases account to the trading account			Trading account	Purchases
Close off the carriage on purchases account to the trading account			Trading account	Carriage on purchases
Transfer the opening inventory to the trading account			Trading account	Inventory
Transfer the closing inventory to the trading account			Inventory	Trading account
Close off the trading account by transferring the gross profit to the profit or loss account	Trading account	Profit or loss account	Trading account	Profit or loss account

Transaction	Perpetual (continuous) inventory system		Periodic inventory system	
	General ledger		General ledger	
	Account debited	Account credited	Account debited	Account credited
Close off the income accounts by transferring their totals to the profit or loss account	Income accounts	Profit or loss account	Income accounts	Profit or loss account
Close off the expense accounts by transferring their totals to the profit or loss account	Profit or loss account	Expense accounts	Profit or loss account	Expense accounts
Close off the profit or loss account by transferring the net profit (profit for the year) to the capital account	Profit or loss account	Capital account	Profit or loss account	Capital account
Close off the drawings account by transferring the total to the capital account	Capital account	Drawings	Capital account	Drawings

COMPREHENSIVE EXAMPLE 10.1: FINANCIAL YEAR-END PROCEDURES OF A TRADING ENTITY

The following balances and totals appeared in the books of Gena Traders at 28 February 20.3 (the end of the entity's accounting period):

Balances and totals as at 28 February 20.3

	R
Capital	87 450
Drawings	3 750
Land and buildings	60 000
Vehicles	50 000
Inventory	5 250
Debtors control	3 800
Bank (Dr)	2 850
Creditors control	4 300
Sales	180 000
Cost of sales	108 000
Water and electricity	14 300
Telephone expenses	2 400
Salaries	25 800
Stationery	1 600
Rental income	6 000

REQUIRED

(1) Open the ledger accounts with the given balances and totals.
(2) Show the closing transfers in the general journal.
(3) Post the closing transfers to the ledger accounts.
(4) Prepare a post-closing trial balance.

SOLUTION: EXAMPLE 10.1

GENA TRADERS

GENERAL JOURNAL – FEBRUARY 20.3 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
28	Trading account	N8	108 000,00	
	Cost of sales	N2		108 000,00
	Closing transfer			
	Sales	N1	180 000,00	
	Trading account	N8		180 000,00
	Closing transfer			
	Trading account	N8	72 000,00	
	Profit or loss account	N9		72 000,00
	Transfer of gross profit			
	Profit or loss account	N9	44 100,00	
	Water and electricity	N3		14 300,00
	Salaries	N4		25 800,00
	Stationery	N5		1 600,00
	Telephone expenses	N6		2 400,00
	Closing transfer of expense account			
	Rental income	N7	6 000,00	
	Profit or loss account	N9		6 000,00
	Closing transfer of income account			
	Profit or loss account	N9	33 900,00	
	Capital	B1		33 900,00
	Transfer of net profit (profit for the year) to capital account			
	Capital	B1	3 750,00	
	Drawings	B2		3 750,00
	Transfer of drawings to capital account			

GENA TRADERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.3						20.3					
Feb	28	Drawings	GJ1	3 750	00	Feb	28	Balance	b/d	87 450	00
		Balance	c/d	117 600	00			Profit or loss account	GJ1	33 900	00
				121 350	00					121 350	00
						Mar	1	Balance	b/d	117 600	00

Dr **Drawings** **B2** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	3 750	00	Feb	28	Capital	GJ1	3 750	00

Dr **Land and buildings** **B3** **Cr**

20.3											
Feb	28	Balance	b/d	60 000	00						

Dr **Vehicles** **B4** **Cr**

20.3											
Feb	28	Balance	b/d	50 000	00						

Dr **Inventory** **B5** **Cr**

20.3											
Feb	28	Balance	b/d	5 250	00						

Dr **Debtors control** **B6** **Cr**

20.3											
Feb	28	Balance	b/d	3 800	00						

Dr **Bank** **B7** **Cr**

20.3											
Feb	28	Balance	b/d	2 850	00						

Dr **Creditors control** **B8** **Cr**

						20.3					
						Feb	28	Balance	b/d	4 300	00

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

20.3						20.3					
Feb	28	Trading account	GJ1	180 000	00	Feb	28	Balance	b/d	180 000	00

Dr **Cost of sales** **N2** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	108 000	00	Feb	28	Trading account	GJ1	108 000	00

Dr				Water and electricity						N3	Cr
20.3 Feb	28	Balance	b/d	14 300	00	20.3 Feb	28	Profit or loss account	GJ1	14 300	00

Dr				Salaries						N4	Cr
20.3 Feb	28	Balance	b/d	25 800	00	20.3 Feb	28	Profit or loss account	GJ1	25 800	00

Dr				Stationery						N5	Cr
20.3 Feb	28	Balance	b/d	1 600	00	20.3 Feb	28	Profit or loss account	GJ1	1 600	00

Dr				Telephone expenses						N6	Cr
20.3 Feb	28	Balance	b/d	2 400	00	20.3 Feb	28	Profit or loss account	GJ1	2 400	00

Dr				Rental income						N7	Cr
20.3 Feb	28	Profit or loss account	GJ1	6 000	00	20.3 Feb	28	Balance	b/d	6 000	00

Dr				Trading account						N8	Cr
20.3 Feb	28	Cost of sales	GJ1	108 000	00	20.3 Feb	28	Sales	GJ1	180 000	00
		Profit or loss account	GJ1	72 000	00						
				180 000	00					180 000	00

Dr				Profit or loss account						N9	Cr
20.3						20.3					
Feb	28	Water and electricity	GJ1	14 300	00	Feb	28	Trading account	GJ1	72 000	00
		Salaries	GJ1	25 800	00			Rental income	GJ1	6 000	00
		Stationery	GJ1	1 600	00						
		Telephone expenses	GJ1	2 400	00						
		Capital (profit for the year)	GJ1	33 900	00						
				78 000	00					78 000	00

GENA TRADERS

POST-CLOSING TRIAL BALANCE AS AT 28 FEBRUARY 20.3

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		117 600,00
Land and buildings	B3	60 000,00	
Vehicles	B4	50 000,00	
Inventory	B5	5 250,00	
Debtors control	B6	3 800,00	
Bank	B7	2 850,00	
Creditors control	B8		4 300,00
		121 900,00	121 900,00

COMPREHENSIVE EXAMPLE 10.2: FINAL ACCOUNTS OF A SERVICE ENTITY

The following information was taken from the accounting records of Gena Services at the end of the entity's accounting period (28 February 20.3).

Balances and totals as at 28 February 20.3

	R
Capital	87 450
Drawings	3 750
Land and buildings	60 000
Vehicles	50 000
Debtors control	9 050
Bank (Dr)	2 850
Creditors control	4 300
Current income	78 000
Water and electricity	14 300
Telephone expenses	2 400
Salaries	25 800
Stationery	1 600

REQUIRED

(1) Open the ledger accounts with the given balances.
(2) Show the closing transfers in the general journal.
(3) Post the closing transfers to the ledger accounts.

SOLUTION: EXAMPLE 10.2

GENA SERVICES

GENERAL JOURNAL – FEBRUARY 20.3 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
28	Profit or loss account	N6	44 100,00	
	Water and electricity	N2		14 300,00
	Salaries	N3		25 800,00
	Stationery	N4		1 600,00
	Telephone expenses	N5		2 400,00
	Closing transfer of expense accounts			
	Current income	N1	78 000,00	
	Profit or loss account	N6		78 000,00
	Closing transfer of income account			
	Profit or loss account	N6	33 900,00	
	Capital	B1		33 900,00
	Transfer of net profit (profit for the year) to capital account			
	Capital	B1	3 750,00	
	Drawings	B2		3 750,00
	Transfer of drawings to capital account			

NOTE:

The trading account falls away in the case of a service entity because there are no sales or cost of sales which form the basis for the calculation of gross profit.

GENA SERVICES

GENERAL JOURNAL

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.3						20.3					
Feb	28	Drawings	GJ1	3 750	00	Feb	28	Balance	b/d	87 450	00
		Balance	c/d	117 600	00			Profit or loss account	GJ1	33 900	00
				121 350	00					121 350	00
						Mar	1	Balance	b/d	117 600	00

Dr			Drawings						B2	Cr	
20.3 Feb	28	Balance	b/d	3 750	00	20.3 Feb	28	Capital	GJ1	3 750	00

Dr			Land and buildings						B3	Cr	
20.3 Feb	28	Balance	b/d	60 000	00						

Dr			Vehicles						B4	Cr	
20.3 Feb	28	Balance	b/d	50 000	00						

Dr			Debtors control						B6	Cr	
20.3 Feb	28	Balance	b/d	9 050	00						

Dr			Bank						B7	Cr	
20.3 Feb	28	Balance	b/d	2 850	00						

Dr			Creditors control						B8	Cr	
						20.3 Feb	28	Balance	b/d	4 300	00

NOMINAL ACCOUNTS SECTION

Dr			Current income						N1	Cr	
20.3 Feb	28	Profit or loss account	GJ1	78 000	00	20.3 Feb	28	Balance	b/d	78 000	00

Dr			Water and electricity						N2	Cr	
20.3 Feb	28	Balance	b/d	14 300	00	20.3 Feb	28	Profit or loss account	GJ1	14 300	00

Dr			Salaries						N3	Cr	
20.3 Feb	28	Balance	b/d	25 800	00	20.3 Feb	28	Profit or loss account	GJ1	25 800	00

Dr				Stationery					N4	Cr	
20.3						20.3					
Feb	28	Balance	b/d	1 600	00	Feb	28	Profit or loss account	GJ1	1 600	00

Dr				Telephone expenses					N5	Cr	
20.3						20.3					
Feb	28	Balance	b/d	2 400	00	Feb	28	Profit or loss account	GJ1	2 400	00

Dr				Profit or loss account					N6	Cr	
20.3						20.3					
Feb	28	Water and electricity	GJ1	14 300	00	Feb	28	Current income	GJ1	78 000	00
		Salaries	GJ1	25 800	00						
		Stationery	GJ1	1 600	00						
		Telephone expenses	GJ1	2 400	00						
		Capital (profit for the year)	GJ1	33 900	00						
				78 000	00					78 000	00

COMPREHENSIVE EXAMPLE 10.3: FINAL ACCOUNTS OF A RETAIL BUSINESS USING A PERIODIC INVENTORY SYSTEM

The following balances and totals appeared in the books of Gena Traders at 28 February 20.3 (the end of the entity's accounting period):

Balances and totals at 28 February 20.3

	R
Capital	87 450
Drawings	3 750
Land and buildings	60 000
Vehicles	50 000
Inventory (opening)	7 200
Debtors control	3 800
Bank (Dr)	2 850
Creditors control	4 300
Sales	183 450
Sales returns	1 500
Purchases	109 000
Purchases returns	1 000
Water and electricity	14 300
Telephone expenses	2 400
Salaries	25 800
Stationery	1 600
Rental income	6 000

A physical inventory count showed the value of closing inventory to be R5 250 at 28 February 20.3.

REQUIRED

(1) Open the ledger accounts with the given balances and totals.
(2) Show the closing transfers in the general journal.
(3) Post the closing transfers to the ledger accounts.
(4) Prepare a post-closing trial balance.

SOLUTION: EXAMPLE 10.3

GENA TRADERS
GENERAL JOURNAL – FEBRUARY 20.3 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
28	Trading account	N10	7 200,00	
	Inventory	B5		7 200,00
	Transfer of opening inventory			
	Inventory	B5	5 250,00	
	Trading account	N10		5 250,00
	Transfer of closing inventory			
	Sales	N1	1 500,00	
	Sales returns	N2		1 500,00
	Closing transfer			
	Purchases returns	N4	1 000,00	
	Purchases	N3		1 000,00
	Closing transfer			
	Trading account	N10	108 000,00	
	Purchases	N3		108 000,00
	Closing transfer			
	Sales	N1	181 950,00	
	Trading account	N10		181 950,00
	Closing transfer			
	Trading account	N10	72 000,00	
	Profit or loss account	N11		72 000,00
	Transfer of gross profit			
	Profit or loss account	N11	44 100,00	
	Water and electricity	N5		14 300,00
	Salaries	N6		25 800,00
	Stationery	N7		1 600,00
	Telephone expenses	N8		2 400,00
	Closing transfer of expense accounts			
	Rental income	N9	6 000,00	
	Profit or loss account	N11		6 000,00
	Closing transfer of income account			

Day	Details	Fol	Debit	Credit
			R	R
28	Profit or loss account	N11	33 900,00	
	Capital	B1		33 900,00
	Transfer of net profit (profit for the year) to capital account			
	Capital	B1	3 750,00	
	Drawings	B2		3 750,00
	Transfer of drawings to capital account			

GENA TRADERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.3						20.3					
Feb	28	Drawings	GJ1	3 750	00	Feb	28	Balance	b/d	87 450	00
		Balance	c/d	117 600	00			Profit or loss account	GJ1	33 900	00
				121 350	00					121 350	00
						Mar	1	Balance	b/d	117 600	00

Dr **Drawings** **B2** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	3 750	00	Feb	28	Capital	GJ1	3 750	00

Dr **Land and buildings** **B3** **Cr**

20.3											
Feb	28	Balance	b/d	60 000	00						

Dr **Vehicles** **B4** **Cr**

20.3											
Feb	28	Balance	b/d	50 000	00						

Dr **Inventory** **B5** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	7 200	00	Feb	28	Trading account	GJ1	7 200	00
		Trading account	GJ1	5 250	00						

Dr **Debtors control** **B6** **Cr**

20.3											
Feb	28	Balance	b/d	3 800	00						

Dr **Bank** **B7** **Cr**

20.3											
Feb	28	Balance	b/d	2 850	00						

Dr **Creditors control** **B8** **Cr**

						20.3					
						Feb	28	Balance	b/d	4 300	00

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

20.3						20.3					
Feb	28	Sales returns	GJ1	1 500	00	Feb	28	Balance	b/d	183 450	00
		Trading account	GJ1	181 950	00						
				183 450	00					183 450	00

Dr **Sales returns** **N2** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	1 500	00	Feb	28	Sales	GJ1	1 500	00

Dr **Purchases** **N3** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	109 000	00	Feb	28	Purhases returns	GJ1	1 000	00
								Trading account	GJ1	108 000	00
				109 000	00					109 000	00

Dr **Purchases returns** **N4** **Cr**

20.3						20.3					
Feb	28	Purchases	GJ1	1 000	00	Feb	28	Balance	b/d	1 000	00

Dr **Water and electricity** **N5** **Cr**

20.3						20.3					
Feb	28	Balance	GJ1	14 300	00	Feb	28	Profit or loss account	GJ1	14 300	00

Dr **Salaries** **N6** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	25 800	00	Feb	28	Profit or loss account	GJ1	25 800	00

Dr **Stationery** **N7** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	1 600	00	Feb	28	Profit or loss account	GJ1	1 600	00

Dr **Telephone expenses** **N8** **Cr**

20.3						20.3					
Feb	28	Balance	b/d	2 400	00	Feb	28	Profit or loss account	GJ1	2 400	00

Dr **Rental income** **N9** **Cr**

20.3						20.3					
Feb	28	Profit or loss account	GJ1	6 000	00	Feb	28	Balance	b/d	6 000	00

Dr **Trading account** **N10** **Cr**

20.3						20.3					
Feb	28	Inventory	GJ1	7 200	00	Feb	28	Inventory	GJ1	5 250	00
		Purchases	GJ1	108 000	00			Sales	GJ1	181 950	00
		Profit or loss account	GJ1	72 000	00						
				187 200	00					187 200	00

Dr **Profit or loss account** **N11** **Cr**

20.3						20.3					
Feb	28	Water and electricity	GJ1	14 300	00	Feb		Trading account	GJ1	72 000	00
		Salaries	GJ1	25 800	00			Rental income	GJ1	6 000	00
		Stationery	GJ1	1 600	00						
		Telephone expenses	GJ1	2 400	00						
		Capital (profit for the year)	GJ1	33 900	00						
				78 000	00					78 000	00

NOTE:

The post-closing trial balance will be the same as in comprehensive example 10.1.

EXERCISE 10.1

The following totals were taken from the books of J Simpson, an attorney, at 28 February 20.7 (the end of the financial year).

	R
Fee income received in cash	160 000
Fee income from services rendered on credit	80 000
Totals of operating expenses during the year	
Salaries	90 000
Stationery	8 500
Rental expenses	40 000
Repairs to equipment	3 000
Telephone expenses	6 000
Water and electricity	5 000

REQUIRED

(1) Show the closing transfers in the general journal.
(2) Open the abovementioned ledger accounts in the nominal accounts section of the general ledger and post the closing transfers to the opened ledger accounts. Postalso to the profit or loss account. Close off all accounts.

SOLUTION: EXCERCISE 10.1

J SIMPSON ATTORNEY

GENERAL JOURNAL – FEBRUARY 20.7 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
28	Profit or loss account	N9	152 500,00	
	Water and electricity	N2		5 000,00
	Rental expenses	N3		40 000,00
	Repairs to equipment	N4		3 000,00
	Salaries	N5		90 000,00
	Stationery	N6		8 500,00
	Telephone expenses	N7		6 000,00
	Closing transfer of expense accounts			
	Current income	N1	240 000,00	
	Profit or loss account	N8		240 000,00
	Closing transfer of income account			

Day	Details	Fol	Debit	Credit
28	Profit or loss account	N8	87 500,00	
	Capital	B1		87 500,00
	Transfer of net profit (profit for the year) to capital account			

J SIMPSON ATTORNEY

GENERAL LEDGER

NOMINAL ACCOUNTS SECTION

Dr **Current income (Fees received)** **N1** **Cr**

20.7 Feb	28	Profit or loss account	GJ1	240 000	00	20.7 Feb	28	Balance	b/d	240 000	00

Dr **Water and electricity** **N2** **Cr**

20.7 Feb	28	Balance	b/d	5 000	00	20.7 Feb	28	Profit or loss account	GJ1	5 000	00

Dr **Rental expenses** **N3** **Cr**

20.7 Feb	28	Balance	b/d	40 000	00	20.7 Feb	28	Profit or loss account	GJ1	40 000	00

Dr **Repairs to equipment** **N4** **Cr**

20.7 Feb	28	Balance	b/d	3 000	00	20.7 Feb	28	Profit or loss account	GJ1	3 000	00

Dr **Salaries** **N5** **Cr**

20.7 Feb	28	Balance	b/d	90 000	00	20.7 Feb	28	Profit or loss account	GJ1	90 000	00

Dr **Stationery** **N6** **Cr**

20.7 Feb	28	Balance	b/d	8 500	00	20.7 Feb	28	Profit or loss account	GJ1	8 500	00

Dr **Telephone expenses** **N7** **Cr**

20.7 Feb	28	Balance	b/d	6 000	00	20.7 Feb	28	Profit or loss account	GJ1	6 000	00

Dr						Profit or loss account						Cr
20.7						20.7						
Feb	28	Water and electricity	GJ1	5 000	00	Feb	28	Current income	GJ1	240 000	00	
		Rental expenses	GJ1	40 000	00							
		Repairs to equipment	GJ1	3 000	00							
		Salaries	GJ1	90 000	00							
		Stationery	GJ1	8 500	00							
		Telephone expenses	GJ1	6 000	00							
		Capital (profit for the year)	GJ1	87 500	00							
				240 000	00					240 000	00	

EXERCISE 10.2

The following trial balance was taken from the accounting records of City Outfitters at 30 November 20.5, the end of the entity's accounting period.

CITY OUTFITTERS
TRIAL BALANCE AS AT 30 NOVEMBER 20.5

	Fol	Debits	Credits
		R	R
Financial position section			
Capital	B1		99 600,00
Drawings	B2	1 800,00	
Vehicles	B3	150 000,00	
Equipment	B4	30 000,00	
Inventory	B5	11 250,00	
Debtors control	B6	21 000,00	
Bank	B7	6 750,00	
Creditors control	B8		32 400,00
Nominal accounts section			
Sales	N1		240 000,00
Sales returns	N2	6 000,00	
Cost of sales	N3	120 000,00	
Advertising	N4	2 700,00	
Credit losses	N5	450,00	
Bank charges	N6	900,00	
Interest expenses	N7	1 050,00	
Packing material	N8	2 100,00	
Petrol and oil	N9	7 200,00	
Stationery	N10	600,00	
Telephone expenses	N11	10 200,00	
		372 000,00	372 000,00

REQUIRED

Take the information provided into consideration and do the following:

(1) Open the ledger accounts with the given balances.
(2) Show all the journal entries for the closing entries.
(3) Post the journal to the applicable ledger accounts. Balance or close off these accounts where necessary.
(4) Prepare the post-closing trial balance.

SOLUTION: EXCERCISE 10.2

CITY OUTFITTERS

GENERAL JOURNAL – NOVEMBER 20.5 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
30	Trading account	N12	120 000,00	
	Cost of sales	N3		120 000,00
	Closing transfer			
	Sales	N1	6 000,00	
	Sales returns	N2		6 000,00
	Closing transfer			
	Sales	N1	234 000,00	
	Trading account	N12		234 000,00
	Closing transfer			
	Trading account	N12	114 000,00	
	Profit or loss account	N13		114 000,00
	Transfer of gross profit			
	Profit or loss account	N13	25 200,00	
	Advertising	N4		2 700,00
	Credit losses	N5		450,00
	Bank charges	N6		900,00
	Interest expenses	N7		1 050,00
	Packing materials	N8		2 100,00
	Petrol and oil	N9		7 200,00
	Stationery	N10		600,00
	Telephone expenses	N11		10 200,00
	Closing transfer of expense accounts			
	Profit or loss account	N13	88 800,00	
	Capital	B1		88 800,00
	Transfer of net profit (profit for the year) to capital account			

Day	Details	Fol	Debit	Credit
30	Capital	B1	1 800,00	
	Drawings	B2		1 800,00
	Transfer of drawings to capital account			

CITY OUTFITTERS

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.5						20.5					
Nov	30	Drawings	GJ1	1 800	00	Nov	30	Balance	b/d	99 600	00
		Balance	c/d	186 600	00			Profit or loss account	GJ1	88 800	00
				188 400	00					188 400	00
						Dec	1	Balance	b/d	186 600	00

Dr **Drawings** **B2** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	1 800	00	Nov	30	Capital	GJ1	1 800	00

Dr **Vehicles** **B3** **Cr**

20.5											
Nov	30	Balance	b/d	150 000	00						

Dr **Equipment** **B4** **Cr**

20.5											
Nov	30	Balance	b/d	30 000	00						

Dr **Inventory** **B5** **Cr**

20.5											
Nov	30	Balance	b/d	11 250	00						

Dr **Debtors control** **B6** **Cr**

20.5											
Nov	30	Balance	b/d	21 000	00						

Dr **Bank** **B7** **Cr**

20.5											
Nov	30	Balance	b/d	6 750	00						

Dr **Creditors control** **B8** **Cr**

						20.5					
						Nov	30	Balance	b/d	32 400	00

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

20.5						20.5					
Nov	30	Sales returns	GJ1	6 000	00	Nov	30	Balance	b/d	240 000	00
		Trading account	GJ1	234 000	00						
				240 000	00					240 000	00

Dr **Sales returns** **N2** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	6 000	00	Nov	30	Trading account	GJ1	6 000	00

Dr **Cost of sales** **N3** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	120 000	00	Nov	30	Trading account	GJ1	120 000	00

Dr **Advertising** **N4** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	2 700	00	Nov	30	Profit or loss account	GJ1	2 700	00

Dr **Credit losses** **N5** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	450	00	Nov	30	Profit or loss account	GJ1	450	00

Dr **Bank charges** **N6** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	900	00	Nov	30	Profit or loss account	GJ1	900	00

Dr **Interest expenses** **N7** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	1 050	00	Nov	30	Profit or loss account	GJ1	1 050	00

Dr **Packing material** **N8** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	2 100	00	Nov	30	Profit or loss account	GJ1	2 100	00

Dr **Petrol and oil** **N9** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	7 200	00	Nov	30	Profit or loss account	GJ1	7 200	00

Dr **Stationery** **N10** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	600	00	Nov	30	Profit or loss account	GJ1	600	00

Dr **Telephone expenses** **N11** **Cr**

20.5						20.5					
Nov	30	Balance	b/d	10 200	00	Nov	30	Profit or loss account	GJ1	10 200	00

Dr **Trading account** **N12** **Cr**

20.5						20.5					
Nov	30	Cost of sales	GJ1	120 000	00	Nov	30	Sales	GJ1	234 000	00
		Profit or loss account	GJ1	114 000	00						
				234 000	00					234 000	00

Dr **Profit or loss account** **N13** **Cr**

20.5						20.5					
Nov	30	Advertising	GJ1	2 700	00	Nov	30	Trading account	GJ1	114 000	00
		Credit losses	GJ1	450	00						
		Bank charges	GJ1	900	00						
		Interest expenses	GJ1	1 050	00						
		Packing material	GJ1	2 100	00						
		Petrol and oil	GJ1	7 200	00						
		Stationery	GJ1	600	00						
		Telephone expenses	GJ1	10 200	00						
		Capital (profit for the year)	GJ1	88 800	00						
				114 000	00					114 000	00

CITY OUTFITTERS

POST-CLOSING TRIAL BALANCE AS AT 28 FEBRUARY 20.5

	Fol	Debit	Credit
		R	R
Financial position section			
Capital	B1		186 600,00
Vehicles	B3	150 000,00	
Equipment	B4	30 000,00	
Inventory	B5	11 250,00	
Debtors control	B6	21 000,00	
Bank	B7	6 750,00	
Creditors control	B10		32 400,00
		219 000,00	219 000,00

EXERCISE 10.3

The following information was taken from the accounting records of J Speedo Retailers at 28 February 20.3, the end of the entity's accounting period.

	R
Drawings	8 000
Sales	210 000
Sales returns	5 000
Purchases	40 500
Purchases returns	3 200
Inventory (opening)	4 800
Inventory (closing)	6 100
Water and electricity	4 800
Rental expenses	12 000
Stationery	1 200
Telephone expenses	2 900
Wages	6 600

REQUIRED

(1) Prepare the journal entries taking into account opening and closing inventories.
(2) Prepare the closing journal entries.

SOLUTION: EXCERCISE 10.3

J SPEEDO RETAILERS

GENERAL JOURNAL – FEBRUARY 20.3 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
28	Trading account		4 800,00	
	Inventory			4 800,00
	Transfer opening inventory			
	Inventory		6 100,00	
	Trading account			6 100,00
	Taking closing inventory into account			
	Sales		5 000,00	
	Sales returns			5 000,00
	Closing transfer			
	Purchases returns		3 200,00	
	Purchases			3 200,00
	Closing transfer			
	Trading account		37 300,00	
	Purchases			37 300,00
	Closing transfer			
	Sales (R210 000 – R5 000)		205 000,00	
	Trading account			205 000,00
	Closing transfer			
	Trading account		169 000,00	
	Profit or loss account			169 000,00
	Transfer of gross profit			
	Profit or loss account		27 500,00	
	Water and electricity			4 800,00
	Rental expenses			12 000,00
	Stationery			1 200,00
	Telephone expenses			2 900,00
	Wages			6 600,00
	Closing transfer of expense accounts			
	Profit or loss account		141 500,00	
	Capital			141 500,00
	Transfer of net profit (profit for the year) to capital account			
	Capital		8 000,00	
	Drawings			8 000,00
	Transfer of drawings to capital account			

EXERCISE 10.4

The following information was taken from the accounting records of Digi Warehouse at 28 February 20.5, the end of the financial year.

DIGI WAREHOUSE

TRIAL BALANCE AS AT 28 FEBRUARY 20.5

	Debit	Credit
	R	R
Capital		63 600
Drawings	3 000	
Vehicles	60 000	
Equipment	40 000	
Debtors control	12 000	
Inventory	8 000	
Creditors control		16 000
Sales		250 000
Sales returns	5 000	
Cost of sales	120 000	
Municipal services	17 400	
Telephone expenses	10 200	
Repairs: Vehicles	4 100	
Salaries	48 000	
Postage	1 000	
Credit losses	500	
Stationery	700	
Credit losses recovered		300
	329 900	329 900

REQUIRED

(1) Write off an additional amount of R400 as credit losses.
(2) Journalise the year-end adjustment and the closing transfers.
(3) Open the accounts in the general ledger and post the journals to the ledger accounts. Balance or close off the accounts where necessary.
(4) Prepare the post-closing trial balance.

SOLUTION: EXCERCISE 10.4

DIGI WAREHOUSE

GENERAL JOURNAL – FEBRUARY 20.5 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
28	Credit losses	N9	400,00	
	Debtors control	B5		400,00
	Further amount written off. Voucher 142			
	Trading account	N12	120 000,00	
	Cost of sales	N3		120 000,00
	Closing transfer			
	Sales	N1	5 000,00	
	Sales returns	N2		5 000,00
	Closing transfer			
	Sales	N1	245 000,00	
	Trading account	N12		245 000,00
	Closing transfer			
	Trading account	N12	125 000,00	
	Profit or loss account	N13		125 000,00
	Transfer to gross profit			
	Profit or loss account	N13	82 300,00	
	Municipal services	N4		17 400,00
	Telephone expenses	N5		10 200,00
	Repairs: Vehicles	N6		4 100,00
	Salaries	N7		48 000,00
	Postage	N8		1 000,00
	Credit losses (500+400)	N9		900,00
	Stationery	N10		700,00
	Closing transfer of expense accounts			
	Credit losses recovered	N11	300,00	
	Profit or loss account	N13		300,00
	Closing transfer of income account			
	Profit or loss account	N13	43 000,00	
	Capital	B1		43 000,00
	Transfer of net profit (profit for the year)			
	Capital	B1	3 000,00	
	Drawings	B2		3 000,00
	Transfer of drawings			

DIGI WAREHOUSE

GENERAL LEDGER

FINANCIAL POSITION SECTION

Dr **Capital** **B1** **Cr**

20.5						20.4					
Feb	28	Drawings	GJ1	3 000	00	Mar	1	Balance	b/d	63 600	00
		Balance	c/d	103 600	00	20.5					
						Feb	28	Profit or loss account	GJ1	43 000	00
				106 600	00					106 600	00
						Mar	1	Balance	b/d	103 600	00

Dr **Drawings** **B2** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	3 000	00	Feb	28	Capital	GJ1	3 000	00

Dr **Vehicles** **B3** **Cr**

20.5											
Feb	28	Balance	b/d	60 000	00						

Dr **Equipment** **B4** **Cr**

20.5											
Feb	28	Balance	b/d	40 000	00						

Dr **Debtors control** **B5** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	12 000	00	Feb	28	Credit losses	GJ1	400	00
								Balance	c/d	11 600	00
				12 000	00					12 000	00
Mar	1	Balance	b/d	11 600	00						

Dr **Inventory** **B6** **Cr**

20.5											
Feb	28	Balance	b/d	8 000	00						

Dr **Creditors control** **B7** **Cr**

						20.5					
						Feb	28	Balance	b/d	16 000	00

NOMINAL ACCOUNTS SECTION

Dr **Sales** **N1** **Cr**

20.5						20.5					
Feb	28	Sales returns	GJ1	5 000	00	Feb	28	Balance	b/d	250 000	00
		Trading account	GJ1	245 000	00						
				250 000	00					250 000	00

Dr **Sales returns** **N2** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	5 000	00	Feb	28	Sales	GJ1	5 000	00

Dr **Cost of sales** **N3** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	120 000	00	Feb	28	Trading account	GJ1	120 000	00

Dr **Municipal services** **N4** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	17 400	00	Feb	28	Profit or loss account	GJ1	17 400	00

Dr **Telephone expenses** **N5** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	10 200	00	Feb	28	Profit or loss account	GJ1	10 200	00

Dr **Repairs: Vehicles** **N6** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	4 100	00	Feb	28	Profit or loss account	GJ1	4 100	00

Dr **Salaries** **N7** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	48 000	00	Feb	28	Profit or loss account	GJ1	48 000	00

Dr **Postage** **N8** **Cr**

20.5						20.5					
Feb	28	Balance	b/d	1 000	00	Feb	28	Profit or loss account	GJ1	1 000	00

Dr				Credit losses						N9	Cr	
20.5						20.5						
Feb	28	Balance	b/d	500	00	Feb	28	Profit or loss account	GJ1	900	00
		Debtors control		400	00							
				900	00					900	00

Dr				Stationery						N10	Cr	
20.5						20.5						
Feb	28	Balance	b/d	700	00	Feb	28	Profit or loss account	GJ1	700	00

Dr				Credit losses recovered						N11	Cr	
20.5						20.5						
Feb	28	Profit or loss account	GJ1	300	00	Feb	28	Balance	b/d	300	00

Dr				Trading account						N12	Cr	
20.5						20.5						
Feb	28	Cost of sales	GJ1	120 000	00	Feb	28	Sales	GJ1	245 000	00
		Profit or loss account	GJ1	125 000	00							
				245 000	00					245 000	00

Dr				Profit or loss account						N13	Cr	
20.5						20.5						
Feb	28	Municipal services	GJ1	17 400	00	Feb	28	Trading account	GJ1	125 000	00
		Telephone expenses	GJ1	10 200	00			Credit losses				
		Repairs: Vehicles	GJ1	4 100	00			recovered	GJ1	300	00
		Salaries	GJ1	48 000	00							
		Postage	GJ1	1 000	00							
		Credit losses	GJ1	900	00							
		Stationery	GJ1	700	00							
		Capital (profit for the year)	GJ1	43 000	00							
				125 300	00					125 300	00

DIGI WAREHOUSE

POST-CLOSING TRIAL BALANCE AS AT 28 FEBRUARY 20.5

	Fol	Debit	Credit
		R	R
Financial position section			
Capital			103 600,00
Vehicles		60 000,00	
Equipment		40 000,00	
Debtors control		11 600,00	
Inventory		8 000,00	
Creditors control			16 000,00
		119 600,00	119 600,00



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• discuss the difference between gross profit and net profit?	☺	😐	☹
• describe how gross profit and net profit (profit for the year) are calculated?	☺	😐	☹
• do the closing entries at the end of a financial year for a retail entity using the perpetual inventory system?	☺	😐	☹
• do the closing entries at the end of a financial year for a retail entity using the periodic inventory system?	☺	😐	☹
• do the closing entries at the end of a financial year for a service entity?	☺	😐	☹
• prepare a trading account?	☺	😐	☹
• prepare a profit or loss account?	☺	😐	☹
• prepare a post-closing trial balance?	☺	😐	☹

If you have marked all ☺ you may continue to the next learning unit .

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

FAC1501

LEARNING UNIT 11

FINANCIAL STATEMENTS OF A SOLE TRADER



Introductory Financial Accounting

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LEARNING OUTCOMES

After studying this learning unit you should be able to:

- calculate and do adjustments at year-end with regard to accrued expenses, prepaid expenses, accrued income and income received in advance
- calculate and do adjustments with regard to consumable stores
- calculate and do adjustments with regard to depreciation of non-current assets
- calculate and do adjustments with regard to credit losses and allowance for credit losses
- prepare a profit or loss account after taking all possible adjustments into consideration
- prepare a statement of profit or loss and other comprehensive income
- prepare a statement of financial position
- prepare a statement of changes in equity

KEY CONCEPTS

- Adjustments
- Accrued expenses
- Pre-paid expenses
- Accrued income
- Income received in advance
- Consumable stores
- Depreciation
- Credit losses
- Allowance for credit losses
- Statement of profit or loss and other comprehensive income
- Statement of financial position
- Statement of changes in equity



ASSESSMENT CRITERIA

- You can correctly calculate and do adjustments at year-end with regard to accrued expenses, pre-paid expenses, accrued income and income received in advance.
- You can correctly calculate and do adjustments with regard to consumable stores.
- You can correctly calculate and do adjustments with regard to depreciation of non-current assets.
- You can correctly calculate and do adjustments with regard to credit losses and allowance for credit losses.
- You can correctly prepare a statement of profit or loss and other comprehensive income for a sole trader.
- You can correctly prepare a statement of financial position and notes for a sole trader.
- You can correctly prepare a statement of changes in equity for a sole trader.

11.1 YEAR-END ADJUSTMENTS

11.1.1 Introduction

At the end of every accounting period, the business entity prepares a trading account and a profit or loss account to ascertain the profit or loss made during the accounting period. It is important to realise that the profit or loss account indicates the *performance* of the entity for a particular financial year (see learning unit 10).

11.1.2 Prepayments and receivables and accruals of income and expenses

It usually happens that at the end of the year, some expenses incurred by the entity will be outstanding (ie due, but unpaid). The entity may also have paid for some expenses in advance. It will therefore be necessary to adjust such expenses in order to determine the actual expenses incurred for the accounting period under review.

Similarly, the entity may have rendered a specified service during the year for which it had received no payment (income). It may also happen that the entity had been paid in advance for a service it is yet to render. Adjustments will have to be made in such cases in order to establish the correct income the entity earned during the accounting period under review.

11.1.2.1 Accrued expenses

These are expenses which have been incurred by an entity but which have not yet been paid by the end of the accounting period. Examples are salaries owing to staff, rent payable to the landlord and insurance premiums outstanding. Accrued expenses are shown as **current liabilities.**

When adjusting accruals and prepayments, it is necessary to

- identify the specific account to be adjusted
- determine the outstanding amount or the prepaid amount
- record the adjustment (this is normally done in the general journal)

Accrued and prepaid expenses and accrued income and income received in advance are described as current operating items. To simplify their adjustment, “intermediary” or “notional” accounts are used to facilitate the recording process. For example, rent outstanding will be credited to an ***accrued expenses*** account and current income due will be debited to an ***accrued income*** account, and so on. (See the following examples.)

EXAMPLE 11.1: ACCRUED EXPENSES

The financial year of John Seepe, a panel beater, ends on 31 December each year. Seepe Panel Beaters has a monthly rent expense of R250. The records of the entity showed that rent was paid for eight months during the financial year ended 31 December 20.8.

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Seepe Panel Beaters.
(2) Post the journal entry to the general ledger of Seepe Panel Beaters.

SOLUTION: EXAMPLE 11.1

SEEPE PANEL BEATERS

GENERAL JOURNAL – DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Rental expenses	N10	1 000	
	Accrued expenses	B30		1 000
	Adjustment for rent owing			
	Profit or loss account	N20	3 000	
	Rental expenses	N10		3 000
	Closing transfer			

SEEPE PANEL BEATERS

GENERAL LEGDER

Dr **Rental expenses** **N10** **Cr**

20.8					20.8				
Dec	31	Bank*	CPJ	2 000	Dec	31	Profit or loss account	GJ1	3 000
		Accrued expenses	GJ1	1 000					
				3 000					3 000

* This is the total of all the payments regarding rent made during the financial year and is given in this example for the sake of completeness. In the actual recording of these payments it would have been recorded on a monthly basis on the date the payment was made. The entries would have originally been recorded in the cash payments journal before being posted to the appropriate ledger account. This line of illustration is followed in all subsequent examples regarding adjustments.

Dr **Accrued expenses** **B30** **Cr**

20.8					20.8				
Dec	31	Balance	c/d	1 000	Dec	31	Rental expenses	GJ1	1 000
				1 000					1 000
					20.9				
					Jan	1	Balance	b/d	1 000

Dr				Profit or loss account				N20	Cr
20.8 Dec	31	Rental expenses	GJ1	3 000					

11.1.2.2 Prepaid expenses

The nature of certain expenses may compel an entity to pay for them in advance. Insurance premiums are good examples of such expenses. Prepaid expenses are shown as **current assets.**

EXAMPLE 11.2: PREPAID EXPENSES

Traxi Solutions paid R9 000 for insurance on 1 January 20.8. This payment was for insurance cover for 18 months. The financial year of Traxi Solutions ends on 31 December each year.

REQUIRED

(1) Determine the amount that was prepaid for insurance.
(2) Record the necessary adjustment and the closing entry in the general journal of Traxi Solutions.
(3) Post the journal entries to the general ledger of Traxi Solutions.

SOLUTION: EXAMPLE 11.2

Monthly insurance cover	=	R9 000/18	=	R500
Insurance expense	=	R500 x 12	=	R6 000
Prepaid expense	=	R500 x 6	=	R3 000

TRAXI SOLUTIONS

GENERAL JOURNAL– DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Prepaid expenses	B31	3 000	
	Insurance	N11		3 000
	Adjustment for prepaid insurance			
	Profit or loss account	N20	6 000	
	Insurance	N11		6 000
	Closing transfer			

TRAXI SOLUTIONS

GENERAL LEDGER

Dr **Insurance** **N11** **Cr**

20.8						20.8				
Dec	31	Bank	CPJ	9 000		Dec	31	Prepaid expenses	GJ1	3 000
								Profit or loss account	GJ1	6 000
				9 000						9 000

Dr **Prepaid expenses** **B31** **Cr**

20.8						20.8				
Dec	31	Insurance	GJ1	3 000		Dec	31	Balance	c/d	3 000
				3 000						3 000
20.9										
Jan	1	Balance	b/d	3 000						

Dr **Profit or loss account** **N20** **Cr**

20.8										
Dec	31	Insurance	GJ1	6 000						

11.1.2.3 Accrued income

This is income earned by the entity in respect of services rendered but for which no payment has been received. Accrued income is shown as **current assets.**

EXAMPLE 11.3: ACCRUED INCOME

The commission earned by Bero Stores for selling newspapers and magazines was R12 500 for the year ended 31 December 20.8. Bero Stores received R9 850 during the year.

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Bero Stores.
(2) Post the journal entries to the general ledger of Bero Stores.

SOLUTION: EXAMPLE 11.3

BERO STORES

GENERAL JOURNAL – DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
31	Accrued income	B2	2 650	
	Commission income	N14		2 650
	Adjustment for commission earned but not yet received (R12 500 – R9 850)			
	Commission income	N14	12 500	
	Profit or loss account	N20		12 500
	Closing transfer			

BERO STORES

GENERAL LEDGER

Dr **Commission income** **N14** **Cr**

20.8					20.8				
Dec	31	Profit or loss account	GJ1	12 500	Dec	31	Bank	CRJ	9 850
							Accrued income	GJ1	2 650
				12 500					12 500

Dr **Accrued income** **B2** **Cr**

20.8					20.8				
Dec	31	Commission income	GJ1	2 650	Dec	31	Balance	c/d	2 650
				2 650					2 650
20.9									
Jan	1	Balance	b/d	2 650					

Dr **Profit or loss account** **N20** **Cr**

					20.8				
					Dec	31	Commission income	GJ1	12 500

11.1.2.4 Income received in advance

Income received in advance is not yet earned so it must be deducted from total income to arrive at the correct income earned during the financial year. Income received in advance is shown as **current liabilities**.

EXAMPLE 11.4: INCOME RECEIVED IN ADVANCE

ABC Cash Store sub-lets part of its premises for a monthly rental of R280. During the financial year ended 31 December 20.8 the tenant made a total payment of R3 640.

REQUIRED

(1) Determine the amount that was received in advance for rental.
(2) Record the necessary adjustment and the closing entry in the general journal of ABC Cash Store.
(3) Post the journal entries to the general ledger of ABC Cash Store.

SOLUTION: EXAMPLE 11.4

Rent received for the year	=	R280 x 12	=	R3 360
Rent received in advance	=	(R3 640 – R3 360)	=	R280

ABC CASH STORE

GENERAL JOURNAL – DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
31	Rental income	N15	280	
	Income received in advance	B36		280
	Adjustment for income received in advance			
	Rental income	N15	3 360	
	Profit or loss account	N20		3 360
	Closing transfer			

ABC CASH STORE

GENERAL LEDGER

Dr **Rental income** **N15** **Cr**

20.8					20.8				
Dec	31	Income received in advance	GJ1	280	Dec	31	Bank	CRJ	3 640
		Profit or loss account	GJ1	3 360					
				3 640					3 640

Dr		Income received in advance						B36	Cr
20.8					20.8				
Dec	31	Balance	c/d	280	Dec	31	Rental income	GJ1	280
				280					280
					20.9				
					Jan	1	Balance	b/d	280

Dr		Profit or loss account						N20	Cr
					20.8				
					Dec	31	Rental income	GJ1	3 360

11.1.3 Consumable stores on hand

You might have wondered why items such as stationery are classified as expenses. Surely stationery has value? The reason it is regarded as an expense and not an asset, is because it is *used up* (consumed) within the entity within one year.

If an entity was to sell stationery, it would be regarded as inventory. Since it would not be used up within the entity, it would thus not be regarded as an expense, but as inventory (an asset). Remember though that if you were to see a stationery account in a trial balance, it would always be classified as an *expense.* This represents the stationery used during the current period.

EXAMPLE 11.5: CONSUMABLE STORES ON HAND

XXX Traders bought stationery valued at R5 000 during the financial year ended 31 December 20.8. This was recorded in the stationery account as an expense of R5 000. After doing a physical inventory count at year-end it was found that stationery valued at R1 000 was still unused. This means that the full R5 000 of stationery they have bought during the financial year have ***not been used up***. If XXX Traders was to close the entity at this date, would it be able to sell the stationery on the shelves (R1 000)? The answer to this question is surely YES!

For this reason an adjustment to the stationery account is necessary. The unused stationery to the value of R1 000 is regarded as a ***current asset.***

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of XXX Traders.
(2) Post the journal entries to the general ledger of XXX Traders.

SOLUTION: EXAMPLE 11.5

XXX TRADERS

GENERAL JOURNAL – DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
31	Consumable stores on hand	B16	1 000	
	Stationery	N37		1 000
	Adjustment for stationery on hand			
	Profit or loss account	N20	4 000	
	Stationery	N37		4 000
	Closing transfer			

XXX TRADERS

GENERAL LEDGER

Dr **Stationery** **N37** **Cr**

20.8					20.8				
Dec	31	Bank	CPJ	5 000	Dec	31	Consumable stores on hand	GJ1	1 000
							Profit or loss account	GJ1	4 000
				5 000					5 000

Dr **Consumable stores on hand** **B16** **Cr**

20.8					20.8				
Dec	31	Stationery	GJ1	1 000	Dec	31	Balance	c/d	1 000
				1 000					1 000
20.9									
Jan	1	Balance	b/d	1 000					

Dr **Profit or loss account** **N20** **Cr**

20.8									
Dec	31	Stationery	GJ1	4 000					

11.1.4 Credit losses and allowance for credit losses

11.1.4.1 Credit losses

Any entity which grants credit to its customers runs the risk of having some of those customers not paying their debts. If it is expected that the amount due will not be paid by a customer, then this amount must be removed from the debtors account. The amount written off is disclosed as an expense in the profit or loss account.

Accounting entries for credit losses

When a debt is written off, the customer's individual account in the debtors subsidiary ledger (and then also the debtors control account in the general ledger) is credited.

The amount is debited to a credit losses account (an expense account) which is closed off to the profit or loss account.

EXAMPLE 11.6: CREDIT LOSSES

On 1 January 20.8, Rek Transport had the following debtors on its list of debtors:

Kargent	R250
Tango	R185

On 31 August 20.8, it was decided to write the debts off as irrecoverable, since it was expected that these amounts will not be paid. The financial year ends on 31 December 20.8

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Rek Transport.
(2) Post the journal entries to the general ledger of Rek Transport.

SOLUTION: EXAMPLE 11.6

REK TRANSPORT

GENERAL JOURNAL - AUGUST 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Credit losses	N38	435	
	Debtors control account	B9		435
	* Kargent (subsidiary ledger)			250
	* Tango (subsidiary ledger)			185
	Credit losses recognised			

GENERAL JOURNAL - DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Profit or loss account	N20	435	
	Credit losses	N38		435
	Closing transfer			

*** NOTE:**

The recognition of credit losses is done in the general ledger by debiting credit losses and crediting the debtors control account. It is also important to update the individual accounts of the debtors with the transaction where credit losses are recognised. This is done in the subsidiary ledger, where the individual debtors' accounts will be credited with credit losses.

REK TRANSPORT

GENERAL LEDGER

Dr **Credit losses** **N38** **Cr**

20.8					20.8				
Aug	31	Debtors control account	GJ1	435	Dec	31	Profit or loss account	GJ1	435
				435					435

Dr **Debtors control** **B9** **Cr**

					20.8				
					Aug	31	Credit losses	GJ1	435

Dr **Profit or loss account** **N20** **Cr**

20.8									
Dec	31	Credit losses	GJ1	435					

11.1.4.2 Allowance for credit losses

In order to show the correct amount of total debtors on the statement of financial position, it is prudent for the entity to estimate how much of the debts owed to it will be paid.

The reason for this is that in practice debtors often default on their payments. In line with the accounting concept of prudence, entities should make allowance for debts they expect will not be paid and adjust the accounts accordingly.

The entity should assess whether any events have occurred that may result in non-payment of outstanding amounts. If such events have occurred, the recoverable debtors balance should be estimated and an allowance for credit losses account should be created to reduce the carrying amount of the debtors account to its recoverable amount.

Since the recoverable debtors balance fluctuates annually, the allowance for credit losses account will also fluctuate annually.

It is important to understand that the allowance for credit losses account is normally used when non-payments are expected but it is difficult to identify the specific debtors who will default on their payments.

Accounting entries

When an allowance for credit losses is created or increased, the credit losses account (expense) is debited and an allowance for credit losses account (negative asset) is credited. In the statement of financial position, the allowance for credit losses is disclosed by deducting it from the debtors control balance. It is shown as part of **trade and other receivables.**

NOTE:

Because it is an allowance for credit losses that is made, there will be no entry to any individual debtor's account.

EXAMPLE 11.7: ALLOWANCE FOR CREDIT LOSSES

Swanty Stores commenced business on 1 January 20.6. The entity serves both cash and credit customers. It was determined that the allowance for credit losses account should amount to R2 325 at 31 December 20.6. Debtors control as at 31 December 20.6 amounts to R15 500.

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Swanty Stores.

(2) Post the journal entries to the general ledger of Swanty Stores.

SOLUTION: EXAMPLE 11.7

SWANTY STORES

GENERAL JOURNAL – DECEMBER 20.6 *GJ1*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Credit losses	N18	2 325	
	Allowance for credit losses	B38		2 325
	Create an allowance for credit losses at year-end			
	Profit or loss account	N20	2 325	
	Credit losses	N18		2 325
	Closing transfer			

SWANTY STORES

GENERAL LEDGER

Dr **Allowance for credit losses** **B38** **Cr**

20.6					20.6					
Dec	31	Balance	c/d	2 325	Dec	31	Credit losses	GJ1	2 325
				2 325					2 325
					20.7				
					Jan	1	Balance	b/d	2 325

Dr **Credit losses** **N18** **Cr**

20.6					20.6				
Dec	31	Allowance for credit losses	GJ1	2 325	Dec	31	Profit or loss account	GJ1	2 325
				2 325					2 325

Dr **Profit or loss account** **N20** **Cr**

20.8									
Dec	31	Credit losses	GJ1	2 325					

EXAMPLE 11.8: INCREASING THE ALLOWANCE FOR CREDIT LOSSES ACCOUNT

It is now one year later and Swanty Stores is at the end of the next financial year, 31 December 20.7. The balance on the debtors control account is R20 000. Swanty Stores determined that the allowance for credit losses account should amount to R3 000 at 31 December 20.7.

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Swanty Stores.

(2) Post the journal entries to the general ledger of Swanty Stores.

SOLUTION: EXAMPLE 11.8

Calculation

	R
Allowance for credit losses account 20.7	3 000
Allowance for credit losses account 20.6	(2 325)
So the allowance for credit losses account must increase with	675

SWANTY STORES

GENERAL JOURNAL – DECEMBER 20.7 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
31	Credit losses	N18	675	
	Allowance for credit losses	B38		675
	Adjusting the allowance for credit losses			
	Profit or loss account	N20	675	
	Credit losses	N18		675
	Closing transfer			

SWANTY STORES

GENERAL LEDGER

Dr **Allowance for credit losses** **B38** **Cr**

20.7					20.7					
Dec	31	Balance	c/d	3 000	Jan	1	Balance	b/d	2 325
					Dec	31	Credit losses	GJ1	675
				3 000					3 000
					20.8				
					Jan	1	Balance	b/d	3 000

Dr **Credit losses** **N18** **Cr**

20.7					20.7				
Dec	31	Allowance for credit losses	GJ1	675	Dec	31	Profit or loss account	GJ1	675
				675					675

Dr **Profit or loss account** **N20** **Cr**

20.8 Dec	31	Credit losses	GJ1	675					

EXAMPLE 11.9: DECREASING THE ALLOWANCE FOR CREDIT LOSSES

Kamdo Services had the following balances on 31 December 20.8:

	R
Allowance for credit losses (1 January 20.8)	4 210
Debtors control	38 160

Kamdo Services determined that the allowance for credit losses account should amount to R3 816 at 31 December 20.8.

REQUIRED

(1) Record the necessary adjustment and the closing entry in the general journal of Kamdo Services.
(2) Post the journal entries to the general ledger of Kamdo Services.

SOLUTION: EXAMPLE 11.9

Calculation

	R
Allowance for credit losses account 20.8	3 816
Allowance for credit losses account 20.7	(4 210)
So the allowance for credit losses account must decrease by	(394)

KAMDO SERVICES

GENERAL JOURNAL – DECEMBER 20.8 *GJ1*

Day	Details	Fol	Debit	Credit
			R	R
31	Allowance for credit losses	B38	394	
	Credit losses	N18		394
	Adjusting the allowance for credit losses			
	Credit losses	N18	394	
	Profit or loss account	N20		394
	Closing transfer			

KAMDO SERVICES

GENERAL LEDGER

Dr **Allowance for credit losses** **B38** **Cr**

20.8					20.8				
Dec	31	Credit losses	GJ1	394	Jan	1	Balance	b/d	4 210
		Balance	c/d	3 816					
				4 210					4 210
					20.9				
					Jan	1	Balance	b/d	3 816

Dr **Credit losses** **N18** **Cr**

20.8					20.8				
Dec	31	Profit or loss account	GJ1	394	Dec	31	Allowance for credit losses	GJ1	394
				394					394

Dr **Profit or loss account** **N20** **Cr**

					20.8				
					Dec	31	Credit losses	GJ1	394

11.1.5 Depreciation

When an entity buys an asset which is intended to be used in the entity for more than one financial year, that asset is described as a non-current asset. Through their continuous use, these non-current assets lose value through wear and tear. This loss of value is known as depreciation. Depreciation is calculated for each accounting period using an agreed method of depreciation. The original cost of the asset is adjusted based on the depreciation calculated. The adjusted value of the asset is shown in the books as the carrying amount (book value).

Depreciation is an expense which allows for the matching of the original cost of the non-current asset against income generated by the asset. If the asset was used for only a part of the accounting period, the depreciation is calculated on the number of months for which the asset was used.

11.1.5.1 Methods of calculating depreciation

An entity can use several methods of depreciation to determine the amount of depreciation to be written off on a specific non-current asset. Some of the commonly used methods are the straight-line (fixed instalment) method and the reducing-balance method.

- **The straight-line method**

According to this method, depreciation is calculated on the cost of the asset using a pre-determined depreciation rate. The depreciation rate could be given as a certain percentage, eg 15% per annum. If a non-current asset was bought for R4 000 and its depreciation rate was given as 10% per annum, the annual depreciation will be:

R4 000 x 10% = R400.

Where the economic (useful) life of the asset can be estimated with certainty, this can be used to determine the depreciation rate.

Assume that an asset was bought for R5 000 and it was expected to have an economic life of 5 years. The annual depreciation will be:

R5 000/5 years = R1 000.

If the asset is expected to have some value after its economic life, this value is known as residual value. To calculate the depreciation, the residual value must first be deducted from the cost of the asset before the depreciation rate is applied.

EXAMPLE 11.10: CALCULATION OF ANNUAL DEPRECIATION

Situ Stores bought office equipment for R10 000 on 1 January 20.8. It was estimated that this asset will have a residual value of R2 000 after its economic life of 10 years.

REQUIRED

Calculate the annual depreciation of the office equipment.

SOLUTION: EXAMPLE 11.10

Calculation

Annual depreciation	=	(Cost price – residual value)/economic life
	=	(R10 000 – R2 000)/10 years
	=	R800 per annum

- **The reducing-balance method**

Based on this method, the annual depreciation is calculated on the carrying amount of the asset. The carrying amount is obtained by deducting the accumulated depreciation (total depreciation to date) on the asset from the original cost of the asset. The depreciation rate is then applied to the carrying amount to calculate the depreciation.

EXAMPLE 11.11: CALCULATION OF DEPRECIATION USING THE REDUCING-BALANCE METHOD

ABK Metal Works bought a machine for R60 000 on 1 March 20.7. It was decided to depreciate the asset by 15% per annum using the reducing-balance method. The financial year of the entity ends on 31 December.

REQUIRED

Calculate the annual depreciation of the machine for the financial years ended 31 December 20.7, 20.8 and 20.9.

SOLUTION: EXAMPLE 11.11

Calculation

Annual depreciation (20.7)	=	Carrying amount x depreciation rate
	=	(Cost price – accumulated depreciation) x rate
	=	(R60 000 – R0) x 15% x 10/12
	=	R7 500

NOTE:

The machine was bought on 1 March 20.7, which means for the first financial year it was used for only 10 months and as such, the depreciation needs to be apportioned for only the 10 months that it was used.

Annual depreciation (20.8)	=	Carrying amount x depreciation rate
	=	(Cost price – accumulated depreciation) x rate
	=	(R60 000 – R7 500) x 15%
	=	R7 875
Annual depreciation (20.9)	=	Carrying amount x depreciation rate
	=	(Cost price – accumulated depreciation) x rate
	=	(R60 000 – R15 375*) x 15%
	=	R6 693,75

*Accumulated depreciation: R7 500 (20.7) + R7 875 (20.8) = R15 375

11.1.5.2 Accounting entries for depreciation

- **Depreciation**

Depreciation is an expense account which is closed off to the profit or loss account at the end of the year.

- **Accumulated depreciation**

This account holds all the depreciation written off on a particular asset until the asset is completely written off, sold or scrapped. You have learnt that income and liability accounts have credit balances. Since the accumulated depreciation account represents the *credit side* of an asset account, it must also have a *credit balance*. Accumulated depreciation is regarded as a **negative asset**.

The annual depreciation calculated is shown as an expense in the profit or loss account and the carrying amount (cost price less accumulated depreciation) is reported as a non-current asset.

EXAMPLE 11.12: RECORDING OF DEPRECIATION AND ACCUMULATED DEPRECIATION

Milkin Products bought a plant for R120 000 on 1 April 20.7. They decided to depreciate the plant at 10% per annum using the reducing-balance method.

REQUIRED

Record the above information in the general ledger of Milkin Products for the year ended 31 December 20.8.

SOLUTION: EXAMPLE 11.12

Calculation

Annual depreciation (for the financial year that ended 31 December 20.7)
= (R120 000 – R0) x 10% x 9/12
= R9 000

Annual depreciation (for the financial year that ended 31 December 20.8)
= (R120 000 – R9 000) x 10%
= R11 100

(General journal not shown)

MILKIN PRODUCTS

GENERAL LEDGER

Dr **Depreciation** **N20** **Cr**

20.8					20.8					
Dec	31	Accumulated depreciation	GJ1	11 100	Dec	31	Profit or loss account	GJ1	11 100
				11 100					11 100

Dr **Accumulated depreciation** **B19** **Cr**

20.8					20.8				
Dec	31	Balance	c/d	20 100	Jan	1	Balance	b/d	9 000
					Dec	31	Depreciation	GJ1	11 100
				20 100					20 100
					20.9				
					Jan	1	Balance	b/d	20 100

Dr **Profit or loss account** **N20** **Cr**

20.8									
Dec	31	Depreciation	GJ1	11 100					

11.1.6 Summary of flow of accounting procedures when year-end adjustments need to be made

- Prepare source documents.
- Prepare journals from source documents.
- Post journals to ledger accounts.
- Prepare a pre-adjustment trial balance.
- Record adjustments in general journal and post to ledger accounts.
- Prepare a post-adjustment trial balance.
- Record closing entries in general journal and post to ledger accounts.
- Prepare post-closing trial balance.

COMPREHENSIVE EXAMPLE ONE

On 28 February 20.1 the following trial balance was extracted from the general ledger of Pompeii Traders, a general merchant that is not registered as a VAT vendor.

POMPEII TRADERS
PRE-ADJUSTMENT TRIAL BALANCE AS AT 31 DECEMBER 20.1

	Debit	Credit
	R	R
Capital (1 January 20.1)		250 000
Drawings	70 860	
Mortgage		120 000
Long-term loan		30 000
Creditors control		25 000
Bank		11 000
Land and buildings (at cost price)	526 140	
Equipment (at cost price)	70 000	
Vehicles (at cost price)	80 000	
Accumulated depreciation: Equipment (1 January 20.1)		21 000
Accumulated depreciation: Vehicles (1 January 20.1)		39 040
Allowance for credit losses		600
Inventory	7 500	
Debtors control	18 000	
Petty cash	350	
Sales		595 000
Cost of sales	195 990	
Advertising	7 400	
Bank charges	2 300	
Telephone expenses	9 800	
Water and electricity	12 100	
Salaries	80 400	
Insurance	4 000	
Delivery expenses	3 900	
Credit losses	500	
Interest on bank overdraft	600	
Packing materials	6 300	
Rental income		4 000
Settlement discount received		500
	1 096 140	1 096 140

Additional information:

Year-end adjustments:

(a) An outstanding debt of R300 is irrecoverable and must be written off.
(b) The allowance for credit losses must be adjusted to R708.
(c) Depreciation must be provided as follows:
Equipment: 10% per annum according to the straight-line method
Vehicles: 20% per annum according to the diminishing balance method
(d) The terms of the mortgage loan provide for interest on the loan to be calculated at a rate of 15% per annum on the outstanding amount of the loan at the end of the financial year. Interest is payable in the first week of January of the following year. The loan was originally granted to the entity by Capital Bank Limited on 2 January 20.0.
(e) A Van granted an unsecured loan to the entity on 1 September 20.1. According to the terms of the loan agreement, interest at 9% per annum will be charged and is payable in January of every year. The total amount of the loan will be repaid in full on 30 June 20.5.
(f) Advertising expenses include an amount of R400 which was prepaid for January 20.2.
(g) The amount paid for water and electricity excludes an amount of R2 300 still payable for December 20.1.
(h) A commission of R1 250, for selling newspapers at cash registers, is still payable for the whole year.
(i) An inventory count of packing materials on 31 December 20.1 showed that there was still R700 worth of materials on hand.
(j) Insurance premium of R3 600 was paid on 1 February 20.1 for the following 12 months.
(k) The entity rented out an office in their building to a lawyer for R2 000 per month. The lawyer took occupation on 1 December and paid an amount of R4 000, being the rent for December 20.1 and January 20.2.

REQUIRED

(1) Prepare the following in respect of Pompeii Traders:
- General journal with regard to adjustments at 31 December 20.1
- General journal with regard to closing entries at 31 December 20.1

(2) Post the general journal entries to the relevant ledger accounts. Close/balance these accounts at year-end.

SOLUTION: COMPREHENSIVE EXAMPLE ONE

POMPEII TRADERS

GENERAL JOURNAL – 31 DECEMBER 20.1

Adjustments *GJ6*

Day	Details	Fol	Debit	Credit
			R	**R**
31	Credit losses	N11	300,00	
	Debtors control	B6		300,00
	Bad debts written off			
	Credit losses	N11	108,00	
	Allowance for credit losses	B14		108,00
	Increase in allowance for credit losses			
	Depreciation	N16	15 192,00	
	Accumulated depreciation: Equipment	B12		7 000,00
	Accumulated depreciation: Vehicles	B13		8 192,00
	Adjustment for depreciation			
	Interest on mortgage	N14	18 000,00	
	Accrued expenses	B7		18 000,00
	Adjustment for interest payable			
	Interest on long-term loan	N15	900,00	
	Accrued expenses	B7		900,00
	Adjustment for interest payable			
	Prepaid expenses	B8	400,00	
	Advertising	N3		400,00
	Adjustment for advertising paid in advance			
	Water and electricity	N7	2 300,00	
	Accrued expenses	B7		2 300,00
	Adjustment for water and electricity payable			
	Accrued income	B10	1 250,00	
	Commission income	N17		1 250,00
	Adjustment for commission income not yet received			
	Consumable stores on hand	B11	700,00	
	Packing materials	N13		700,00
	Adjustment for packing materials on hand			
	Prepaid expenses	B8	300,00	
	Insurance	N9		300,00
	Adjustment for prepaid insurance			
	Rental income	N19	2 000,00	
	Income received in advance	B9		2 000,00
	Adjustment for income received in advance			

Closing transfers

Day	Details	Fol	Debit	Credit
			R	R
31	Settlement discount received	N18	500,00	
	Cost of sales	N2		500,00
	Closing transfer			
	Trading account	N20	195 490,00	
	Cost of sales	N2		195 490,00
	Closing transfer			
	Sales	N1	595 000,00	
	Trading account	N20		595 000,00
	Closing transfer			
	Trading account	N20	399 510,00	
	Profit or loss account	N21		399 510,00
	Transfer of gross profit			
	Profit or loss account	N21	162 700,00	
	Advertising	N3		7 000,00
	Bank charges	N4		2 300,00
	Telephone expenses	N5		9 800,00
	Water and electricity	N7		14 400,00
	Salaries	N8		80 400,00
	Insurance	N9		3 700,00
	Delivery expenses	N10		3 900,00
	Credit losses	N11		908,00
	Interest on bank overdraft	N12		600,00
	Packing materials	N13		5 600,00
	Interest on mortgage	N14		18 000,00
	Interest on long-term loan	N15		900,00
	Depreciation	N16		15 192,00
	Closing transfers			
	Commission income	N17	1 250,00	
	Rental income	N19	2 000,00	
	Profit or loss account	N21		3 250,00
	Closing transfers			
	Profit or loss account	N21	240 060,00	
	Capital	B1		240 060,00
	Closing transfer			
	Capital	B1	70 860,00	
	Drawings	B2		70 860,00
	Closing transfer			

POMPEII TRADERS

GENERAL LEDGER

Dr **Capital** **B1** **Cr**

20.1						20.1					
Dec	31	Drawings	GJ6	70 860	00	Dec	31	Balance	b/d	250 000	00
		Balance	c/d	419 200	00			Profit or loss account	GJ6	240 060	00
				490 060	00					490 060	00
						20.2					
						Jan	1	Balance	b/d	419 200	00

Dr **Drawings** **B2** **Cr**

20.1						20.1					
Dec	31	Balance	b/d	70 860	00	Dec	31	Capital	GJ6	70 860	00

Dr **Debtors control** **B6** **Cr**

20.1						20.1					
Dec	31	Balance	b/d	18 000	00	Dec	31	Credit losses	GJ6	300	00
								Balance	c/d	17 700	00
				18 000	00					18 000	00
20.2											
Jan	1	Balance	b/d	17 700	00						

Dr **Accrued expenses** **B7** **Cr**

						20.1					
						Dec	31	Interest on mortgage	GJ6	18 000	00
								Interest on long-term loan	GJ6	900	00
								Water and electricity	GJ6	2 300	00
										21 200	00

Dr **Prepaid expenses** **B8** **Cr**

20.1					
Dec	31	Advertising	GJ6	400	00
		Insurance	GJ6	300	00
				700	00

Dr **Income received in advance** **B9** **Cr**

						20.1					
						Dec	31	Rental income	GJ6	2 000	00

Dr **Accrued income** **B10** **Cr**

20.1											
Dec	31	Commision income	GJ6	1 250	00						

Dr **Consumable stores on hand** **B11** **Cr**

20.1											
Dec	31	Packing materials	GJ6	700	00						

Dr **Accumulated depreciation: Equipment** **B12** **Cr**

						20.1					
						Jan	1	Balance	b/d	21 000	00
						Dec	31	Depreciation	GJ6	7 000	00
										28 000	00

Dr **Accumulated depreciation: Vehicles** **B13** **Cr**

						20.1					
						Jan	1	Balance	b/d	39 040	00
						Dec	31	Depreciation	GJ6	8 192	00
										47 232	00

Dr **Allowance for credit losses** **B14** **Cr**

						20.1					
						Jan	1	Balance	b/d	600	00
						Dec	31	Credit losses	GJ6	108	00
										708	00

Dr **Sales** **N1** **Cr**

20.1						20.1					
Dec	31	Trading account	GJ6	595 000	00	Dec	31	Total	b/d	595 000	00

Dr **Cost of sales** **N2** **Cr**

20.1						20.1					
Dec	31	Total	b/d	195 990	00	Dec	31	Settlement discount received	GJ6	500	00
								Trading account	GJ6	195 490	00
				195 990	00					195 990	00

Dr **Advertising** **N3** **Cr**

20.1						20.1					
Dec	31	Total	b/d	7 400	00	Dec	31	Prepaid expenses	GJ6	400	00
								Profit or loss account	GJ6	7 000	00
				7 400	00					7 400	00

Dr **Bank charges** **N4** **Cr**

20.1						20.1					
Dec	31	Total	b/d	2 300	00	Dec	31	Profit or loss account	GJ6	2 300	00

Dr **Telephone expenses** **N5** **Cr**

20.1						20.1					
Dec	31	Total	b/d	9 800	00	Dec	31	Profit or loss account	GJ6	9 800	00

Dr **Water and electricity** **N7** **Cr**

20.1						20.1					
Dec	31	Total	b/d	12 100	00	Dec	31	Profit or loss account	GJ6	14 400	00
		Accrued expenses	GJ6	2 300	00						
				14 400	00					14 400	00

Dr **Salaries** **N8** **Cr**

20.1						20.1					
Dec	31	Total	b/d	80 400	00	Dec	31	Profit or loss account	GJ6	80 400	00

Dr **Insurance** **N9** **Cr**

20.1						20.1					
Dec	31	Total	b/d	4 000	00	Dec	31	Prepaid expenses	GJ6	300	00
								Profit or loss account	GJ6	3 700	00
				4 000	00					4 000	00

Dr **Delivery expenses** **N10** **Cr**

20.1						20.1					
Dec	31	Total	b/d	3 900	00	Dec	31	Profit or loss account	GJ6	3 900	00

Dr **Credit losses** **N11** **Cr**

20.1						20.1					
Dec	31	Total	b/d	500	00	Dec	31	Profit or loss account	GJ6	908	00
		Debtors control	GJ6	300	00						
		Allowance for credit losses	GJ6	108	00						
				908	00					908	00

Dr **Interest on bank overdraft** **N12** **Cr**

20.1						20.1					
Dec	31	Total	b/d	600	00	Dec	31	Profit or loss account	GJ6	600	00

Dr **Packing materials** **N13** **Cr**

20.1						20.1					
Dec	31	Total	b/d	6 300	00	Dec	31	Consumable stores on hand	GJ6	700	00
								Profit or loss account	GJ6	5 600	00
				6 300	00					6 300	00

Dr **Interest on mortgage** **N14** **Cr**

20.1						20.1					
Dec	31	Accrued expenses	GJ6	18 000	00	Dec	31	Profit or loss account	GJ6	18 000	00

Dr **Interest on long-term loan** **N15** **Cr**

20.1						20.1					
Dec	31	Accrued expenses	GJ6	900	00	Dec	31	Profit or loss account	GJ6	900	00

Dr **Depreciation** **N16** **Cr**

20.1						20.1					
Dec	31	Accumulated depreciation: Equipment	GJ6	7 000	00	Dec	31	Profit or loss account	GJ6	15 192	00
		Accumulated depreciation: Vehicles	GJ6	8 192	00						
				15 192	00					15 192	00

Dr						Commission income						N17		Cr
20.1							20.1							
Dec	31	Profit or loss account	GJ6	1 250	00		Dec	31	Accrued income	GJ6	1 250	00		

Dr						Settlement discount received						N18		Cr
20.1							20.1							
Dec	31	Cost of sales	GJ6	500	00		Dec	31	Total	b/d	500	00		

Dr						Rental income						N19		Cr
20.1							20.1							
Dec	31	Income received in advance	GJ6	2 000	00		Dec	31	Total	b/d	4 000	00		
		Profit or loss account	GJ6	2 000	00									
				4 000	00						4 000	00		

Dr						Trading account						N20		Cr
20.1							20.1							
Dec	31	Cost of sales	GJ6	195 490	00		Dec	31	Sales	GJ6	595 000	00		
		Profit or loss account	GJ6	399 510	00									
				595 000	00						595 000	00		

Dr						Profit or loss account						N21		Cr
20.1							20.1							
Dec	31	Advertising	GJ6	7 000	00		Dec	31	Trading account	GJ6	399 510	00		
		Bank charges	GJ6	2 300	00				Commision income	GJ6	1 250	00		
		Telephone expenses	GJ6	9 800	00				Rental income	GJ6	2 000	00		
		Water and electricity	GJ6	14 400	00									
		Salaries	GJ6	80 400	00									
		Insurance	GJ6	3 700	00									
		Delivery expenses	GJ6	3 900	00									
		Credit losses	GJ6	908	00									
		Interest on bank overdraft	GJ6	600	00									
		Packing materials	GJ6	5 600	00									
		Interest on mortgage	GJ6	18 000	00									
		Interest on long-term loan	GJ6	900	00									
		Depreciation	GJ6	15 192	00									
		Capital (profit for the year)	GJ6	240 060	00									
				402 760	00						402 760	00		

Calculations

		R
①	**Advertising**	
	R(7 400 – 400)	7 000
②	**Water and electricity**	
	R(12 100 + 2 300)	14 400
③	**Credit losses and allowance for credit losses**	
	Debtors control R(18 000 – 300)	17 700
	Allowance for credit losses	708
	Previous year allowance	(600)
	Increase in allowance for credit losses	108
	Total credit losses R(500 + 300 + 108)	908
④	**Depreciation on equipment (straight-line method):**	
	R70 000 x 10%	7 000
	Depreciation on vehicles (diminishing balance method):	
	R(80 000 – 39 040) x 20%	8 192
	Total depreciation	15 192
⑤	**Finance costs**	
	Interest on long-term loan	
	R30 000 x 4/12 x 9/100	900
	Interest on mortgage	
	R120 000 x 15%	18 000
	Interest on bank overdraft	600
	Total finance costs	19 500
⑥	**Insurance**	
	Amount paid for period 1/2/20.1 to 31/1/20.2	3 600
	Amount applicable to this financial year R3 600 x 11/12	3 300
	Plus amount paid for Jan 20.1 in 20.0	400
	Insurance expense for 20.1	3 700
	Prepaid expenses	300

11.2 FINANCIAL STATEMENTS

11.2.1 Introduction

We have seen that journals are used on a daily basis to record the details of each transaction. The general ledger is used as a summary of the journals and is updated on a monthly basis. A trial balance is used primarily as an index (summary) of the accounts dealt with in the general ledger.

The source documents → journals → ledger → trial balance cycle should continue unabated for a period of 12 months (if the financial period is 12 months long).

At the end of the financial year some additional accounting procedures must be followed. After executing the usual documentation procedures → journals → ledger → trial balance – for the final month of the financial period, two important extra procedures must be followed:

- Determine the financial **performance** of the entity for the past financial year.
- Determine the financial **position** of the entity at the financial year-end.

11.2.2 Financial performance as measured by the statement of profit or loss and other comprehensive income

What is financial performance? Consider the situation where an investor deposits R100 000 into a fixed deposit investment for one year at an interest rate of 12% per annum. The 12% interest rate represents the *return* that the investor is expecting on the investment. If the interest rate remains the same, the investment should grow to R112 000 by the end of the 12-month period.

This scenario can be compared with one where the sole owner of an entity makes a capital contribution of R100 000 into the entity on a particular date (for example 1 July 20.1). At the end of the first financial period of 12 months (ie 30 June 20.2), the owner would like to determine the *return on his/her initial investment* for the year. How is this return calculated?

Return on capital invested = net profit (profit for the year)

Interest measures the performance of a savings investment, and *profit* measures the performance of an entity's capital investment. In fact, if the owner makes a R10 000 profit on 30 June 20.2 in the example given above, he/she can measure the return against the return on a savings investment. A R10 000 net profit (profit for the year) equates to a 10% return on the initial investment of R100 000 (R10 000 / R100 000 x 100 = 10%). This return is less that the return on the savings investment, which in our example, amounts to R12 000 (12%). One could thus interpret the net profit (profit for the year) as being a very conservative return, since the owner could have yielded a return of 12% had he/she invested the money in a fixed deposit — without doing any work during the year!

- **The structure of the statement of profit or loss and other comprehensive income**

The statement of profit or loss and other comprehensive income is a statement format of the trading and profit or loss accounts which should be familiar to you by now. The statement of profit or loss and other comprehensive income is divided into a gross profit section (similar to the trading account) and a net profit section (similar to the profit or loss account).

Dr **Trading account (F1)** **Cr**

Year-end date	Cost of sales	GJ	XXX	Year-end date	Sales (less sales returns)	GJ	XXX
	Profit or loss account (gross profit)	GJ	XXX				
			XXX				XXX

Dr				Profit of loss account (F2)				Cr
Year-end date	Wages and salaries	GJ	XXX	Year-end date	Trading account (gross profit)	GJ	XXX
	Insurance	GJ	XXX		Rental income	GJ	XXX
	Interest expenses	GJ	XXX		Interest income	GJ	XXX
	Rental expenses	GJ	XXX		Commission income	GJ	XXX
	Telephone expenses	GJ	XXX		etc …		
	Water and electricity	GJ	XXX				
	Advertising	GJ	XXX				
	Repairs and maintenance	GJ	XXX				
	Stationery	GJ	XXX				
	Packing materials	GJ	XXX				
	Consumables	GJ	XXX				
	etc …						
	Capital (profit for the year)	GJ	XXX				
			XXX				XXX

The trading account will be used as a tool to close off the following nominal accounts at the end of the financial period:

- Sales
- Sales returns (closed off against sales)
- Cost of sales

The profit or loss account will be used as a tool to have all the remaining nominal accounts closed off at the end of the financial period.

All nominal accounts should thus have an effective balance of 0 (nil) on the first day of the next financial year.

OR:

XXX TRADERS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED …

	R	R	
Revenue		XXX	Trading account section
Cost of sales		(XXX)	
Gross profit		XXX	
Other income		XXX	
Rent income	XXX		
Interest income	XXX		
Commission income	XXX		
Profit on sale of non-current asset	XXX		
		XXX	
Distribution, administrative and other expenses		(XXX)	
Wages and salaries	XXX		
Insurance	XXX		
Traffic fines	XXX		
Rental expenses	XXX		Profit or loss account section
Telephone expenses	XXX		
Water and electricity	XXX		
Advertising	XXX		
Repairs and maintenance	XXX		
Stationery	XXX		
Packing material	XXX		
Loss on sale of non-current asset	XXX		
Finance costs		(XXX)	
Interest on long-term loan	XXX		
Interest on mortgage	XXX		
Interest on bank overdraft	XXX		
Profit for the year		XXX	
Other comprehensive income for the year		—	
Total comprehensive income for the year		XXX	

You will be required to know the structure of the statement of profit or loss and other comprehensive income as set out above.

11.2.3 Financial position as measured by the statement of financial position

The financial position of an entity can be determined by preparing a statement of financial position at any point in time (usually at the end of the financial year).

A statement of financial position is used to answer a very important question:

WHAT IF … ?

The statement of financial position should effectively answer the question: What if we closed the doors of our entity today (the statement of financial position date), sold all the assets, and paid back all our liabilities? The result of such a closure should indicate the owner's real equity in the entity. Remember: equity = assets – liabilities; or:

ASSETS	=	EQUITY	+	LIABILITIES

The statement of financial position is in fact nothing but a detailed version of the **accounting equation,** which shows the financial position of an entity.

None of the statement of financial position accounts (except for drawings) will be closed off at the end of the financial year. All the capital, asset and liability balances will be carried forward to the next financial period.

You will be required to know the structure of the statement of financial position as set out below.

The structure of the statement of financial position

XXX TRADERS

STATEMENT OF FINANCIAL POSITION AS AT …

	R	R
ASSETS		
Non-current assets		XXX
Property, plant and equipment	XXX	
Fixed deposit	XXX	
Current assets		XXX
Inventories	XXX	
Trade and other receivables	XXX	
Callable fixed deposit	XXX	
Prepayments	XXX	
Cash and cash equivalents	XXX	
VAT receivable	XXX	
TOTAL ASSETS		XXX
EQUITY AND LIABILITIES		
Equity		XXX
Capital	XXX	
Non-current liabilities		XXX
Long-term borrowings	XXX	
Current liabilities		XXX
Trade and other payables	XXX	
Income received in advance	XXX	
Short-term borrowings	XXX	
Current portion of long-term borrowings	XXX	
Bank overdraft	XXX	
VAT payable	XXX	
TOTAL EQUITY AND LIABILITIES		XXX

11.2.4 Statement of changes in equity

The aim of the statement of changes in equity is to reconcile the balance of the equity at the beginning of the financial year with the equity at the end of the financial year.

The structure of the statement of changes in equity

XXX TRADERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED …

	Capital R
Balance at … (Date at beginning of financial year)	XXX
Capital contribution during the year	XXX
Total comprehensive income for the year	XXX
Drawings	(XXX)
Balance at … (Date at end of financial year)	XXX

COMPREHENSIVE EXAMPLE TWO

Mimosa Dealers reached the end of their first financial year on 30 September 20.3. The following trial balance was extracted from the accounting records on that date:

	FoI	Debit	Credit
		R	R
Financial position section			
Capital (1 October 20.2)	B1		250 000
Drawings	B2	22 400	
Equipment	B3	48 000	
Investment: Fixed deposit (12%)	B4	100 000	
Trading inventory	B5	110 000	
Debtors control	B6	44 880	
Creditors control	B7		30 210
Long-term loan: ABC Bank (14%)	B8		120 000
Bank	B9	127 150	
Nominal accounts section			
Sales	N1		382 500
Cost of sales	N2	190 000	
Sales returns	N3	21 500	
Rental expenses	N4	36 000	
Interest on fixed deposit	N5		12 000
Interest on long-term loan	N6	16 800	
Wages and salaries	N7	43 000	
Insurance	N8	11 000	
Stationery	N9	1 700	
Packing materials	N10	2 050	
Settlement discount granted	N11	840	
Settlement discount received	N12		360
Credit losses	N13	800	
Telephone expenses	N14	5 320	
Water and electricity	N15	12 500	
Repairs	N16	1 130	
		795 070	795 070

REQUIRED

(1) Prepare the statement of profit or loss and other comprehensive income of Mimosa Dealers for the year ended 30 September 20.3.
(2) Prepare the statement of financial position of Mimosa Dealers as at 30 September 20.3.
(3) Prepare the statement of changes in equity for the year ended 30 September 20.3.
(4) If it is assumed that the R250 000 capital was invested on 1 October 20.2, calculate the percentage (%) return for the first year on the capital invested.
(5) If this entity is using a constant mark-up on cost for all trading inventory sold, determine the percentage (%) mark-up.
(6) If Mimosa Dealers moved into the building from which they trade on 1 October 20.2, calculate the monthly rent payment if all payments have been made up to date.

SOLUTION: COMPREHENSIVE EXAMPLE TWO

(1)

MIMOSA DEALERS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 20.3

	R	R
Revenue (382 500 – 21 500 – 840)		360 160
Cost of sales (190 000 – 360)		(189 640)
Gross profit		170 520
Other income		12 000
Interest on fixed deposit	12 000	
		182 520
Distribution, administrative and other expenses		(113 500)
Rental expenses	36 000	
Wages and salaries	43 000	
Insurance	11 000	
Stationery	1 700	
Packing materials	2 050	
Credit losses	800	
Telephone expenses	5 320	
Water and electricity	12 500	
Repairs	1 130	
Finance costs		(16 800)
Interest on long-term loan	16 800	
Profit for the year		52 220
Other comprehensive income for the year		—
Total comprehensive income for the year		52 220

NOTE:

Settlement discount granted must be deducted from revenue and settlement discount received must be deducted from cost of sales.

(2)

MIMOSA DEALERS

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 20.3

	R	R
ASSETS		
Non-current assets		148 000
Property, plant and equipment	48 000	
Fixed deposit	100 000	
Current assets		282 030
Inventories	110 000	
Trade and other receivables	44 880	
Cash and cash equivalents	127 150	
TOTAL ASSETS		430 030
EQUITY AND LIABILITIES		
Equity		279 820
Capital	279 820	
Non-current liabilities		120 000
Long-term borrowings	120 000	
Current liabilities		30 210
Trade and other payables	30 210	
TOTAL EQUITY AND LIABILITIES		430 030

(3)

MIMOSA DEALERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 20.3

	Capital
	R
Balance at 1 October 20.2	250 000
Total comprehensive income for the year	52 220
Drawings	(22 400)
Balance at 30 September 20.3	279 820

(4) R52 220 / R250 000 x 100 = 20,89%

(5) Mark-up % on cost = gross profit / cost of sales x 100
Thus: mark-up % = R170 520 / R189 640 x 100 = 89,92%

(6) R36 000 / 12 = R3 000 per month

ACTIVITY 1

Lucky Traders reached the end of their first financial year at 30 April 20.4. The following trial balance was extracted from the accounting records on that date:

	FoI	Debit	Credit
		R	R
Financial position section			
Capital (1 May 20.3)	B1		300 000
Drawings	B2	40 000	
Vehicles	B3	120 000	
Investment: Fixed deposit (13%)	B4	80 000	
Trading inventory	B5	46 000	
Debtors control	B6	20 000	
Creditors control	B7		35 000
Long-term loan: Goodie Bank (15%)	B8		140 000
Bank	B9	199 270	
Petty cash	B10	1 000	
Nominal accounts section			
Sales	N1		415 000
Cost of sales	N2	250 000	
Sales returns	N3	15 000	
Wages and salaries	N4	71 400	
Interest on fixed deposit	N5		5 200
Interest on loan	N6	21 000	
Telephone expenses	N7	12 300	
Settlement discount granted	N8	1 500	
Credit losses	N9	5 800	
Insurance	N10	1 200	
Settlement discount received	N11		330
Credit losses recovered	N12		360
Advertising	N13	4 800	
Traffic fines	N14	850	
Rates and taxes	N15	3 770	
Repairs and maintenance	N16	2 000	
		895 890	895 890

REQUIRED

(1) Prepare the statement of profit or loss and other comprehensive income of Lucky Traders for the year ended 30 April 20.4.
(2) Prepare the statement of financial position of Lucky Traders as at 30 April 20.4.
(3) Prepare the statement of changes in equity for the year ended 30 April 20.4.
(4) If it is assumed that the insurance policy was taken out on 1 January 20.4, and that all payments have been made up to date, what is the monthly insurance premium?
(5) Determine the date on which the fixed deposit was invested. All interest due has been received.
(6) Lucky Traders sells all goods at a constant mark-up. Determine the mark-up % on cost.

This solution should be based on the same format as used in the illustrative example. It would be wise to try and do this question on your own. If your statement of financial position balances then you should be on the right track.

11.2.5 Year-end adjustments

This section was discussed in detail in this learning unit of the study guide. But let us now consider how this fits into the accounting cycle.

We have seen how the performance of an entity can be determined for a financial period. This is done by means of a statement of profit or loss and other comprehensive income or trading and profit or loss accounts.

The financial position of an entity can also be determined by drafting a statement of financial position. The question now arises whether these statements are indeed **accurate** in measuring financial performance and position.

This is where **year-end adjustments** come in very handy.

The purpose of performing year-end adjustments is to make the financial results more realistic. The various year-end adjustments which are an extremely important section of the syllabus will now be discussed. We deal with each individual adjustment in detail. The process of drafting financial statements is slightly more comprehensive and complicated, because all the adjustments need to be incorporated into one set of financial statements.

For the sake of revision, the most important year-end adjustments are listed:

- Depreciation
- Accrued expenses
- Accrued income
- Prepaid expenses
- Income received in advance
- Consumable stores on hand
- Trading inventory deficits
- Credit losses
- Allowance for credit losses

COMPREHENSIVE EXAMPLE THREE

The following information relates to Joyner & Sons as at 31 October 20.4, the last day of the financial year of the entity:

JOYNER & SONS

PRE-ADJUSTMENT TRIAL BALANCE AS AT 31 OCTOBER 20.4

	Fol	Debit	Credit
		R	R
Financial position section			
Capital (1 November 20.3)	B1		447 540
Drawings	B2	10 000	
Land and buildings	B3	350 000	
Vehicles	B4	133 000	
Equipment	B5	36 800	
Accumulated depreciation: Vehicles	B6		43 000
Accumulated depreciation: Equipment	B7		12 800
Fixed deposit: AA Bank (12% pa)	B8	65 000	
Debtors control	B9	31 250	
Creditors control	B10		24 270
Inventory	B11	63 500	
Bank	B12	21 210	
Petty cash	B13	2 000	
Cash float	B14	3 500	
Long-term loan: BB Bank (14% pa)	B15		30 000
Nominal accounts section			
Sales	N1		310 700
Cost of sales	N2	125 100	
Sales returns	N3	10 700	
Rental income	N4		29 700
Interest on fixed deposit	N5		7 950
Interest on long-term loan	N6	4 000	
Bank charges	N7	160	
Stationery	N8	1 200	
Packing materials	N9	2 620	
Insurance	N10	5 600	
Wages and salaries	N11	20 100	
Water and electricity	N12	8 450	
Telephone expenses	N13	5 890	
Repairs and maintenance	N14	3 000	
Settlement discount granted	N15	450	
Settlement discount received	N16		1 310
Advertising	N17	1 940	
Credit losses	N18	1 800	
		907 270	907 270

Adjustments at 31 October 20.4:

(a) A physical inventory count taken, revealed the following:
- Inventory on hand, R61 800
- Stationery on hand, R400
- Packing materials on hand, R620

(b) The fixed deposit and long-term loan were both negotiated during 20.1.
(c) The salary of an employee, D Bono, for October 20.4 is still due, R4 900.
(d) Prepaid insurance amounts to R500.
(e) The rent due by the tenant amounts to R2 700 per month. The tenant has been renting since 1 November 20.3.
(f) The outstanding balance of a debtor, B Charlie, must be written off. The amount is R1 250.
(g) Joyner & Sons determined that the allowance for credit losses account should amount to R1 200 on 31 October 20.4.
(h) Depreciation must be provided for as follows:
- On vehicles @ 20% per annum according to the straight-line method
- On equipment @ $33^{1}/_{3}$% per annum on the reducing-balance method

REQUIRED

(1) Prepare the statement of profit or loss and other comprehensive income for Joyner & Sons for the year ended 31 October 20.4.
(2) Prepare the statement of financial position of Joyner & Sons as at 31 October 20.4.
(3) Prepare the statement of changes in equity for Joyner & Sons for the year ended 31 October 20.4.
(4) Prepare the notes for the year ended 31 October 20.4.

SOLUTION: COMPREHENSIVE EXAMPLE THREE

(1)

JOYNER & SONS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 20.4

	R	R
Revenue (310 700 – 10 700 – 450)		299 550
Cost of sales (125 100 – 1 310)		(123 790)
Gross profit		175 760
Other income		40 200
Rental income (29 700 + 2 700)	32 400	
Interest on fixed deposit (7 950 – 150)	7 800	
		215 960
Distribution, administrative and other expenses		(92 890)
Bank charges	160	
Stationery (1 200 – 400)	800	
Packing materials (2 620 – 620)	2 000	
Insurance (5 600 – 500)	5 100	
Wages and salaries (20 100 + 4 900)	25 000	
Water and electricity	8 450	
Telephone expenses	5 890	
Repairs and maintenance	3 000	
Advertising	1 940	
Credit losses (1 800 + 1 250 + 1 200)	4 250	
Trading inventory deficits	1 700	
Depreciation (26 600 + 8 000)	34 600	
Finance costs		(4 200)
Interest on long-term loan (4 000 + 200)	4 200	
Profit for the year		118 870
Other comprehensive income for the year		—
Total comprehensive income for the year		R118 870

(2)

JOYNER & SONS

STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 20.4

	Notes	R	R
ASSETS			
Non-current assets			494 400
Property, plant and equipment	1	429 400	
Fixed deposit	2	65 000	
Current assets			121 530
Inventories	3	62 820	
Trade and other receivables	4	31 500	
Prepayments	5	500	
Cash and cash equivalents	6	26 710	
TOTAL ASSETS			615 930
EQUITY AND LIABILITIES			
Equity			556 410
Capital		556 410	
Non-current liabilities			30 000
Long-term borrowings	7	30 000	
Current liabilities			29 520
Trade and other payables	8	29 370	
Income received in advance	9	150	
TOTAL EQUITY AND LIABILITIES			615 930

(3)

JOYNER & SONS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 20.4

	Capital
	R
Balance at 1 November 20.3	447 540
Total comprehensive income for the year	118 870
Drawings	(10 000)
Balance at 31 October 20.4	556 410

(4)

JOYNER & SONS

NOTES FOR THE YEAR ENDED 31 OCTOBER 20.4

1	**Property, plant and equipment**	**Land and building**	**Equipment**	**Vehicles**	**Total**
		R	**R**	**R**	**R**
	Carrying amount at 1 November 20.3	350 000	24 000	90 000	464 000
	Cost price	350 000	36 800	133 000	519 800
	Accumulated depreciation	–	(12 800)	(43 000)	(55 800)
	Additions	–	–	–	–
	Disposals	–	–	–	–
	Depreciation for the year	–	(8 000)	(26 600)	(34 600)
	Carrying amount at 31 October 20.4	350 000	16 000	63 400	429 400
	Cost price	350 000	36 800	133 000	519 800
	Accumulated depreciation	–	(20 800)	(69 600)	(90 400)
2	**Financial assets**				
	Non-current financial assets				
	Loans and receivables: Fixed deposit at AA Bank at 12% pa				65 000
3	**Inventories**				
	Trading inventory (63 500 – 1 700)			61 800	
	Consumable stores on hand:				
	– Stationery		400		
	– Packing material		620	1 020	62 820
4	**Trade and other receivables**				
	Debtors control (31 250 – 1 250)		30 000		
	Less: Allowance for credit losses		(1 200)	28 800	
	Accrued income: – Rental income			2 700	31 500
5	**Prepayments**				
	Prepaid expenses: – Insurance				500
6	**Cash and cash equivalents**				
	Bank			21 210	
	Petty cash			2 000	
	Cash float			3 500	26 710
7	**Long-term borrowings**				
	Long-term loan: BB Bank (14% pa)				30 000
8	**Trade and other payables**				
	Creditors control			24 270	
	Accrued expenses:				
	– Interest on loan		200		
	– Wages and salaries		4 900	5 100	29 370
9	**Income received in advance:**				
	– Interest on fixed deposit			150	150

ACTIVITY 2

The following information was obtained from the records of Swinton Dealers on the last day of the financial year of the entity:

SWINTON DEALERS

PRE-ADJUSTMENT TRIAL BALANCE AS AT 31 MARCH 20.4

	Debit	Credit
	R	R
Financial position section		
Capital		186 980
Drawings	23 000	
Office equipment at cost price	24 000	
Accumulated depreciation: Office equipment		8 400
Bank	102 700	
Fixed deposit @ 12% pa	80 000	
Petty cash	2 000	
Inventory (1/04/20.3)	45 900	
Debtors control	21 300	
Creditors control		12 100
Prepaid insurance	2 880	
Rent received in advance		16 000
Allowance for credit losses		1 200
Stationery on hand	2 300	
Nominal accounts section		
Sales		213 000
Purchases	85 600	
Freight charges on purchases	4 700	
Freight charges on sales	3 000	
Purchases returns		5 000
Sales returns	1 050	
Customs duties	1 900	
Import tariffs	3 900	
Advertisements	800	
Wages and salaries	34 800	
Interest on fixed deposit		8 800
Settlement discount granted	400	
Rental income		3 200
Administrative expenses	2 200	
Repairs and maintenance	3 600	
Water and electricity	8 650	
	454 680	454 680

Additional information

(a) The entity took out a fire insurance policy on 1 January 20.4 and paid a premium of R2 880 to cover the entity until 31 December 20.4.
(b) On 31 March 20.4 the following was still on hand:
- Trading inventory, R23 000
- Stationery, R1 500

(c) An employee's salary of R4 500 was still outstanding on 31 March 20.4.
(d) The tenant moved into the building on 30 November 20.3 and paid his rent for 12 months. No deposit was required.
(e) Office equipment is depreciated at 20% per annum on a straight-line basis. Take into account that a new computer was bought on 1 August 20.3 for R12 000.
(f) The fixed deposit was invested a few years ago. Interest on the investment is credited to the current bank account.
(g) Swinton Dealers determined that the allowance for credit losses account should amount to R1 065 at 31 March 20.4.

REQUIRED

(1) Prepare the statement of profit or loss and other comprehensive income for Swinton Dealers for the year ended 31 March 20.4.
(2) Prepare the statement of financial position of Swinton Dealers as at 31 March 20.4.
(3) Prepare the statement of changes in equity of Swinton Dealers for the year ended 31 March 20.4.
(4) Prepare the notes for the year ended 31 March 20.4

SOLUTION: ACTIVITY 2

(1)

SWINTON DEALERS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 20.4

	R	R
Revenue (213 000 – 1 050 – 400)		211 550
Cost of sales (*1)		(114 000)
Gross profit		97 550
Other income		16 135
Interest on fixed deposit (8 800 + 800)	9 600	
Rental income (3 200 + 3 200)	6 400	
Credit losses (1 200 – 1 065)	135	
		113 685
Distribution, administrative and other expenses		(63 070)
Freight charges on sales	3 000	
Advertisements	800	
Wages and salaries (34 800 + 4 500)	39 300	
Administrative expenses	2 200	
Repairs and maintenance	3 600	
Water and electricity	8 650	
Insurance	720	
Stationery	800	
Depreciation (2 400 + 1 600)	4 000	
Profit for the year		50 615
Other comprehensive income for the year		—
Total comprehensive income for the year		50 615

*** 1 Calculation of cost of sales**

	R
Opening inventory	45 900
Purchases (85 600 – 5 000)	80 600
Freight charges on purchases	4 700
Customs duties	1 900
Import tariffs	3 900
	137 000
Closing inventory	(23 000)
	114 000

Notes on adjustments

(a) The fire insurance premium equals R2 880/12 = R240 per month. By 31 March 20.4 only 3 months' insurance have been "used". Thus R240 x 3 = R720 must end up in the statement of profit or loss and other comprehensive income as an *expense*, and R240 x 9 = R2 160 must end up in the statement of financial position as an *asset*.

(b)
- The opening trade inventory is R45 900. The closing trade inventory is R23 000. Both these amounts are used to calculate cost of sales in the statement of profit or loss and other comprehensive income. The closing inventory of R23 000 will be shown in the statement of financial position as a current asset.
- Stationery worth R2 300 was evidently bought during the financial year, and by the end of the year R800 had been used, since stationery of R1 500 was on hand at the inventory count. The portion that was used (R800) is an *expense*, and the part that is left on the shelves, is an *asset*.

(c) Salary accrued. Debit salaries, credit accrued expenses (current liabilities) with R4 500.

(d) The initial double-entry made must have been a debit against bank and a credit against income (rent) received in advance. There have in the meantime, however, been some reversals made against the rent received in advance account. This is evident from the fact that an income account for rental income exists as well. The total rent for the year must have been R16 000 + R3 200 = R19 200. This amounts to R1 600 per month for the tenant. By 31 March 20.4 the tenant had only occupied the premises for 4 months (since he moved in). This means that Swinton Dealers had only earned 4 months of rent at R1 600 per month. The income for rent (as shown in the statement of profit or loss and other comprehensive income) will thus be R6 400. 8 months of rent have been received in advance (R12 800) and will be disclosed in the statement of financial position as a current liability.

(e) R12 000 x 20% = R2 400
R12 000 x 20% x 8/12 = R1 600

Total depreciation for the year = R4 000

(f) R80 000 x 12% = R9 600
R9 600 interest has been earned by the entity, but only R8 800 has been received. This leaves R800 receivable interest (current asset in the statement of financial position).

(g) Allowance for credit losses account at 31 March 20.4 = R1 065
Allowance for credit losses account at 31 March 20.3 = R1 200

A decrease in the allowance for credit losses is needed (income) and the new allowance for credit losses of R1 065 will be disclosed as a deduction from debtors in the statement of financial position.

(2)

SWINTON DEALERS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 20.4

	Notes	R	R
ASSETS			
Non-current assets			91 600
Property, plant and equipment	1	11 600	
Fixed deposit	2	80 000	
Current assets			152 395
Inventories	3	24 500	
Trade and other receivables	4	21 035	
Prepayments	5	2 160	
Cash and cash equivalents	6	104 700	
TOTAL ASSETS			243 995
EQUITY AND LIABILITIES			
Equity			214 595
Capital		214 595	
Current liabilities			29 400
Trade and other payables	7	16 600	
Income received in advance	8	12 800	
TOTAL EQUITY AND LIABILITIES			243 995

(3)

SWINTON DEALERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 20.4

	Capital
	R
Balance at 1 April 20.3	186 980
Total comprehensive income for the year	50 615
Drawings	(23 000)
Balance at 31 March 20.4	214 595

SWINTON DEALERS

NOTES FOR THE YEAR ENDED 31 MARCH 20.4

1	**Property, plant and equipment**			
		R	**Equipment R**	**Total R**
	Carrying amount at 1 April 20.3		3 600	3 600
	Cost price		12 000	12 000
	Accumulated depreciation		(8 400)	(8 400)
	Additions		12 000	12 000
	Disposals		–	–
	Depreciation for the year		(4 000)	(4 000)
	Carrying amount at 31 March 20.4		11 600	11 600
	Cost price		24 000	24 000
	Accumulated depreciation		(12 400)	(12 400)
2	**Financial assets**			
	Non-current financial assets			
	Loans and receivables: Fixed deposit at 12% pa			80 000
3	**Inventories**			
	Trading inventory		23 000	
	Consumable stores on hand: – stationery		1 500	24 500
4	**Trade and other receivables**			
	Debtors control	21 300		
	Less: Allowance for credit losses	(1 065)	20 235	
	Accrued income: – Interest income		800	21 035

5	**Prepayments**			
	Prepaid expenses: – Insurance			2 160
6	**Cash and cash equivalents**			
	Bank		102 700	
	Petty cash		2 000	104 700
7	**Trade and other payables**			
	Creditors control		12 100	
	Accrued expenses: – Salaries		4 500	16 600
8	**Income received in advance:**			
	– Rental income		12 800	12 800



SELF-ASSESSMENT

After you have worked through this learning unit, are you able to:

• correctly calculate and do adjustments at year-end with regard to accrued expenses, prepaid expenses, accrued income and income received in advance?	☺	😐	☹
• correctly calculate and do adjustments with regard to consumable stores?	☺	😐	☹
• correctly calculate and do adjustments with regard to depreciation of non-current assets?	☺	😐	☹
• correctly calculate and do adjustments with regard to credit losses and allowance for credit losses?	☺	😐	☹
• correctly prepare a statement of profit or loss and other comprehensive income for a sole trader?	☺	😐	☹
• correctly prepare a statement of financial position and notes for a sole trader?	☺	😐	☹
• correctly prepare a statement of changes in equity for a sole trader?	☺	😐	☹

If you have marked any 😐 you have to *revise* that specific section.

If you have marked any ☹ you have to **re-study** that specific section.

If you have marked all ☺ you may congratulate yourself for having achieved all the outcomes of this course.