

ACCOUNTING SUMMARY NOTES FOR PAPER TWO

A. STOCK VALUATION:

1.1 Calculation of cost of sales under periodic inventory system:

Opening stock balance	xxx
+ Net purchases (cash purchases + credit purchases - cost of stock returned to the suppliers – cost price of stock taken by the owner as drawings – cost price of stock donated by the business)	xxx
+ Carriage on purchases	xxx
+ Custom duty/import duty	xxx
= Goods available for sale	xxx
Less closing stock (value)	<u>(xxx)</u>
= Cost of sales	<u>xxx</u>

1.2 Calculation of Average Cost under **WAM**:

Average cost =

$$\frac{(\text{opening stock} + \text{net purchases} + \text{carriage on purchases} + \text{import or custom duty} - \text{carriage on purchases (if refundable)})}{(\text{opening stock units} + \text{units purchased} - \text{units taken as drawings} - \text{units donated} - \text{units returned to the suppliers})}$$

OR

1.3 Average cost =

$$\frac{\text{Goods available for sale}}{(\text{opening stock units} + \text{units purchased} - \text{units taken as drawings} - \text{units donated} - \text{units returned to the suppliers})}$$

1.4 Value of the closing stock under WAM = **Closing stock units x Average cost.**

1.5 Calculation of the value of the closing stock under **FIFO**:

Start from the last net units purchased multiplied by cost per unit

If not enough, then add second last net units purchased multiplied by cost per unit.

And so forth.....

In other words when calculating the value of the closing stock under **FIFO METHOD**, you start from the last units purchased and work backwards (bottom-up approach). Do not forget to adjust units for the number of units returned to the suppliers.

1.6 Calculation of the Value of the closing stock under **SIM**:

Assuming we have product A, and product B

The value of the closing stock will be calculated as follows:

A: (opening stock units – units sold) x (cost price per unit + carriage on purchases per unit + import duty per unit) = xxx

+ (units purchased – units returned to the suppliers – units taken as drawings – units donated - units sold) x (cost price per unit + carriage on purchases per unit + import duty per unit) = xxx

B: (opening stock units – units sold) x (cost price per unit + carriage on purchases per unit + import duty per unit) = xxx

+ (units purchased – units returned to the suppliers – units taken as drawings – units donated - units sold) x (cost price per unit + carriage on purchases per unit + import duty per unit) = xxx

Therefore, total value of the closing stock will be closing stock for product A + closing stock for product B.

1.7 Calculation of units missing =

Opening stock units + units purchased – units returned to the suppliers – drawings (units) – donations (units) – units sold – closing stock units = x units

1.8 internal control measures that should be in place to mitigate stock theft in the business:

- Hire security guards.
- Install surveillance cameras.
- Count stock regularly.
- Division of duties.
- Attach a sensor tag on each item on the shop.
- Customers to leave items purchase elsewhere at the parcel counter.

$$1.9 \text{ Stock holding period} = \frac{\text{closing stock (if average stock not used)}}{\text{cost of sales}} \times 365/1$$

$$1.10 \text{ Stock turnover rate} = \frac{\text{cost of sales}}{\text{closing stock (if average stock not used)}}$$

B. VALUE ADDED TAX (VAT)

1.1 The standard VAT rate in South Africa is **15%**.

1.2 Input VAT is claimable from SARS.(+)

1.3 VAT output is payable to SARS (-)

1.4 The calculation of VAT payable or receivable is processed as follows:

+/- opening VAT balance + VAT input - output VAT.

1.5 Detailed calculation of VAT payable or VAT claimable from SARS (not exhaustive):

+/- Opening VAT balance + VAT on purchases (both cash and credit) - VAT on sales (both cash and credit) + VAT on vatable expenses (e.g. bad debts, discount allowed, debtors allowances, telephone, etc) - VAT on vatable income (e.g. bad debts recovered, discount received, commission income, etc) - VAT on donation - VAT drawings - VAT on creditors allowances - VAT on refunds given by a creditor + VAT on refund given to a debtor = Rx

VAT Payable/ receivable.

1.5 Calculating VAT on amount excluding VAT is processed as follows:

- Amount excluding VAT X 15/100 = VAT AMOUNT.

1.6 Calculating VAT on amount including VAT is processed as follows:

- Amount including VAT X 15/115 = VAT AMOUNT.

C. COST ACCOUNTING (MANUFACTURING)

1.1 Direct material cost = raw material issue

1.2 Direct labour cost takes into account the following:

- Normal (basic) time worked
- Number of employees
- Overtime worked
- Bonuses
- Contributions by the employer
- Hours worked or days worked or weeks worked or months worked or units produced, etc
- Rate per hour or rate per day or rate per unit produced
- Net wage = gross wage - deductions
- Gross wage = net wage + deductions.

1.3 Prime cost = direct material cost + direct labour cost

1.4 Direct material cost = prime cost – direct labour cost

1.5 Direct labour cost = prime cost – direct material cost

1.6 Total manufacturing cost = prime cost + factory overhead cost

1.7 Cost of production of finished goods = prime cost + factory overhead cost + WIP @ the beg - WIP @ the end

1.8 Cost of production of finished goods = finished goods @ the end + cost of sales – finished goods @ the beginning.

1.9 Fixed costs = factory overhead cost + administration cost

1.10 Variable cost = direct material cost + direct labour cost + selling and distribution cost

1.11 Contribution = sales – variable costs

1.12 Contribution per unit = selling price per unit – variable costs per unit

1.13 Break-even point = $\frac{\text{total fixed costs}}{\text{selling price per unit} - \text{variable costs per unit}}$

1.14 Additional profit = number of additional units produced & sold x contribution per unit.

1.15 Net profit = sales – cost of sales – administration cost – selling & distribution cost.

1.16 Direct/raw material cost per unit = direct material cost ÷ number of units produced.

1.17 Direct labour cost per unit = direct labour cost ÷ number of units produced.

1.18 Factory overhead cost per unit = total factory overhead cost ÷ number of units produced.

1.19 Selling and distribution cost per unit = selling & distribution cost ÷ number of units sold.

1.20 Administration cost per unit = administration cost ÷ number of units sold.

1.20 Break-even point (value) = break-even point units x selling price.

1.21 Wastage = actual - budgeted

D. FIXED/TANGIBLE ASSETS (land & buildings, vehicles and equipment)

- 1.1 Additions at cost include: purchase of fixed asset, asset contributed to the business as capital, asset donated to the business, construction and improvement to the land and buildings, renovations, extensions to the land and buildings.
- 1.2 CV @ the beg. = cost @ the beg. - acc. depreciation @ the beg.
- 1.3 Cost at the beg. = CV @ the beg. + acc. depreciation @ the beg.
- 1.4 Acc.depreciation @ the beg. = CV @ the beg - cost @ the beg.
- 1.5 Disposal @ CV = Cost - Acc. depreciation.
- 1.6 CV @ the end = CV @ the beg. + additions @ cost - disposal @ CV - depreciation. OR CV @ the end = cost @ the end - acc. depreciation @ the end.
- 1.7 Cost @ the end = cost @ the beg. + additions @ cost - cost price of asset disposed of. OR Cost @ the end = CV @ the end. + acc. depreciation @ the end.
- 1.8 Acc depreciation @ end = CV @ the end - cost @ the end OR
Acc depreciation @ end = Acc depreciation @ beg. + depreciation for the year - acc depreciation of asset disposed

E. FULLY DEPRECIATED ASSETS (FIXED ASSETS CONT.)

EQUIPMENT AND VEHICLES

- These are the fixed assets that depreciate.
- Methods of depreciation are **cost price method/straight line method/fixed installment method and diminishing balance method/declining balance method/carrying value method.**
- Cost price method calculates depreciation based on the **cost price** of an asset i.e.
DEPRECIATION = COST × $\frac{P}{100}$ × $\frac{M}{12}$
- Diminishing balance method calculates depreciation based on the **carrying value or book value** of an assets i.e.
DEPRECIATION = (COST – ACC DEPR @ THE BEG.) × $\frac{P}{100}$ × $\frac{M}{12}$

Or **DEPRECIATION = (CARRYING VALUE) × $\frac{P}{100}$ × $\frac{M}{12}$**

FULLY DEPRECIATED ASSETS (the application of absolute rule)

- Accounting treatments for fully depreciated asset take place when the accumulated depreciation of the asset becomes equal or greater than the cost price of asset.
- The fixed assets should not have a negative (-) carrying value.
- If the fixed asset is fully depreciated, but the business is still using it, then the **CARRYING VALUE OF THE ASSET CONCERNED SHOULD BE R1 AND NOT R0.**
- If the fixed asset is fully depreciated, but the business disposes or sells the asset, then the **CARRYING VALUE OF THE ASSET CONCERNED SHOULD BE R0 AND NOT R1.**

SCENARIO 1

Asset(s) fully depreciated but not sold

DEPRECIATION = COST – NO. OF ASSET(S)– ACC DEPR @ THE BEGINNING

E.G. Cost of asset is R800 000, accumulated depreciation at the beginning of the year is R780 000 . According to the normal calculation, the current year’s depreciation amounts to R30 000. Hence the accumulated depreciation at the end of current year (780 000 + 30 000)

= R810 000. R810 000 is higher than the original cost of an asset i.e. R800 000. Hence, this asset is fully depreciated and a new depreciation has to be calculated to accommodate this.

The correct depreciation should therefore be $(800\ 000 - 1\ 780\ 000) = R19\ 999$. The Correct accumulated depreciation at the end of current year should be $(780\ 000 + 19999) = R799\ 999$. The correct carrying value should be $(800\ 000 - 799\ 999) = R1$.

SCENARIO 2

If the asset is fully depreciated but sold/disposed of

DEPRECIATION = COST – ACC DEPR @ THE BEGINNING

E.G. Cost of asset is R800 000, accumulated depreciation at the beginning of the year is R780 000. According to the normal calculation, the current year's depreciation amounts to R30 000. Hence the accumulated depreciation at the end of current year $(780\ 000 + 30\ 000) = R810\ 000$. R810 000 is higher than the original cost of an asset i.e. R800 000. Hence, this asset is fully depreciated and a new depreciation has to be calculated to accommodate this.

The correct depreciation should therefore be $(800\ 000 - 780\ 000) = R20\ 000$. The Correct accumulated depreciation at the end of current year should be $(780\ 000 + 20\ 000) = R800\ 000$. The correct carrying value should be $(800\ 000 - 800\ 000) = R0$.

FIXED/TANGIBLE ASSETS NOTE 3 DETAILED FORMAT:

3. Fixed/Tangible assets	Land and buildings	Equipment	Vehicles	Total
Carrying value at the beginning of the year (COST – ACC DEPR)	XXX	XXX	XXX	XXX
Cost (CV + ACC DEPR) OR (C/B COST + DISPOSAL @ COST – ADDITIONS)	XXX	XXX	XXX	XXX
Accumulated depreciation (COST – CV) OR (C/B ACC DEPR – DEPR + ACC DEPR OF ASSETS DISPOSED)	0	(XXX)	(XXX)	(XXX)
Movements	XXX	XXX	XXX	XXX
Additions at cost	XXX	XXX	XXX	XXX
Disposal at carrying value (COST – ACC DEPR) FOR GRADES 11 AND 12 ONLY	(XXX)	(XXX)	(XXX)	(XXX)
Depreciation EQUIP(SOLD + NEW + OLD) VEH(SOLD + NEW + OLD)	0	(XXX)	(XXX)	(XXX)
Carrying value at the end of year	XXX	XXX	XXX	XXX
Cost (O/B COST + ADDITIONS – COST OF ASSET DISPOSED) OR (O/B COST +/- MOVEMENTS)	XXX	XXX	XXX	XXX
Accumulated depreciation (COST – CV) OR (O/B ACC DEPR + DEPR –	0	(XXX)	(XXX)	(XXX)

ACC DEPR OF ASSET DISPOSED)				
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PRACTICAL DEMONSTRATION:

3. Tangible/ fixed assets Note	Land and buildings	Equipment	Vehicles	Total
Carrying value at the beginning of the year (COST – ACC DEPR)	100 000	400 000	400 000	900 000
Cost (<i>CV + ACC DEPR</i>) OR (<i>C/B COST + DISPOSAL @ COST – ADDITIONS</i>)	100 000	500 000	600 000	1 200 000
Accumulated depreciation (<i>COST – CV</i>) OR (<i>C/B ACC DEPR – DEPR + ACC DEPR OF ASSETS DISPOSED</i>)	0	(100 000)	(200 000)	(300 000)
Movements	30 000	(65 000)	220 000	185 000
Additions at cost	50 000	0	300 000	350 000
Disposal at carrying value (<i>COST – ACC DEPR</i>)	(20 000)	(40 000)	0	(60 000)
Depreciation <i>EQUIP(SOLD + NEW + OLD)</i> <i>VEH(SOLD + NEW + OLD)</i>	0	(25 000)	(80 000)	(105 000)
Carrying value at the end of year	130 000	335 000	620 000	1 085 000 <i>(BALANCE SHEET FIGURE)</i>
Cost (<i>O/B COST + ADDITIONS – COST OF ASSET DISPOSED</i>) OR (<i>O/B COST +/- MOVEMENTS</i>)	130 000	440 000	900 000	1470 000
Accumulated depreciation (<i>COST – CV</i>) OR (<i>O/B ACC DEPR + DEPR – ACC DEPR OF ASSET DISPOSED</i>)	0	(105 000)	(280 000)	(385 000)

NOTE:

1. Land and buildings purchased/renovated/improved at a cost of R50 000 OR there was a construction or extension on land and buildings that cost R50 000.
2. The carrying value or cost price of land and buildings disposed is R20 000.
3. The cost price of Equipment disposed/sold is (440 000 – 0 – 500 000) R60 000.
4. The carrying value of Equipment disposed/sold is R40 000.
5. R1085 000 is a figure that should be transferred to the Balance Sheet.

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