



education

Department:
Education
PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER SUPPORT DOCUMENT

GRADE 10

ACCOUNTING
STEP AHEAD PROGRAMME

2021

PREFACE

This support document serves to assist Accounting learners on how to deal with curriculum gaps and learning losses as a result of the impact of COVID-19 in 2020. It also captures the challenging topics in the Grade 10 work. Activities should serve as a guide on how various topics are assessed at different cognitive levels and also preparing learners for informal and formal tasks in Accounting. It will cover the following topics:

A.	Bookkeeping	3 – 14
B.	Salaries and Wages	15 – 28
C.	Final Accounts and Financial Statements	29 – 61
D.	Analysis and interpretation of financial data	62 – 78
E.	Value Added Tax	79 – 81
F.	Cost Accounting	82 – 87
G.	Budgeting	88 – 90

A. BOOKKEEPING
CASH TRANSACTIONS

ACTIVITY A 1

REQUIRED:

Calculate the missing figures in the table below that are indicated by a '?'.

No.	Cost price	Profit mark up (%)	Selling price
1	R3 000	?	R4 500
2	R3 000	150	?
3	?	80	R360
4	?	20	R4 500
5	R1 800	33,33	?
6	R2 500	?	R7 500
7	R16,80	16	?
8	R1 400	?	R1 680
9	R1 960	?	R2 450
10	R900	66,67	?

ACTIVITY A 2

Enter the following transactions for June 2020 in the columns, indicating an increase with a + and a decrease with a -. Total the columns.

Transactions for June 2020

- 2 Bought equipment from Tradeau Traders for R10 000 and paid by cheque.
- 3 The owner increased her capital by depositing R15 000 into the bank account of the business
- 5 Paid for consumable stores purchased from Wonderful Wholesalers by cheque, R4 000.
- 8 Received fee income of R7 800 for services rendered.
- 12 Paid R6 500 to Winter Estates for rent of property.
- 18 Paid wages, R6 800
- 20 Donated a cheque to the value of R1 000 to the local high school.
- 22 Bought a vehicle for R105 000 and paid by cheque.
- 25 Received cash from customers for services rendered, R12 400
- 30 The owner cashed a cheque for his personal use, R5 000

ACTIVITY A 2 ANSWER SHEET

	Assets	=	+Capital	-Drawings	+Income	-Expenses	+ Liabilities
2							
3							
5							
8							
12							
18							
20							
22							
25							
30							

ACTIVITY A 3

Mary Shabba is the owner of Shabba Stores. During April 2020 the following transactions took place:

REQUIRED:

Record the following transactions in the Cash Receipts Journal and Cash Payments Journal - in your workbook. You must cast the journals at the end of the month.

Transactions

April 2020

- 1 Cash sales of merchandise, R8 000 (cost price R6 000).
- 3 Mary Shabba increased her capital contribution by paying R30 000 to the cashier. Issued receipt 10.
- 5 Issued cheque 37 to Total Insurers for the annual insurance premium, R3 444.
- 6 Paid the weekly wages, R1 500.
- 15 Received a cheque from E Joubert, R4 800 for rent of offices in the building.
- 18 Issued a cheque to Susan Traders for the following: trading stock, R3 500; equipment, R5 000 and stationery, R400.
- 27 The owner took R1 500 for personal use.

ANSWER SHEET ACTIVITY A 3

Cash Receipts Journal of Shabba Stores – April 2020										
Doc	Date	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Sundry Accounts		
								Amount	Fol	Details

Cash Payments Journal of Shabba Stores – April 2020									
Doc	Date	Details	Fol	Bank	Trading Stock	Wages	Sundry Accounts		
							Amount	Fol	Details



ACTIVITY A 4

Aletta Stores sells their products at a mark-up of 25% on cost price.

REQUIRED:

- 4.2.1 Record the following transactions in the Cash Receipts Journal and Cash Payments Journal.
- 4.2.2 Post from the cash journals to the General Ledger
- 4.2.3 Prepare the Trial Balance.

Transactions – March 2020

- 1. Received R300 000 from the owner, Aletta Venter as her capital contribution. Issued receipt No. 001
- 5 Purchased a computer and filing cabinet from Anina Furnishers and paid by cheque no. 001, R19 000.
- 6 Purchased goods from Line Suppliers for R8 000 less 10% trade discount and paid by cheque.
- 8 Issued cheque for R4000 to Mirrah Stationers for stationery purchased
- 12 Sold goods for cash R12 500.
- 19 Purchased a second-hand delivery vehicle from Nettie Garage and paid by cheque, R34 000.
Cash a cheque to pay wages, R2 600.
- 23 Purchased packing material from Pacma Ltd for R1 450 and paid by cheque.
- 25 Received a cheque from Xctor Travel Agency for rent for the month, R4 200.
Received cash for merchandise sold, R3 500.
- 28 Cashed a cheque to pay wages, R2 600.
- 31 Issued a cheque to City Treasurer to pay water and electricity, R2 400 and rates, R1 500
Paid the salary of the manager, Shezi, R15 500.

ANSWER SHEET ACTIVITY A4

Cash Receipts Journal of Aletta Stores – April 2020										
Doc	D	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Sundry Accounts		
								Amount	Fol	Details

Bank B5							
Nominal Accounts Section							
Sales NI							
Cost of Sales N2							
Rent Income N3							
Stationery N4							
Packing material N5							
Water and electricity N6							
Rates N7							
Salaries N8							
Wages N9							

ACTIVITY A5

The following information was taken from the books of Zimele Traders for May 2020.

Record the information in the Debtors Journal and post to the General ledger, Debtors ledger and draw up the Debtors List.

INFORMATION

DATE	INVOICE NO.	DEBTOR	SALES	COST OF SALES
Jan 5	B1203	Povu	10 050	9 000
12	B1204	Sele	2 025	1 005
19	B1205	Bumalo	5 055	3 025
23	B1206	Povu	7 077	5 055
25	B1207	Bumalo	3 066	2 091

ACTIVITY A5 ANSWER BOOK

Debtors Journal of Zimele Traders — May 2020

DJ5

Doc No.	Day	Debtor(s)	Folio	Sales	Cost of Sales

2. Debtors Ledger of Zimele Traders

B. Povu DI

Date	Details	Folio	Debit (+)	Credit (-)	Balance

C. Sele D2

Date	Details	Folio	Debit (+)	Credit (-)	Balance

D. Bumalo D3

Date	Details	Folio	Debit (+)	Credit (-)	Balance

3. General Ledger of Zimele Traders Balance Sheet Account Section

Debtors Control Account B5

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Trading Stock Account B8

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Nominal Account Section

Sales Account N1

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Cost of Sales Account N2

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

4. Debtors List

Debtors	Fol	Amount

ACTIVITY A6

Mystore Traders is a business owned by Kanye Kanye. He sells his goods at a mark-up of 50%. Use the following information to record it in the:

- Debtors Journal for June 2020
- Post to the general ledger and debtors ledger
- Show the effect on the accounting equation for transactions on 5, 15, and 25
- Debtors list.

TRANSACTIONS — JUNE 2020

- Goods supplied on credit to Khumalo R25 500, invoice 232 issued him.
- Invoice 233 issued to Hlatshwayo for goods sold to her on credit R15 000.
- Goods worth R5 000 were sold on credit to Meyer, invoice 234 issued.
- Ntuli bought merchandise on credit for R3 000, invoice 235 was issued to her.
- Credit sales of merchandise to Hlophe R12 500, invoice 236 issued

ACTIVITY A6 (ANSWER BOOK)

1. Debtors Journal of Mystore Traders — June 2020 DJ5

Doc No.	Day	Debtor(s)	Fol	Sales	Cost of Sales

2. Debtors Ledger of Tuck-Tuck Traders

Date		Details	Khumalo DI		Balance
			Folio	Debit (+)	

Date		Details	Hlatshwayo D2		Balance
			Folio	Debit (+)	

Date		Details	Meyer D3		Balance
			Folio	Debit (+)	

Date		Details	Ntuli D4		Balance
			Folio	Debit (+)	

Date		Details	Hlophe D5		Balance
			Folio	Debit (+)	

General Ledger of Tuck-Tuck Traders

Balance Sheet Account Section

Debtors Control Account

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Trading Stock Account B8

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Nominal Account Section

Sales Account N1

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

Cost of Sales Account N2

Doc No	Day	Details	Fol	Amount	Doc No	Day	Details	Fol	Amount

4. Debtors List

Debtors	Fol	Amount

5. Accounting Equation

No.	Account Debited	Account Credit	Amount	Assets	Owners Equity	Liabilities
5						
15						
25						

B. SALARIES AND WAGES

Activity B1

1. Basic concepts

Match the term in Column A to the explanation in Column B. Write only the correct letter next to the question number on your answer sheet. E.g. 1. K (10)

Column A - Terms		Column B - Explanations	
1	Medical Aid	A	Gross wage – deductions= net wage
2	Pension Fund	B	Employees contribute to this for mutual benefit in the workplace.
3	Unemployment Insurance Fund	C	A person may claim from this when they lose their job.
4	PAYE	D	Basic salary per month prior deductions
5	Staff Fund	E	Remuneration paid to workers who work longer hours than ordinary time- usually at a set fee
6	Gross Salary	F	This will become a monthly income for a person upon their retirement.
7	Net Salary	G	Slip given to each employee that provides information about gross salary, deductions and net salary
8.	Deductions	H	A form of tax paid on salaries
9.	Salary Advice	I	Compulsory and non-compulsory payments taken from the basic salary of employee
10.	Overtime remuneration	J	Paid to ensure an employee and his family have access to quality health care

1.2 Basic Calculations

Activity 1.2

M. Fourie worked normal 45 hours per month and extra 10 hours overtime.

He receives the following:

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

Required:

1.2.1 Calculate the basic salary earned by Mr Fourie (3)

1.2.2 Calculate the gross salary earned by Mr Fourie (4)

ACTIVITY B2 BASIC CONCEPTS AND CALCULATIONS

2.1	
2.2	
2/3	
1.1.4	
1.1.5	
1.1.6	
1.1.7	
1.1.8	
1.1.9	
1.1.10	

1.2.1		(3)
1.2.2		(4)

Activity B2

The following information was taken from the records of am service station for April 2020.

REQUIRED:

- 2.1 Complete the Salaries Journal of AM Service Station for the month of April 2020.
- 2.2 How much did it cost AM Service Station in total to employ D. Dan for the month of April 2020?
- 2.3 In so far as internal control is concerned, what should an effective policy regarding salaries and wages entail? State any two points.

Information:

A. Basic salaries and deductions:

Employees	C. Can	B. Breeze	D. Dan
Basic salary	R10 200 p.m.	10 000 pm	12 000 p.m.
Deductions:			
Pension fund	8%	8%	8%
Medical aid	?	?	?
PAYE	R1500	R1250	R1800
UIF	1%	1%	1%

NOTE: Medical aid is R500 per family member per month. C. Can is married with two children, B. Breeze got married recently and D. Dan is unmarried

B. Employer's contributions:

- AM Service Station contributed 10% of the employees' basic salaries to pension fund.
- AM Service Station contributes on a rand for rand basis to the UIF.
- AM Service Station contributes R2 for every R1 the employee pays towards the medical aid fund.

Activity B2 Answer book

2.1

Employees	Deductions					Total	Net salary	Contributions		
	Gross salary	Pension fund	Medical aid	PAYE	UIF			Pension fund	UIF	Medical aid
C Can		816	2000	1 500	102	4 418	5 782	1 020	102	
B Breeze	10 000	800		1 250	100					2 000
D Dan			500	1 800				1 200		

2.2 How much did it cost AM Service Station in total to employ D. Dan for the month of April 2020?

2.3 In so far as internal control is concerned, what should an effective policy regarding salaries and wages entail? State any two points

Activity B3

The following information is related to Mabhele Traders for the month of May 2020.

REQUIRED:

Complete the Salaries Journal for May 2020.

INFORMATION:

Employees	Gross salary	Deductions			
		PAYE	Medical Aid Fund	Pension Fund	UIF
T. Rama	R15 200 p/m	18% of gross	R 1 200	7,5% of gross	R 152
J. Xaba	R29 600 p/m	25% of gross	R 2 600	7,5% of gross	R 376
T. Vilakazi	R141 600 p/a	R1 950	R 1 600	7,5% of gross	R 118

Additional Information:

- The employer contributes 10% towards the Pension Fund.
- The employer's contribution towards Medical Aid is R2 for every R1 deducted from employees, and on a rand-for-rand basis towards UIF.

Activity B3 Answer book

MABHELE TRADERS SALARIES JOURNAL FOR MAY 2020							
Employee	Gross salary	Deductions					Net salary
		PAYE	Medical Aid Fund	Pension Fund	UIF	Total	
T. Rama							
J. Xaba							
T. Vilakazi							

Employee	Contributions			Total
	Medical Aid Fund	Pension Fund	UIF	
T. Rama				
J. Xaba				
T. Vilakazi				

ACTIVITY B4 You are provided with information related to Dlangezwa Cash and Carry

REQUIRED :

Use the following information to draw up a Wages Journal. Round of all calculations to the nearest Rand. Make the relevant entry/entries in the Cash Payments Journal and Post to the General Ledger.

INFORMATION FOR 14 OCTOBER 2020

Name of Employee	Hours	Rate per hour	Medical Aid	Overtime hours	SITE/PAYE	SA Union
S. Phakathi	40	R30	R125	5	R130	R20
T. Nyawo	40	R30	R125	10	R109	R20
N. Smith	38	R17	R88	-	R101	R20
O. Chetty	35	R18	R88	-	R101	R20

The employment contract states that the business will pay:

- ◆ Overtime: One and a half times the normal rate.
- ◆ Pension: The business will contribute 10% and the employee 8% of weekly wage calculated on normal time (excluding overtime).
- ◆ Medical Aid: R2 for every R1 contribution.
- ◆ UIF and Skills Levy are both calculated at 1% of gross wage.
- ◆ Wage payments to each employee are made EFT.

ACTIVITY B4 ANSWER BOOK

Dlangezwa Cash and Carry							
WAGES JOURNAL FOR 14 OCTOBER 2020							
Employee	Gross salary	Deductions					Net Wage
		PAYE	Medical Aid Fund	Pension Fund	UIF	Total	
S. Phakathi							
T. Nyawo							
N. Smith							
O. Chetty							

Employee	Contributions			Total
	Medical Aid Fund	Pension Fund	UIF	
S. Phakathi				
T. Nyawo				
N. Smith				
O. Chetty				

ACTIVITY A5

You are provided with information related to Siggamise Traders for June 2020.

Required:

- 5.1 Differentiate between a salary and a wage.
- 5.2 Complete the wages journal for the week ending 30 June 2020.

INFORMATION:

The business employed three workers (Themba Mbhele, Kerse Fakude and Mawaza Khanye) on the same wage rate of R60 per hour and each employee has worked 40 hours except for Kerse Fakude who was absent in a week and only worked for 25 hours. Both Themba Mbhele and Mawaza Khanye worked 12 hours and 8 hours of overtime respectively. The overtime rate is 1.5 times the normal time rate.


The following deductions must be taken into account:

- The PAYE is calculated at 18% of gross wages.
- Medical aid is R 120 main member and (R30 per additional member) Themba Mbhele is married and has two children whilst both other employees had no additional members registered under their medical schemes.
- The UIF is R 20 for each employee
- Pension fund deduction is at 7,5% of normal basic wages

Siggamise Traders contributes on behalf of the employers as follows:

- Pension fund is 10.5% of basic wages
- Medical aid is R2 for every rand deducted from the employee's wages.

Activity B5 Answer book

5.1 Differentiate between a salary and a wage.	(4)
<p>SALARY -</p> <p>WAGE -</p>	 <p style="font-size: small; margin: 0;">Stanmorephysics.com</p>

5.2 Wages journal of Siggamise Traders for week ended 30 June 2020							
Employee	Basic Wages (Normal Time)			Overtime			Gross Wage
	Hours	Rate	Amount	Hours	Rate	Amount	
Themba Mbhele							
Kerse Fakude							
Mawaza Khanye							

Employee	Deductions					Net Wage
	Medical Aid Fund	Pension Fund	UIF	PAYE	Total	
Themba Mbhele						
Kerse Fakude						
Mawaza Khanye						

Employee	Contributions		Total
	Medical Aid Fund	Pension Fund	
Themba Mbhele			
Kerse Fakude			
Mawaza Khanye			

ACTIVITY B6

WAGES JOURNAL

Required:

6.1 Complete the Wages Journal for "Sicelo's Soccer School" or the **week** ended 15 June 2020 (31)

Additional Information:

D Dumisa The coach of the U18 hockey team.

- Coaches 3 days a week for 1 hour 30 minutes per coaching session at a rate of R100 per hour.
- The team had a tournament over the weekend where they played 4 matches of 1 hour each.
- The rate payable for overtime (weekend matches) is 1.5 times the normal coaching rate.

Deductions:

- R40 per week is paid to the "HP Medical Fund"
- 10% of the **basic wage** is contributed towards the pension fund.
- R50 is deducted weekly for PAYE.
- 1% of the **gross wage** is contributed by the employee to the UIF.

M.Msomi The coach of the U14 hockey team.

- Coaches twice a week for 1 hour 30 minutes and is paid a basic wage of R80 per hour.
- The team did not have any matches this past weekend.

Deductions

- R15 per week is paid to the “HP Medical Fund”
- 10% of the basic wage is contributed towards the pension fund.
- R20 is deducted weekly for PAYE.
- 1% of the **gross wage** is contributed by the employee to the UIF.

General

- “Sicelo’s Soccer School” contributes R2 for every R1 that both employees pay for their medical aid.
- Pension Fund contributions are done on a Rand for Rand basis.
- 1% of the **gross wage** is contributed by the employer to the UIF.

6.2 GENERAL LEDGER AND THEORY

The following information was extracted from the books of “Cindy’s Clocks” for the month ending 31 May 2020.

Totals for the Salaries Journal of “Cindy’s Clocks” for the month of May 2020:

Gross Salary	Deductions				Contributions		
	Medical Aid	Pension	UIF	PAYE	Medical	Pension	UIF
120 000	15 000	35 000	1 200	11 500	30 000	52 500	1 200

- **All amounts owing are paid on the last day of each month.**

Required:

- 6.2.1 Complete the Pension Fund and Creditors for Salaries accounts in the General Ledger of Cindy’s Clocks for the month of May 2020.
- 6.2.2 Calculate the total amounts that Cindy’s Clocks needs to pay to Vision’s Medical Aid and the Unemployment Insurance Fund at the end of the month.

ACTIVITY B6 ANSWER BOOK

Employee	Basic Wage (Coaching)			Overtime (Matches)			Gross Wage
	Hours	Rate	Amount	Hours	Rate	Amount	
D Dumisa							
M Msomi							

Employee	Deductions					Net Wage
	Medical Aid Fund	Pension Fund	UIF	PAYE	Total	
D Dumisa						
M Msomi						

Employee	Contributions			
	Medical Aid Fund	Pension Fund	UIF	Total
D Dumisa				
M Msomi				

6.2.1 General Ledger of Cindy's Clocks Balance Sheet Section Pension Fund B10									

6.2.2 Creditors for Salaries B11									

ACTIVITY A7 (INFORMAL TEST)

You are provided with information related to COVID Traders for June 2020

REQUIRED:

7.1.1 Complete the salaries journal for the month ending 30 June 2020.

7.1.2 You have been appointed as an internal auditor of the business.

What concern would you have with regards to salaries?

Give ONE point of advice.

COVID Traders employs three salaries workers (Sabelo Phakathi, Veli Shabangu and Shukela Gumede) who are paid on a monthly basis. They are remunerated as follows:

Basic salary	Overtime	Sundays/ Public holidays
160 hours per month @ R 80 per hour	20 hours per month @ R 120 per hour	25 hours per month @ R 150 per hour.

The three workers worked the following number of hours:

Employee	Hours worked
Sabelo Phakathi	160 hours basic hours, 20 hours overtime
Veli Shabangu	160 hours basic hours, 20 hours overtime, 25 hours Sundays
Shukela Gumede	160 hours basic hours, 25 hours Sundays

The following deductions must be taken into account per month:

- The PAYE is calculated at 22 % of gross salaries.
- Medical aid is R 900 per month. The business contributes R 2,50 for every R 1, 00 deducted from the employee.
- The UIF is 1% of basic salary for each employee, the business contributes R 1, 00 for every R 1, 00 deducted from employee.
- Pension fund deduction is at 7,5% of normal basic salary. Pension fund contribution is 10,5% of basic salary.

7.2 WAGES JOURNAL – TRANSACTIONS ANALYSIS

You are provided with information taken from Covid Traders.

REQUIRED:

Analyse the following transactions according the example given. Assume the bank has favourable balance at all times.

Example: Bought merchandise on credit R 26 500.

NO	General Ledger		AMOUNT	A	O	L
	Account DR	Account CR				
E.g.	Trading stock	Creditors control	26 500	+	0	+

TRANSACTIONS:

The following appears in the wages journal of Covid Traders for the week ending 15 June 2020.

N.B: analyse transaction for net wages, deductions and contributions.

Gross wages	99 500
Deductions	
Pension fund	11 800
PAYE	29 850
Employers contribution	
Pension fund contribution – 150% of employees deductions	R

ACTIVITY A7 ANSWER BOOK (INFORMAL TEST)

7.1.1 SALARIES JOURNAL OF COVID TRADERS ON 15 JUNE 2020			
Employee	Basic Salary	Overtime	Gross Salary
	Amount	Amount	Amount
Sabelo Phakathi			
Veli Shabangu			
Shukela Gumede			

Employee	Deductions					Net Salary
	Medical Aid Fund	Pension Fund	UIF	PAYE	Total	
Sabelo Phakathi						
Veli Shabangu						
Shukela Gumede						

Employee	Contributions			Total
	Medical Aid Fund	Pension Fund	UIF	
Sabelo Phakathi				
Veli Shabangu				
Shukela Gumede				

**7.1.2. You have been appointed as an internal auditor of the business.
What concern would you have with regards to salaries and give ONE point of advice. (5)**

Concern

Advise

7.2 ANALYSIS OF TRANSACTIONS AND EFFECTS IN THE ACCOUNTING EQUATION

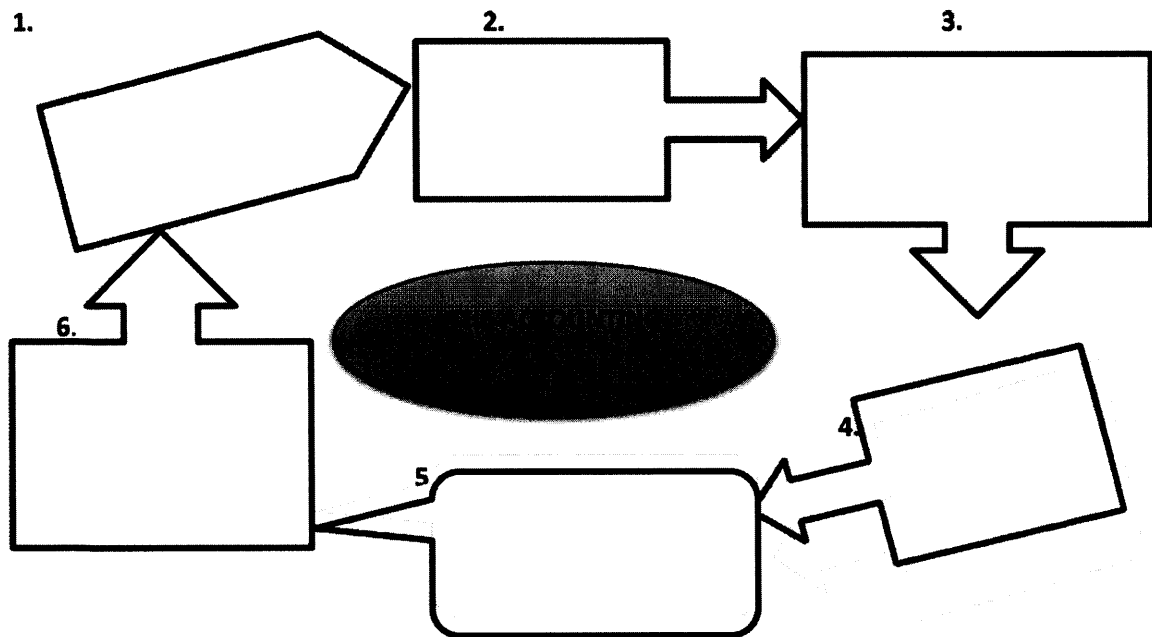
General Ledger		AMOUNT	A	O	L
Account DR	Account CR				
Trading stock	Creditors control	26 500	+	0	+

C. FINAL ACCOUNTS AND FINANCIAL STATEMENTS

FINAL ACCOUNTS

Step one:

- When learning about the final accounts, you must remember the accounting cycle which deals with these accounts at the end of the year. Taking note of the matching concept and accounting period.



(6)

Step two

Remember the classification of accounts in their different categories

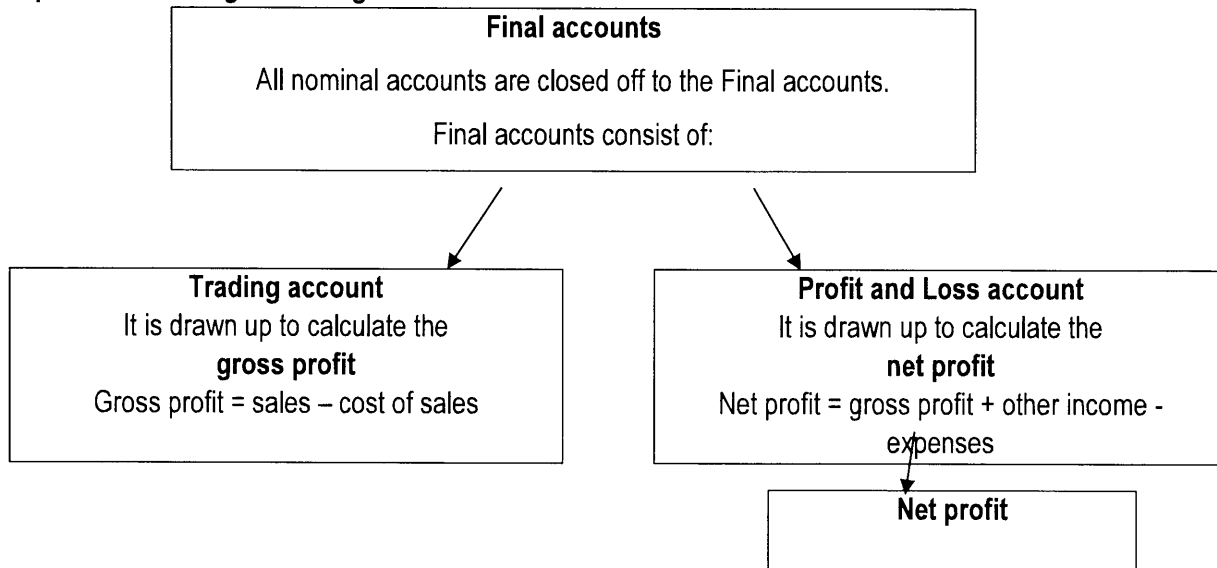
- Assets
- Liabilities
- Capital
- Drawings
- Incomes
- Expenses

Learners to prepare Trial Balance by identifying accounts from a pool of mixed accounts.

- Balance Sheet accounts section
- Nominal accounts section

Do one Activity.

Step three: Looking at Trading Account



- Discuss the relationship between sales, cost of sales and mark-up using examples.
- Trade discount- when calculating the cost of sales we use the amount before the trade discount was taken into consideration. E.g. sales: R8100, trade discount: (R900), and mark-up is 50% on cost. The calculation of cost of sales. $[R8100 + R900] \times 100/150 = R6000$.
- Sales: R8100, trade discount: 10%, and mark-up is 50% on cost. The calculation of cost of sales. $[R8100/90 \times 100] \times 100/150 = R6000$.
- When given cost of sales R6000, mark-up 50% on cost and discount is R900. The calculation of sales: $[R6000 \times 150/100] - R900 = R8100$.
- When given cost of sales R6000, mark-up 50% on cost and discount is 10%. The calculation of sales: $[R6000 \times 150/100] \times 90/100 = R8100$.

Step four: Adjustments

- Start with specific/ problematic adjustments, do a variety of activities at different levels.
- E.g. Returns adjustments. Show impact on trading stock surplus/deficit
- Adjustments for rent, start with rent received or paid for 12 months, move to rent received or paid less than or more than 12 months. Then show learners the difficult one with the percentage increase during the year. Example, extract from trail balance on 28 Feb. 2019: rent income R67 000

Adjustment:

Rent increased by 10% from 1 December 2018. The rent has been received until march 2019.

Solution:

1 March 2018 _____ 1 Dec 2018 _____ 28 Feb. 2019 ___ 31 March 2019

$[(100 \times 9) + (4 \times 110)] = 900 + 440 = 1340$

$67\ 000/1340 \times 110 = 5500$

Rent income will be $67\ 000 - 5500 = R61\ 500$



ACTIVITY C2

SOLE TRADER: FINAL LEDGER ACCOUNTS

REQUIRED:

- 2.1 Which GAAP principle will be used in the following scenarios? Choose one from the following:(write only the principle)
- Materiality Concept, Business Entity Rule, Matching Concept, Historical Cost Concept.**
- 2.1.1 Vehicles are kept at original cost price in the general ledger. (2)
- 2.1.2 Incomes and expenses incurred for a particular year must be shown in the same financial year. (2)
- 2.1.3 Bank charges and interest on bank overdraft are shown separately. (2)
- 2.1.4 Stock for the owners' personal use is shown as drawings. (2)
- 2.2. Trading Account (12)
- 2.3. Profit and Loss Account (47)

INFORMATION:

The following information is related to AMABHELE Traders. Their financial year ends on 28 February each year. The business is owned by Vince Mbhele.

AMABHELE TRADERS

Pre-adjustment trial balance as at 28 February 2020

Balance Sheet Accounts Section	Debit	Credit
Capital		784 490
Drawings	58 000	
Loan: Nongoma Bank (18%)		100 000
Land and Buildings	910 000	
Equipment	140 000	
Accumulated depreciation on equipment		52 000
Trading stock	16 300	
Debtors control	20 720	
Bank	55 500	
Petty cash	3 870	
Fixed deposit: Manzini Bank (11%)	20 000	
Creditors control		45 000
Nominal accounts section		
Sales		875 000
Debtors allowances	12 600	
Cost of sales	500 000	
Salaries and wages	96 750	
Fee income		8 400
Rent income		41 100
Discount allowed	800	
Discount received		880
Insurance	9 800	
Bank charges	1 210	
Bad debts	5 200	
Telephone	12 560	
Water and electricity	14 200	
Stationery	10 800	
Interest on loan	13 500	
Sundry expenses	5 400	
	1 907 170	1 907 170

ACTIVITY C3

SOLE TRADER: FINAL LEDGER ACCOUNTS

REQUIRED:

- 3.1. Calculate the Capital Balance at the end of the year 2020. (7)
- 3.2. Trading Account (14)
- 3.3. Profit and Loss Account (58)

Information:

The following information is related to Pongola Traders. Their financial year ends on 28 February each year.

The business is owned by Gugu Mamba.

Pre-adjustment trial balance of Pongola Traders on 28 February 2020

BALANCE SHEET ACCOUNTS SECTION	Debit	Credit
Capital		435 875
Drawings	17 685	
Land and building	456 862	
Vehicles	367 200	
Accumulated depreciation vehicles		62 400
Equipment	88 000	
Accumulated depreciation equipment		54 660
Fixed Deposit : AFM Bank	18 750	
Loan: CAPS Bank (12% p.a.)		103 500
Trading stock	34 650	
Debtors' control	29 460	
Creditors' control		21 435
Bank overdraft		52 550
Cash float	750	
NOMINAL ACCOUNTS SECTION		
Sales		679 200
Cost of sales	346 350	
Debtors' allowances	1 875	
Salaries and wages	54 000	
Rent Income		40 000
Bad debts recovered		16 335
Insurance	10 128	
Bad debts	975	
Stationery	8 400	
Water and Electricity	4 395	
Discount allowed	675	
Interest on overdraft	2 250	
Interest on fixed deposit		12 300
Depreciation	16 020	
Discount received		270
	1 468 475	1 468 475

Additional information and adjustments

1. A debtor returned damaged goods for R 2 400 on 28 February 2020, these goods were sold at 80% of normal selling price and this was not recorded. The mark up on these goods was 50% on cost.
2. After a physical stocktaking, the following stock was on hand on 28 February 2020:
 - Trading inventory R 33 600
 - Stationery R 270
 - The owner took stationery for R 500 before the stock taking for personal use. No entry has been made.
3. The rent for March has been received in advance and recorded.
NB: The rent increased by R 200 on 1 November 2019.
4. The salary of an employee, was not processed for the month of February 2020. Use the details provided and make the necessary entries to process her salary.

Gross Salary	R 18 000
PAYE	10% of gross salary
Pension Fund	R 720
Medical Aid	R 1 200 per month
UIF	1% of gross salary

The business contributes toward UIF and Pension Fund on a Rand for Rand basis. The contributions are debited to salaries and wages account.

5. The insurance amount includes an annual payment of R6 300 that was paid for the period 1 October 2019 to 30 September 2020.
6. The water and electricity amount of R465 is still owing.
7. A debtor J Black, was declared insolvent. A dividend of 40 cents in the rand for R 900 was received and recorded, the rest must be written off as irrecoverable.
8. An amount of R1 500 was received from a debtor whose account was previously written off.
9. The bank statement was received after the trial balance was drawn up. The following items still need to be recorded
 - Bank charges R 540
 - Interest on overdraft R 2 750
10. The business sells items on a commission basis. Commission totaling R12 000 for sales made during February is still due to the business.
11. The loan Statement from CAPS Bank showed the following
 - Balance on 28 Feb 2019 R 125 340
 - Repayments R 25 000

The Bank capitalizes the interest each month.
12. A new vehicle costing R 160 200 was bought on 1 November 2019. The entry has been properly recorded.
13. Depreciation should be calculated as follows:
 - Equipment at 15% per annum on cost price method
 - Vehicles at 10% per annum on diminishing balance method, the bookkeeper had already calculated the depreciation on the new vehicle but erroneously calculated it for the whole year. Correct the error.

Adjustments and additional information:

1. Invoice issued to a debtor S. Nxumalo for computer sold to him on credit was omitted by mistake. Selling price R 5 000 (cost price R 3 000)
2. The owner took goods for R 1 200 every month for his own use. The bookkeeper recorded it as salaries. Correct the error.
3. The fee income of R 4 000 not yet received by the business.
4. Rent has been received for 13 months. The rent has increased by R 300 per month with effect from 1 September 2019.
5. A debtor who owed R1 200 was declared insolvent. A dividend of 40 cents to the rand was received and recorded. Write off the remaining debt as irrecoverable.
6. The insurance amount includes an annual premium of R 2 160 for the period starting on 1 December 2019.
7. A physical stock count on 28 February 2020 revealed the following on hand:
 - Trading stock R 15 500
 - Stationery R 460
8. The telephone account for February 2020 has not yet been paid, R 450.
9. The interest on the loan is calculated at 18% p.a. Outstanding interest must be brought into account. Interest is not capitalised.
10. Depreciation on equipment is 20% p.a. on carrying value.
11. The interest on the fixed deposit is still owed to the business at the end of the year. Interest is 11% p.a. interest is capitalised.

ACTIVITY C2

2.1.

2.1.1	
2.1.2	
2.1.3	
2.1.4	



**GENERAL LEDGER OF AMABHELE TRADERS ON 29 FEBRUARY 2020
TRADING ACCOUNT**

FINANCIAL STATEMENTS

● THINGS TO REMEMBER:

- **Purpose and importance of preparing the income statement**
- Performance of the business in a particular accounting period. i.e profit or loss made.
- Profit = income > Expenses
- Loss = income < expenses

The four basic steps of preparing income statement

- 1 Draw up the skeleton of the Income Statement (format) without entering any figures.
- 2 Use the figures in the Nominal accounts section of the Pre-Adjustment Trial Balance. Enter these amounts in brackets next to the details, e.g.

Packing material (4 000	
Bad debts (500	

- 3 Start with the adjustments in numerical order. Decide whether the accounts have to be debited or credited, e.g.

- Packing material in stock R580 (must be credited/decreased)
- Write off bad debts of R250 (must be debited/increased)

Now enter these amounts in the Income Statement, e.g.

Packing material (4 000 – 580)	
Bad debts (500 + 250)	

- 4 After you have completed all adjustments, enter the final amounts in the amount column. Leave the workings in brackets. These workings can earn part-marks or method marks in the examination.

Example

Packing material (4 000 – 580)	3 420
Bad debts (500 + 250)	750

INFORMATION NEEDED TO PREPARE INCOME STATEMENT

- Nominal Accounts section items must always be copied to the answer sheet
- If a Trial Balance is given Debit side items = expenses, Credit side items = Income.
- Balance sheet items like, debtors control, trading stock and fixed assets are only used for calculation purposes of provision for bad debts adjustments, trading stock deficit/surplus and depreciation.

GAAP PRINCIPLES THAT DIRECTLY APPLY TO INCOME STATEMENT

- Matching – income and expenses of a particular year must always be accounted for in that year i.e. that the reason we add accruals and subtract deferred items in so doing correct profit or loss for the particular year is realized.
- Materiality – important information must always be shown separately e.g. Interest on overdraft must not be included in bank charges.

STRUCTURE AND FORMAT

Trading Section

- Always subtract debtors allowances from Sales to get net sales
- Consider a trade discount if there are any
- Always subtract cost of sales to get gross profit

Operating income

- Must not include the following: Interest income and retained income

Operating Profit = Gross income less operating expenses

Interest income is made up of following: Interest on fixed deposit, interest on current account and interest on overdue account of debtors

Profit before interest expense: Operating profit + Interest Income

Interest expense is made up of the following: Interest on loan, interest on overdraft and interest on overdue accounts of creditors

Net Profit : Profit before interest expense -Interest expense

CALCULATIONS AND EXAMPLES

Trading Section

- Calculation of sales using mark-up
 $(100 + \text{mark-up}) \text{ divided by } 100 \text{ multiply by cost of sales(R)}$
- Calculation of cost of sales $100 \text{ divided by } 100 + \text{mark-up multiplied by sales (R)}$

EXAMPLE:

Pre adjustment trial balance on 30 June 2019

Balance sheet accounts section	
Trading stock	34 000
Debtors control	50 000
Provision for bad debts	1 700
Nominal account section	R
Sales	350 000
Cost of sales	240 000
Debtors allowances	32 000
Stationery	2 700
Bad debts	1 200

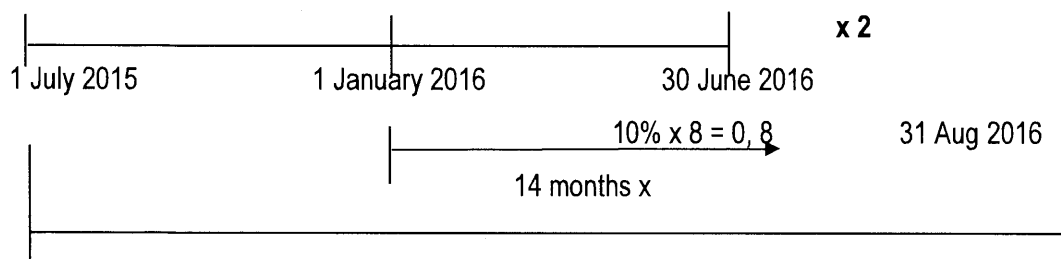
Rent income

- Rent income increased during the year by a percentage %. Learners to identify the dates that they must put on the timeline. Four dates must be identified:
 - Accounting period (beginning) and (end)
 - Date of the increase/decrease
 - Date informed by the number of months that rent was received i.e. additional months e.g. 11, 12, 13, 14
 - Increase should be calculated from the beginning the day of increase to the last day of the entire period it has been received e.g. 14 months. This is how it can be done:

NB: Always calculate it in three ways:

- Rent received for 13 months = Amount divided by 13
- Rent increased by amount and it is given e.g. R450 as an increase for 5 months (R450 X 5= R2 250) then subtract this amount from rent amount and divide by number of months to get the amount of rent before the increase thereafter add R450 as an increase per month
- The rent income has been received for 14 months. Rent increased by 10 % from 1 January 2016. The accounting period ended on the 30 June 2016 reflected Rent Income of R88 800.

Solution



Calculations:

$$14 + 0,8 = 14,8 \text{ months}$$

$$R88\ 800 \div 14,8 \text{ months} = R6\ 000 \text{ before an increase of } 10\%$$

$$= R6\ 000 + R600 = R6\ 600 \text{ after an increase of } 10\%$$

Income Received in advance = R6 600 x 2 = R13 200 (to be shown under current liabilities in the Balance Sheet)

Amount to be reflected in the Income Statement:

$$\text{Rent Income } (88\ 800 - 13\ 200) = 75\ 600$$

- Whilst dealing with dealing the adjustments ensure that the principle of double entry is applicable using either T-Account format or an Accounting equation (Acc. Dr/Acc. Cr.). It is important to show the effect the transaction will have in the Balance Sheet.
- Interest on loan capitalised.

ADJUSTMENTS TO TAKE NOTE OF:

- **Accrued Expense/expenses payable:** we always add (+) on an expense account as these are expenses not yet accounted for. It must be included in the TOP note.
- **Accrued income/income receivable:** we always add on the income account as this is an income account not yet accounted for. It must be included in the TOR note.
- **Prepaid expense/:** we always subtract (-) from an expense account. It must be included in TOR note.
- **Deferred income/income received in advance:** always subtract from and must be included in the TOP note.
- **Salary-** employee omitted (*add the gross salary and employers contribution NOT deduction to salaries and wages*)
- **Salary – employee paid in advance (subtract gross salary and employers contribution.)** NB this create debtors for salaries which falls under TOR note.
- **Loan statement** – is used to calculate interest expense of current portion of loan
- **Interest Income** – Always calculate the correct amount due then work back to what has been received from Pre- adjustment Trial Balance
- **Consumable Stores/expandable stores (packing material, stationery, cleaning material, petrol, paraffin etc.)** – we always calculate amount used i.e. Trial Balance figure represents consumable stores bought. An amount used in an expense, unused amount is an asset which is **always** subtracted from the Trial Balance figure.
- Cash/credit sales or returns transactions must be considered when calculating **Trading stock deficit or surplus.**

NB: Ledger accounts can be used to calculate the above figures

CALCULATION OF DEPRECIATION

- Starting point check the transaction whether it has been recorded or not as it makes a huge difference.
- Assets **purchased during the year**, if they have been recorded, remember to deduct/subtract/ reverse the amount of asset purchased in the Trial balance
- Calculate the depreciation of new asset separate from the old assets, remember to divide/apportion according to months.
- With the old assets, let us not forget to check if the asset has not reached its end of useful life (SCRAP VALUE OR ABSOLUTE VALUE)

ACTIVITY C4

SOLE TRADER: INCOME STATEMENT AND NOTES

Use the following information from Amabhele Traders for the financial year ending on 28 February 2020. The business is owned by Sipho Nkosi.

REQUIRED:

- 4.1 Prepare the Income Statement for the year ended 28 February 2020. (43)
 4.2 Complete Fixed/Tangible Assets Note to the Balance Sheet. (16)

INFORMATION:

PRE-ADJUSTMENT TRIAL BALANCE OF AMABHELE TRADERS ON 28 FEBRUARY 2020.

BALANCE SHEET ACCOUNTS SECTION	DEBIT	CREDIT
Capital		3 030 000
Drawings	30 000	
Loan: BRICS Bank		360 000
Land and Buildings	5 000 000	
Vehicles	900 000	
Equipment	600 000	
Accumulated depreciation on vehicles		250 000
Accumulated depreciation on equipment		150 000
Trading stock	284 000	
Debtors control	160 000	
Creditors control		320 000
Fixed deposit: Khosi Bank (8%)	270 000	
SARS: (PAYE)		1 7000
Bank	10 000	
NORMINAL ACCOUNTS SECTION		
Sales		6 500 000
Cost of sales	2 263 000	
Debtors allowances	13 000	
Salaries and wages	980 000	
Interest on fixed deposit		18 000
Rent income		288 000
Commission income		42 000
Bad debts	17 000	
Packing Materials	45 000	
Insurance	98 000	
Interest on overdraft	28 000	
Discount received		30 000
Discount allowed	20 000	
Water and electricity	180 000	
Bank charges	55 000	
Telephone	165 000	
Sundry expenses	240 000	
	11 548 000	11 548 000

ADJUSTMENTS AND ADDITIONAL INFORMATION ON 28 FEBRUARY 2020:

1. A credit sale of R 9 000 on 27 February 2020 to a debtor, S. Mazibuko was not yet recorded. The mark-up on the cost of goods was 50% on cost.
2. According to physical stock taking on 28 February 2020 the following was on hand:
 - Trading stock ,R 272 500
 - Packing materials , R 10 000
3. The loan statement received from BRICS Bank revealed the following:

Balance on 1 March 2019	500 000
Repayments for the financial year ending 28/02/2020	140 000
Balance on 28 February 2020	410 000

Make provision for the interest on loan.

4. The rent income includes rent up to 30 April 2020. i.e. 2 months in advance
NOTE: The monthly rent was increased by R 2 000 with effect from 1 January 2020.
5. Rates at 1% on the value of the Land and buildings is payable to uPhongolo Municipality for the financial year ended 28 February 2020. Rates are included in sundry expenses.
6. Water and electricity account for February 2020, R 1 000 has not yet been paid.
7. Depreciation is calculated as follows:
 - On the vehicles at 20% per annum according to the diminishing balance method.
 NOTE: A new van costing R 250 000 was purchased on 1 December 2019. This has been correctly recorded.
 - On equipment at a fixed amount of R 60 000 for the year.
 - An extension to land and buildings to the value of R 420 000 was done on 28 February 2020. Proper entries were made.
8. Provide for outstanding interest on fixed deposit.
9. Insurance includes a premium of R 36 000 for the period 1 August 2019 to 31 July 2020.

ACTIVITY C4

4.1 INCOME STATEMENT OF AMABHELE TRADERS FOR THE YEAR ENDED 28 FEBRUARY 2020

Sales		
Cost of sales		
Gross profit		
Other operating income		
Discount received		30 000
Commission income		42 000
Gross operating income		
Operating expenses		
Salaries and wages		980 000
Bad debts		17 000
Discount allowed		20 000
Bank charges		55 000
Telephone		165 000
Operating profit		
Interest income		
Profit before interest expense		
Interest expense		
Net profit for the year		

4.2. FIXED/TANGIBLE ASSETS

	Land & buildings	Vehicles	Equipment
Carrying value at beginning of year			
Cost	4 580 000		600 000
Accumulated depreciation	0	(250 000)	(150 000)
Movements			
Additions at cost			
Disposals at carrying value	0	0	0
Depreciation	0		
Carrying value at end of year			
Cost		900 000	600 000
Accumulated depreciation			

ACTIVITY C5

INCOME STATEMENT

(45 marks; 35 minutes)

The information is from the books of Andrews Traders. The financial year ended on 28 February 2020.

REQUIRED:

Prepare the Income Statement (Statement of Comprehensive Income) for Andrews Traders for the year ended 28 February 2020.

(45)

EXTRACT FROM THE TRIAL BALANCE ON 28 FEBRUARY 2020

	Debit	Credit
BALANCE SHEET SECTION		
Capital		865 500
Fixed Deposit: ABBA Bank (7% p.a.)	80 000	
Trading stock	123 400	
Bank	87 500	
Loan: FNB Bank (14% p.a.)		150 000
NOMINAL ACCOUNT SECTION		
Sales		1 280 000
Cost of sales	640 000	
Debtors allowances	12 400	
Rent income		154 900
Interest on fixed deposit		4 200
Discount received		3 100
Water and electricity	35 400	
Advertising	30 000	
Bad debts	11 300	
Salaries	184 000	
Telephone	17 500	
Stationery	23 200	
Insurance	44 000	
Interest on loan	14 000	
Discount allowed	3 800	
Bank charges	2 300	

Adjustments and additional information:

- A. No entry was made for a credit note issued to debtor, K. Lebona, for stock returned, R3 000 (cost of goods returned, R2 000).
- B. On the last day of the financial year, a physical stock taking revealed the following:
- Trading stock R119 000
 - Stationery R 1 400
- C. A debtor, R. Groenewald, who owes R800 must be written off as irrecoverable.
- D. The telephone account for February 2020 has been received but not yet paid, R2 200.
- E. An annual insurance premium of R7 200 was paid on 30 September 2019.
- F. The Fixed Deposit was invested on 1 March 2019 at ABBA Bank. The interest was received for 9 months only. Provide for the outstanding interest.
- G. The bank statement received on 28 February 2020 reflected the following:
- Bank charges - R 400
 - A cheque for R1 300 from debtor, J. Taylor, dishonoured due to insufficient funds. This cheque was received in settlement of his account of R1 600.
 - P Bezuidenhout, a debtor whose account was previously written off as irrecoverable, deposited R900 into the business bank account.
- H. A spare office has been rented out to a tenant since 1 March 2019. The tenant paid the March 2020 rent in advance, during February 2020. Note the rent was increased by R1 800 per month from 1 January 2020.
- I. The long term loan is repaid annually on 1 September with an instalment of R30 000. This amount has been properly recorded. Provide for interest owing at 14% p.a.
- J. Provide for depreciation of R47 500 for the year.
- K. An employee has been omitted from the Salaries Journal of February 2020. His details are as follows:

Gross Salary	Deductions	*Contributions	Net Salary
?	6 000	3 000	13 000

* Employer's contributions are recorded as Salaries and wages.

ACTIVITY C5

ANDREWS TRADERS	
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018	
Sales (1 280 000	
Cost of Sales (640 000	
GROSS PROFIT	
OPERATING INCOME	
Discount Received	3 100
Rent Income (154 900	
GROSS OPERATING INCOME	
OPERATING EXPENSES	
Water and electricity	35 400
Advertising	30 000
Bad Debts (11 300	
Salaries and wages (184 000	
Telephone (17 500	
Stationery (23 200	
Insurance (44 000	
Discount Allowed (3 800	
Bank charges (2 300	
OPERATING PROFIT	
Interest Income (4 200	
PROFIT BEFORE INTEREST EXPENSE	
NET PROFIT	

ACTIVITY C6

FINANCIAL STATEMENTS AND NOTES

Read the information provided below and answer the questions :

Lincon Traders is a clothing shop owned by Abraham Lincon. The business premises are next to Midlands Mall in Pietermaritzburg, he sells fashionable clothes on cash and on credit. The Accounting period ends on 28 February 2019

REQUIRED:

Use the information provided below to complete the following :

- 6.1 Income Statement (48)
- 6.2 The notes to the Financial Statements (5)
- 6.3 The Equity and Liabilities section of the Balance Sheet (7)

INFORMATION

Pre-adjustment Trial Balance of Lincon Traders on 28 February 2019		
	Debit	Credit
Balance Sheet Accounts Section		
Capital [01/03/2018]		658 590
Drawings	131 258	
Loan: Rand Bank [01/03/2018]		108 000
Land and Building at cost	494 000	
Vehicles at cost	198 000	
Equipment at cost	60 000	
Accumulated Depreciation on vehicles [1/03/2018]		42 000
Accumulated Depreciation on Equipment [1/03/2018]		12 500
Trading Stock	120 485	
Debtors' control	46 960	
Creditors' control		23 400
Bank	55 985	
Petty Cash	1 800	
Cash Float	1 700	
Fixed Deposit: Tokyo Bank [01/03/2018]	21 800	
Nominal Accounts Section		
Sales		1 398 608
Cost of Sales	978 590	
Debtors' Allowances	9 550	
Salaries	110 550	
Water and Electricity	21 400	
Pension Contributions	8 800	
Rates and Taxes	13 740	
Discount Allowed	8 450	
Discount Received		2 500
Stationery	7 800	
Interest on overdraft	6 865	
Insurance	12 500	
Bad debts	8 180	
Sundry expenses	4 800	
Rent income		81 600
Interest on fixed deposit		2 545
Packing material	6 580	
	2 329 523	2 329 523

Additional information

- 1 Included in the amount for insurance is an amount of R1 800 for the period 1 January 2019 to 31 December 2019.
- 2 A debtor N Swartz, whose account for R900 was in arrears for 12 months has been declared insolvent, received R0.35 in the rand from his insolvent estate. The balance of his account must be written off as irrecoverable. No entries have been made.
- 3 The following stock was on hand at the end of the financial year:
 - Trading stock R119 025
 - Stationery R3 250
- 4 The water and electricity account for February 2019 was received but not yet paid, R632.
- 5 On 1 December 2018 rent increased by 15%, it has been received for 13 months.
- 6 Depreciation is calculated as follows:
 - On vehicles at 15% p.a. on the cost price.
 - On equipment at 10% p.a. on the diminishing balance method.
- 7 A new vehicle was bought for R90 000 on 1 June 2018 and was properly recorded.
- 8 The following loan statement has been received from Rand Bank:

Balance on 1 March 2018	108 000
Monthly payments at R1 750 each for 12 months	?
Interest	?
Balance on 28 February 2019	93 000

- Interest on loan is capitalized.
 - The capital amount of the loan will be reduced by R15 000 in the next financial year.
- 9 The salary of an employee, Lungi Tonga, was not processed for the month of February 2019 as she was on leave. Use the details provided and make the necessary entries to process her salary.

The details of her salary are as follows:

- Gross monthly salary R16 000
- PAYE 14% of gross salary
- Pension Fund deduction R760
- Medical aid R1 200

The business contributes Pension Fund on a Rand for Rand basis.

ACTIVITY C6

6.1 LINCON TRADERS	
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019	
Sales	
Cost of Sales	
Gross Profit	
Other Operating Income	
Gross Operating Income	
Operating Expenses	
Stationery (7 800– 3 250)	4 550
Sundry Expenses	
Rates and Taxes	
Discount Allowed	
Operating Profit	
Profit before Interest Expense	
Net Profit for the year	

1.2	Owners' Equity	
	Balance [01 / 03 / 2018]	

1.3 BALANCE SHEET AS AT 28 FEBRUARY 2019			
	EQUITY and LIABILITIES	Notes	R
	EQUITY and LIABILITIES		
	Owners' Equity		
	Non –Current Liabilities		
	Current Liabilities		
	Trade and other Payables		47 722
	TOTAL EQUITY AND LIABILITIES		

ACTIVITY C7

SOLE TRADER: BALANCE SHEET AND NOTES

You are provided with information relating to Manchester Traders on 28 February 2020. The business is owned by Zanele Khanye

REQUIRED:

7.1 Prepare the Balance Sheet as 28 February 2020. (Show workings in brackets to earn part marks) (40)

7.2 Prepare Note for Tangible / Fixed Assets (16)

INFORMATION:

Extract of PRE-ADJUSTMENT TRIAL BALANCE OF MANCHESTER TRADERS ON 28 FEBRUARY 2020.

BALANCE SHEET ACCOUNTS SECTION	AMOUNT (R)
Capital	1 420 000
Drawings	1 101 300
Land and Buildings	1 250 000
Equipment	550 000
Vehicles	1 650 000
Accumulated Depreciation on Equipment – 28/02/2020	200 000
Accumulated Depreciation on Vehicles – 28/02/2020	130 000
Loan : Mpindiso Bank (17%)	400 000
Fixed Deposit: Mlomo Bank (8%)	250 000
Trading stock	180 000
Debtors control	142 500
Creditors control	111 800
Pension Fund	17 400
SARS: (PAYE)	31 000
Bank Overdraft	(Cr)1 044 600
Cash float	2 000
Petty cash	1 600
Consumable Stores on Hand	8 600
Accrued Income	20 000
Accrued Expense	4 200
Prepaid Expense	9 000
Deferred Income	6 000
Net Profit for the year	1 800 000

ADJUSTMENTS AND ADDITIONAL INFORMATION ON 28 FEBRUARY 2020:

1. The owner Zanele Khanye took stock valued at R 8 000, after the stock taking for personal use. No entry was made for this transaction.
2. An amount of R 50 000 is payable on the loan from Mpindiso Bank on 30 June 2020.
3. The fixed deposit at Mlomo Bank includes an amount of R 100 000 which will mature on 31 August 2020.
4. The following details concerns fixed assets. The relevant entries concerning the fixed assets have been correctly recorded.
 - Extensions to the buildings, R 500 000, were completed during the financial year.
 - A new computer, R 15 000, was purchased on 1 December 2019.
 - A new delivery vehicle, R 184 000, was bought on credit on 1 January 2020.
 - Depreciation for the year was calculated as follows:
 - Equipment, R 35 000
 - Vehicles, R 48 000

ACTIVITY C7

7.1 MANCHESTER TRADERS

BALANCE SHEET AS AT 28 FEBRUARY 2020

ASSETS	Note	
Non – Current Assets		
Fixed/Tangible assets		
Financial assets:		
Current Assets		
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Owners' Equity		
Capital		
Non - Current Liabilities		
Current Liabilities		
TOTAL EQUITY AND LIABILITIES		

7.2. FIXED/TANGIBLE ASSETS	Land & buildings	Equipment	Vehicles
Carrying value at beginning of year	750 000		
Cost	750 000		1 466 000
Accumulated depreciation	0		
Movements			
Additions at cost			
Disposals at carrying value	0	0	0
Depreciation	0		
Carrying value at end of year			
Cost			
Accumulated depreciation		(200 000)	(130 000)

ACTIVITY C8

SOLE TRADER: BALANCE SHEET AND NOTES

You are provided with information relating to Mzala Nxumalo Traders on 29 February 2020. The business is owned by Sthe Mhlanga

REQUIRED:

- 8.1 Prepare the Balance Sheet as 29 February 2020. (Show workings in brackets to earn part marks) (37)
- 8.2 Prepare Note for Trade and Other Receivables (13)
- 8.3 Prepare Note for Trade and Other Payable (06)



INFORMATION:

Extract of PRE-ADJUSTMENT TRIAL BALANCE OF MZALA NXUMALO TRADERS ON 29 FEBRUARY 2020.

BALANCE SHEET ACCOUNTS SECTION	AMOUNT (R)
Capital	735 000
Drawings	32 000
Fixed Assets at Carrying Value (1 March 2019)	940 000
Fixed Deposit: Mlomo Bank (8%)	35 000
Loan: Zwide Bank	105 000
Trading stock	97 500
Debtors control	53 200
Creditors control	46 000
Pension Fund	3 500
SARS: (PAYE)	8 800
Bank Overdraft	(Cr)30 095
Cash float	1 500
Petty cash	2 000
Deposit: Water and electricity	800

ADJUSTMENTS AND ADDITIONAL INFORMATION ON 29 FEBRUARY 2020:

1. A fire in the business caused damage to trading stock to the value of R 2 000. The insurance company has agreed to pay out only 80% of the claim. Their EFT will be made on 15 March 2020.
2. Stock on hand as per physical count on 29 February 2020:
 - Trading stock, R 95 000
 - Packing materials, R 1 500
3. No entry has been made of a cheque, R 500, received from the estate of N. Lukhele (debtor). This was for the dividend of 25 cents in a rand paid by the insolvent estate. The balance must be written off. (TWO ENTRIES)
4. The business pays the monthly rental in advance for a warehouse. Rent was increased by 10% as from 1 October 2019. A total of R 12 920 was available in the rent expense account for the financial year.
5. The fixed deposit with Mlomo Bank was made on 1 June 2019. Provide for outstanding interest for 3 months. The deposit is made up as follows:
 - R 15 000 (maturing on 1 June 2020)
 - The rest matures in February 2020.
6. Commission income included an amount of R 1 375 for March 2020
7. Depreciation was calculated as follows:
 - On vehicles, R 24 500.
 - On equipment, R 8 900.
8. The water and electricity account for February 2020, R 800, was still outstanding.
9. According to the loan agreement with Zwide Bank, annual payments of R 20 000 must be made on 30 June each year.
10. The net profit for the year, **AFTER ALL THE ABOVE ADJUSTMENTS WERE TAKEN INTO ACCOUNT**, amounted to R 198 875.

ACTIVITY C8

8.1 MZALA NXUMALO TRADERS

BALANCE SHEET AS AT 29 FEBRUARY 2020

ASSETS	Note	
Non – Current Assets		
Fixed/Tangible assets		
Financial assets:		
Current Assets		
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Owners’ Equity		
Capital		
Non - Current Liabilities		
Current Liabilities		
TOTAL EQUITY AND LIABILITIES		

8.2 TRADE AND OTHER RECEIVABLES

Trade Debtors	

8.3 TRADE AND OTHER PAYABLES

Trade Creditors	

D. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS OF A SOLE TRADER

1. Introduction to concepts

The analysis and interpretation of Financial Statements is an evaluation process aimed at evaluating current and previous financial positions and results of an enterprise. A ratio is the relationship between two different figures expressed in simple terms. In order to be useful, the ratios should express meaningful relationships and be compared to measures of comparative figures. The aim of analysis and interpreting the Financial Statements of a business is thus to determine the following:

1.1 Profitability

A measure of the **business success** through **comparing profit** made with the amount sold or invested. It is also a way to assess whether there may be a **cost control problem**.

1.2 Return

Determines if the investors (owners) in the business are receiving a **reasonable return** on the money they have **invested**.

1.3 Solvency

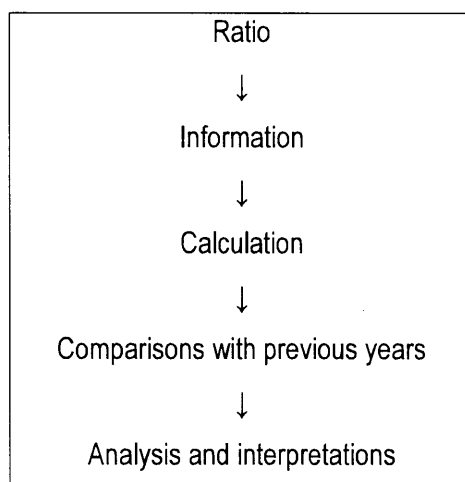
The ability to meet **financial obligations on time**, or to pay **long-term debts**.

1.4 Liquidity

The **ease and speed** at which an investment can be **converted into cash**. Also referred to as the **ability to pay short-term debts using short-term assets**.

2. Financial indicators / Ratios analysis

Steps in the analysis process:



2.1 Profitability of the business

- Percentage gross profit on turnover (sales)
- Percentage gross profit on cost of sales
- Percentage net profit on turnover
- Percentage operating expenses on turnover
- Percentage operating profit on turnover

2.2 Liquidity of the business

- Current ratio
- Acid test ratio
- Rate of inventory turnover (Grade 11)
- Number of months' inventory on hand (Grade 11)
- Average debtors' collection period (Grade11)
- Average creditors' payment period (Grade11)

2.3 Solvency of the business

- Solvency ratio

2.4 The return on investment for the owners of the business

- Percentage return on average owners' equity

3. Financial indicators / Ratios in details

3.1 Percentage gross profit on turnover (sales):

$$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$$

Turnover = Sales – Debtors' Allowances

Gross profit = Turnover – Cost of sales

This ratio presents the gross profit of a certain financial year as a percentage of the net sales/turnover for a particular year. If the business adds a constant percentage of profit to the cost price, it should be shown in the percentage of the gross profit. Should the two numbers differ, it may be due to the following reasons:

- Theft
- Sales calculations could have been incorrect.

- Trade discount could have been allowed.

3.2 Percentage gross profit on cost of sales (mark-up):

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

This ratio presents the gross profit of a certain percentage of cost of sales. The ratio determines whether the **purchasing policy and storage of inventory is applied successfully**. If this percentage decreases from the previous year, it is possibly due to theft in the warehouse.

3.3 Percentage operating profit on turnover:

$$\frac{\text{Operating profit}}{\text{Sales}} \times 100$$

This percentage represents the operating profit as a percentage of turnover. This ratio is done to take the income and expenses into account in order to manage the business before any interest. The ratio is used in order to determine **how expenses can be managed. The lower the percentage, the better the expenses in the business is managed.**

3.4 Net profit on turnover:

$$\frac{\text{Operating profit}}{\text{Sales}} \times 100$$

The net profit for a certain financial period is represented as a percentage of the sales. This percentage should be $\frac{1}{3}$ of the percentage gross profit on turnover. If the percentage **differs greatly** from the gross profit on turnover, the **expenses are too high**. The percentage net profit on turnover must be compared to the previous year's percentage in order to determine whether the expenses are managed. **The higher the percentage, the better the expenses are being managed.**

3.5 Total expenses as a percentage of turnover:

$$\frac{\text{Operating expenses}}{\text{Sales}} \times 100$$

This is the percentage of **total expenses on turnover**. This percentage shows the part of the sales used for operating expenses. This relates to **cost control**. This number is compared to the previous year and should **remain the same or decrease. The lower the percentage, the better expenses are managed.**

4. Liquidity

Liquidity refers to whether the business is able to **meet its short-term obligations** with the funds available – whether the business can pay its current liabilities. These current liabilities can be paid only from current assets that can be **converted to cash**.

4.1 Current ratio

Current assets: Current liabilities

The current ratio measures the extent to which the **current assets of the business cover the current liabilities**.

The ratio is always presented as x : 1. The current assets are divided by the current liabilities. The greater the ratio of current assets to current liabilities, the greater the business' ability to meet its short term obligations. If the ratio is 2 : 1 there are current assets of R2 for each R1 of current liabilities.

4.2 Acid test ratio

Current assets – Inventory : Current liabilities

A disadvantage of operating capital is that the liquidity of the current assets cannot be taken into account. Trading stock must be converted to cash, could be dated, could be stolen or could break. **To calculate the acid test ratio, the inventories should be subtracted from the current assets**. Inventories consist of trading stock and consumable stores on hand. Both the amounts must be deducted.

5 Solvency of the business

5.1 Solvency ratio

Total assets: Total liabilities

Total assets = Tangible assets + Fixed deposit + Current assets

Total liabilities = Non-current liabilities + Current liabilities

Solvency refers to the business's **degree of solvency** – in other words whether the business will be able to meet its long term obligations.

A business is:

Solvent = Total assets > Total liabilities

Insolvent = Total assets < Total liabilities

The ratio is expressed as x : 1. The business is regarded as solvent if the ratio is not lower as 1 : 1.

6. The return on investment for the owners of the business

6.1 Percentage return on average owners' equity

$$\frac{\text{Net profit}}{\text{Average owners' equity}} \times 100$$

This indicator enables the owners to measure **how profitable their investment in the business is**. It allows them to **compare the rate of return in the business with the rate of return on alternative outside investments**. The owners can compare this percentage to the return that they could earn on an alternative form of investment, e.g. a fixed deposit. Instead of earning interest on a fixed deposit, the owners have opted to invest in the business. By comparing the return on the two options, they can decide whether or not their decision has been worthwhile. They can also decide whether it will be advisable to sell or close the business and invest the proceeds elsewhere. Before taking such a decision, the owners will have to consider some of the following points very carefully:

- The future prospects and growth of the business
- The safety or risk associated with other investments
- The current rates of return on investments in the money market.
- The general economic conditions in the country.

7. Stakeholders who would be interested in the financial statements of the business.

- Management
- Investors and/or prospective investors
- Shareholders
- Banks
- SARS
- Trade unions
- Competitors

ACTIVITIES

ACTIVITY D1 (FINANCIAL INDICATORS)

1. Name the financial indicator for each formula below. Write your answer in the Workbook.

1.1	Total assets : Total liabilities
1.2	$\frac{\text{Gross profit}}{\text{Cost of Sales}} \times \frac{100}{1}$
1.3	$\frac{\text{Net profit}}{\text{Average Owner's Equity}} \times \frac{100}{1}$
1.4	$\frac{\text{Operating expenses}}{\text{Net profit}} \times \frac{100}{1}$
1.5	(Trade and other receivables + Cash & cash equivalents) : Current liabilities
5	

ANSWER SHEET

ACTIVITY D1 (FINANCIAL INDICATORS)

1.1	
1.2	
1.3	
1.4	
1.5	

ACTIVITY D 2 (PROFITABILITY AND OPERATING EFFICIENCY CALCULATIONS)

The information relates to **Pick Stores** for the year ending 28 February 2020.
They apply a target mark-up of 60% on cost.

REQUIRED

- 2.1 Calculate the following financial indicators:
- Percentage gross profit on turnover (sales) (3)
 - Percentage gross profit on cost of sales (3)
 - Percentage net profit on turnover (3)
 - Percentage operating expenses on turnover (3)
 - Percentage operating profit on turnover (3)

INFORMATION

A Some balances / totals on 28 February 2020:

Sales	R1 200 000
Cost of sales	800 000
Gross profit	400 000
Other income	100 000
Operating expenses	200 000
Operating profit	300 000
Net profit	160 000
Trading stock	210 000
Current assets	400 000
Fixed/Tangible assets	2 100 000
Non-Current liabilities (<i>Long term</i>)	?
Owner's equity (1/03/2019)	400 000
Owner's equity (28/02/2020)	900 000
Current liabilities (<i>Short term</i>)	240 000

B Financial indicators on 28 February

	2020	2019
Current ratio	?	3,5 : 1
Acid-test ratio	?	1,6 : 1
Solvency ratio	?	2,9 : 1
% gross profit on sales	?	50%
% return on owner's equity	?	34,2%
% net profit on sales	?	18,3%
% actual mark-up achieved	?	60%
% operating profit on sales	?	26%
% operating expenses on sales	?	16%

15

ANSWER SHEET

ACTIVITY D2 (PROFITABILITY AND OPERATING EFFICIENCY CALCULATIONS)

2.1	Percentage gross profit on turnover (sales)		<table border="1"> <tr><td> </td></tr> <tr><td>3</td></tr> </table>		3
3					
	Workings	Answer			
	Percentage gross profit on cost of sales		<table border="1"> <tr><td> </td></tr> <tr><td>3</td></tr> </table>		3
3					
	Workings	Answer			

Percentage net profit on turnover		
	Workings	Answer
		3
Percentage operating expenses on turnover		
	Workings	Answer
		3
Percentage operating profit on turnover		
	Workings	Answer
		3

ACTIVITY D3 RATIO CALCULATIONS

Refer on information C2 and answer the following questions.

REQUIRED

3.1 Calculate the following financial indicators:

- Current ratio (3) (4)
- Acid-test /quick ratio (4)
- Solvency ratio (3) (5)
- Percentage return on average owners' equity (5)

ACTIVITY D3 ANSWER SHEET

3.1	Current ratio	
	Workings	Answer
		3
	Acid-test /quick ratio	
	Workings	Answer
		3

Solvency ratio		
	Workings	Answer
		3
Percentage return on average owners' equity		
	Workings	Answer
		3
Percentage operating profit on turnover		
	Workings	Answer
		3

ACTIVITY D4

RATIO CALCULATIONS

You are provided with information related to Harry Gwala Stores for the financial year ending 30 September 2020.

REQUIRED:

- 4.1. Calculate the following indicators for 2020.
- 4.1.1. Current ratio (3)
- 4.1.2. Acid Test ratio (4)
- 4.1.3. Solvency ratio (5)
- 4.1.4. Operating Expenses on Sales (3)
- 4.1.5. Return on Average Owner's Equity (5)

INFORMATION:

- A. Extract from the Income statement for the year ended 30 September 2020

Sales	1 200 000
Cost of sales	480 000
Operating expenses	245 000
Interest on loan (14%)	11 500
Net profit for the year	375 850

B. Extract from the Balance sheet on 30 September 2020

	2020	2019
Owner's equity	843 000	627 000
Fixed / Tangible assets	475 550	327 100
Current assets	221 000	189 000
Trading Stock	89 000	68 100
Non – current liabilities	120 000	90 000
Current liabilities	108 750	84 250

ACTIVITY D4 ANSWERSHEETS

4.1.1 Current Ratio	(3)
4.1.2 Acid Test Ratio	(4)
4.1.3 Solvency Ratio	(5)
4.1.4. Operating Expenses on Sales	(3)
4.1.5. Return on Average Owners' Equity	(5)

ACTIVITY D 5

(ANALYSIS AND INTERPRETATIONS)

Use the transactions and Financial Statements for the years ending on 31 December 2019 and 31 December 2020 provided of Bulwer Traders to perform the calculations required:

Information

1 Financial indicators on 31 December 2019:

Percentage net profit on turnover	42,7%
Percentage operating expenses on turnover	17,8%
Current ratio	2,1 : 1
Acid test ratio	1,6 : 1
Solvency ratio	3,4 : 1
Debt/equity ratio	0,27:1
Percentage return on average owners' equity	39,1%

3. Extract from the Income Statements:

	31 December 2020	31 December 2019
Sales	214 000	184 000
Cost of Sales	(74 000)	(72 300)
Gross profit	140 000	111 700
Other operating income	8 400	7 900
Gross Operating income	148 400	119 600
Operating expenses	(46 800)	(32 900)
Operating profit	101 600	86 700
Interest income	2 480	2 340
Profit before interest expense	104 080	89 040
Interest expense	(12 300)	(10 400)
Net profit for the year	91 780	78 640

4. Notes to the Financial Statements:

Equity	31 December 2020	31 December 2019
Balance at the end of the previous year	200 740	128 300
Additional capital contributed	-	-
Net profit for the year	91 780	78 640
Drawings	(9 300)	(6 200)
Balance at the end of the current year	283 220	200 740

5. Balance Sheet:

	31 December 2020	31 December 2019
ASSETS		
Tangible Assets	281 320	208 440
Fixed Deposit	15 000	15 000
Current assets	70 200	61 400
Inventories	18 300	14 800
Trade and other debtors	14 900	13 100
Cash and cash equivalents	37 000	33 500
TOTAL ASSETS	366 520	284 840
EQUITY AND LIABILITIES		
Equity	283 220	200 740
Non-current liabilities	50 000	55 000
Current liabilities	33 300	29 100
Trade and other payables	28 300	24 100
Short-term loan	5 000	5 000
TOTAL EQUITY AND LIABILITIES	366 520	284 840

REQUIRED:

5.1 Calculate the following for 2020 and comment on the financial indicators:

- Percentage net profit on turnover
- Percentage operating expenses on turnover

5.2 Calculate the following for 2020.

- Current ratio
- Acid test ratio

5.3 Can the business pay its short-term debts? Briefly explain.

5.4 Calculate the Solvency ratio for 2020.

5.5 Calculate the percentage return on average owners' equity. Comment on the percentage.

5.6 Name two stakeholders who would be interested in the Financial Statements of Bulwer Traders.

ACTIVITY D5 ANSWER SHEETS

5.1 Calculate the following for 2020 and comment on the financial indicators:

- Percentage net profit on turnover
- Percentage operating expenses on turnover

5.1.1 Percentage net profit on turnover

Comment



5.1.2 Percentage net profit on turnover

Comment

5.2 Calculate the following for 2020.

- Current ratio
- Acid test ratio

5.2.1 Current ratio

5.2.2 Acid test ratio

5.3 Can the business pay its short-term debts? Briefly explain.

5.4 Calculate the Solvency ratio for 2020.

5.5 Calculate the percentage return on average owners' equity. Comment on the percentage.

5.6 Name two stakeholders who would be interested in the Financial Statements of Bulwer Traders.

ACTIVITY D6

ANALYSIS AND INTERPRETATIONS

You are provided with financial indicators of Qwaqwa Stores for the years 2019 and 2020. Use this information to answer the questions that follow.

1. INFORMATION

	2020	2019
Gross profit on cost	80%	75%
Gross profit on sales	66%	60%
Operating expenses on sales	15,4%	17%
Operating profit on sales	31,2%	27%
Return on Owners equity	43,6%	28,4%
Current ratio	3,2:1	2:1
Acid Test ratio	1,8:1	0,9:1
Solvency ratio	5,1:1	3,6:1

REQUIRED:

1. The manager feels that the liquidity of the business has generally improved. Quote TWO relevant financial indicators with figures to support her opinion. Comment also, on the trend. (6)
2. Comment on the degree of solvency. Quote on the relevant financial indicator with figures, indicating the trend. (3)
3. The manager is satisfied with operating efficiency of the business, Quote TWO relevant financial indicators with figures to support his opinion. Comment also, on the trend (6)
4. The targeted mark up on cost is 90%, comment on the mark up achieved by the business in 2020 (with figures). Explain ONE possible reason why the business could not achieve this mark-up. (5)

ACTIVITY D6 ANSWERSHEETS

6.1 The manager feels that the liquidity position of the business has improved. Quote TWO relevant financial indicators with figures to support his opinion. Comment also on the trends. (6)
6.2 Comment on the degree of solvency of the business. Quote the relevant financial indicator with figures indicating the trend. (3)

6.3 The manager is satisfied with operating efficiency of the business, Quote TWO relevant financial indicators with figures to support his opinion. Comment also, on the trends. (6)
6.4. The business targeted mark-up on cost is 90%. Comment on the mark-up achieved by the business in 2020 and EXPLAIN to the manager, why the business could not achieve this by giving him ONE possible reason. (5)

ACTIVITY D 7 INTERPRETATION OF FINANCIAL INFORMATION

You are provided with financial indicators of two similar businesses for the year ended 30 July 2020. Both businesses have a target mark-up of 80% on cost and sell similar type of product. Your friend, S Sosibo wants to buy one of the business, he request your assistance.

Use the information to answer the questions that follow:

1. INFORMATION

	CHOBOZA STORES	HLOPHE TRADERS
Gross profit on cost	75%	88%
Gross profit on sales	60%	66%
Operating expenses on sales	14%	17%
Operating profit on sales	19%	13%
Net profit on sales	15%	7,5%
Return on owner's equity	17,5%	10,5%
Current ratio	1,6:1	2,2:1
Acid test ratio	0,3:1	1,4:1
Solvency ratio	5,9:1	0,9:1
Interest rate on fixed deposit	12%	12%

REQUIRED:

- 1.1. The manager of Hlophe Traders feels that they are in better liquidity position than Choboza Stores.
 - Do you agree?
 - Explain by quoting TWO relevant financial indicators. Quote figures from both businesses to support her opinion. (7)
- 1.2. One of the businesses is experiencing solvency problems:
 - Identify this business
 - Quote a relevant financial indicator with figures to support this. Compare both businesses. (4)
- 1.3. The manager of Choboza Stores is satisfied with the operating efficiency of her business compared to that of Hlophe Traders. Quote any TWO relevant financial indicators for both businesses with figures to support her opinion. (6)
- 1.4. Your friend, S. Sosibo wants to buy one of these businesses.
 - Which business will you invest in?
Explain by quoting ONE financial indicator for both businesses. Also quote figures to support your answer. (5)

ACTIVITY D7

<p>7.1 The manager of Hlophe Traders feels that they are in better liquidity position than Choboza Stores.</p> <ul style="list-style-type: none">• Do you agree?• Explain by quoting TWO relevant financial indicators. Quote figures from both businesses to support her opinion. (7)
<p>7.2 One of the businesses is experiencing solvency problems:</p> <ul style="list-style-type: none">• Identify this business• Quote a relevant financial indicator with figures to support this. Compare both businesses. (4)
<p>7.3 The manager of Choboza Stores is satisfied with the operating efficiency of her business compared to that of Hlophe Traders.</p> <p>Quote any TWO relevant financial indicators for both businesses with figures to support her opinion. (6)</p>
<p>7.4 Your friend, S. Sosibo wants to buy one of these businesses.</p> <ul style="list-style-type: none">• Which business will you invest in?• Explain by quoting ONE financial indicator for both businesses. Also quote figures to support your answer. (4)

E. VALUE ADDED TAX

ACTIVITY E1

1.1. VAT STATEMENTS

INDICATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE.		ANSWER
1.1.1	VAT is payable to SARS.	
1.1.2	The standard rate for VAT in RSA is at 19%	
1.1.3	Any business with sales of more than R200 000 must register as a VAT vendor.	
1.1.4	Certain basic foods and essential items are zero-rated to assist the poor.	
1.1.5	Most businesses mark their stock with the selling price including VAT.	
1.1.6	Maize meal is one the example for VAT Exempted item.	

1.2 VAT ANALYSIS

ANALYSE THE FOLLOWING ITEMS BY MAKING A CROSS (X) IN THE APPROPRIATE COLUMN.				
	GOODS / SERVICES	15% VAT	0% VAT	VAT EXEMPTS
1.2.1	Petrol			
1.2.2	New cash register			
1.2.3	Brown bread			
1.2.4	School fees of public school			
1.2.5	Salary of hotel manager			
1.2.6	Tinned sardines			
1.2.7	Purchase of a personal computer			

ACTIVITY E2

- 2.1.1 What does VAT stand for? (2)
- 2.1.2 What is the current VAT rate in South Africa? (2)
- 2.1.3. What is the VAT charged on the price of brown bread? (2)
- 2.1.4 Complete the following table in respect of VAT:

Taxes paid by	Type of taxation	Direct or indirect taxation	Taxes paid on
Employees	A	Direct	B
C	VAT	D	Goods/expenses/services

(8)

- 2.1.5 A Shady, owner of Shady Stores, is not registered for VAT. However, he charges VAT to all his customers and he does not pay the VAT over to SARS. Comment on his practice and state **the** consequences he could be faced with if he is reported to SARS. (8)

ACTIVITY E2

2.1.1	
2.1.2	
2.1.3	
2.1.4	(A)
	(B)
	(C)
	(D)
2.1.5. A Shady, owner of Shady Stores, is not registered for VAT. However, he charges VAT to all his customers and he does not pay the VAT over to SARS. Comment on his practice and state what consequences he could be faced with if he is reported to SARS. (8)	
Comment:	
Consequences:	

ACTIVITY E3

VAT

- 3.1 Differentiate between zero rated supplies and exempts supplies. (4)
- 3.2. Distinguish between the tax evasion and tax avoidance (4)
- 3.2 Give TWO types of Zero rated supplies. (4)
- 3.3 Provide the missing figures indicated by A to E. (12)

Amount exclusive	VAT amount	Amount inclusive
700	105	A
B	C	2875
D	780	E

- 3.4 Calculate the VAT payable at the end of the month if:
 Total purchases for the month was R120 000 (exclusive of VAT)
 Total sales for the month were R141 930 (inclusive of VAT) (10)

ACTIVITY E3 Answer sheet

- 3.1 Differentiate between zero rated supplies and exempts supplies. (4)

- 3.2. Distinguish between the tax evasion and tax avoidance (4)

- 3.2 Give TWO types of Zero rated supplies. (4)

- 3.3 Provide the missing figures indicated by A to E. (12)

Amount exclusive	VAT amount	Amount inclusive
700	105	A =
B =	C =	2875
D =	780	E =

- 3.4 Calculate the VAT payable at the end of the month if:
 Total purchases for the month was R120 000 (exclusive of VAT)
 Total sales for the month were R141 930 (inclusive of VAT) (10)

F. COST ACCOUNTING

THINGS TO REMEMBER

1. What is costing?

Costing is the calculation, allocation and control of the costs involved in producing a goods or service.

2. Costing basic concepts

- **Direct material (raw material) cost** – the cost of material used in the production of the final product that can be physically traced to the finished product
- **Indirect material cost** – the cost of material used in production but do not form part of finished product
- **Direct labour cost** – payment made to the workers that works on production line (salary/ wages/bonus/overtime remuneration/ employers' contribution)
- **Indirect labour cost** – payment made to the labours that works in the factory but not directly involved in production process [factory supervisor salary + bonus+ employers' contribution]/ factory security wage/ factory cleaner wage]
- **Factory overhead cost** – all costs incurred during manufacturing except direct material costs and direct labour costs.
 - General costs of running a factory.
- **Prime cost** – is a total of direct material cost and direct labour cost.
- **Fixed cost (cost behaviour)** – costs that remains the same despite the volume of production. Factory overheads cost
- **Variable cost (cost behaviour)** – costs that changes with the volume of production. Direct material cost and direct labour cost
- **Work-in-process** – is the partially completed products that are still in the process of being manufactured
- **Total production costs** – all cost that are involved in production process
- **Finished product** – item that has been completed and ready to be sold

3. Direct cost vs indirect cost

- **Direct costs** are the costs incurred specifically during production process.
- **Indirect costs** are costs that are incurred during production process but not directly related to the production process.

4. What is costing?

Costing is the calculation, allocation and control of the costs involved in producing a goods or service.

5. Costing basic concepts

- **Direct material (raw material) cost** – the cost of material used in the production of the final product that can be physically traced to the finished product
- **Indirect material cost** – the cost of material used in production but do not form part of finished product
- **Direct labour cost** – payment made to the workers that works on production line (salary/ wages/bonus/overtime remuneration/ employers' contribution)
- **Indirect labour cost** – payment made to the labours that works in the factory but not directly involved in production process [factory supervisor salary + bonus+ employers' contribution]/ factory security wage/ factory cleaner wage]

- **Factory overhead cost** – all costs incurred during manufacturing except direct material costs and direct labour costs.
 - General costs of running a factory.
 - **Prime cost** – is a total of direct material cost and direct labour cost.
 - **Fixed cost (cost behaviour)** – costs that remains the same despite the volume of production. Factory overheads cost
 - **Variable cost (cost behaviour)** – costs that changes with the volume of production. Direct material cost and direct labour cost
 - **Work-in-process** – is the partially completed products that are still in the process of being manufactured
 - **Total production costs** – all cost that are involved in production process
 - **Finished product** – item that has been completed and ready to be sold
6. **Direct cost vs indirect cost**
- **Direct costs** are the costs incurred specifically during production process.
 - **Indirect costs** are costs that are incurred during production process but not directly related to the production process.

Ethical issue and internal control

Ethics – decisions/actions that are morally correct in the business	Internal control – are the systems that are put in place to protect business from risks
➤ Compliance with health and safety regulations in factories	➤ Accurate records of raw materials issued to production are maintained
➤ Compliance with environmental regulation	➤ Accurate measurements are used on raw materials to reduce wastage
➤ Producing goods conducting adequate safety testing	➤ Proper measures are taken to ensure the health and safety of employees
➤ Ensuring safe working conditions and fair wages to workers.	➤ Raw material, work-in-process and finished goods are safeguarded against theft and damage.
➤ Producing safe product	➤ Factory supervisor oversees the production process

MANUFACTURING COST CALCULATION

1. Prime cost = direct material cost + direct labour cost
2. Cost of production (total manufacturing cost) = prime cost + factory overheads cost
3. Unit cost/ cost per unit/ average cost = $\frac{\text{Total cost of production}}{\text{Total number of units produced}}$
4. Total Variable cost = direct material cost + direct labour cost
5. Total Fixed cost = factory overheads cost
6. Variable cost per unit = $\frac{\text{Total Variable cost}}{\text{Total number of units produced}}$
7. Fixed cost per unit = $\frac{\text{Total Fixed cost}}{\text{Total number of units produced}}$
8. Selling price = cost price + profit mark-up



ACTIVITY F1: COST ACCOUNTING (MANUFACTURING)

Multiple Choice Question: Basic concepts: Identifying cost concepts

Each question shows **four** possible answers (A, B, C, or D). Only one is correct.

Choose the correct answer and **circle** the **appropriate letter** next to the number of the question.

1. The raw material actually needed to make the product.
A. Indirect material B. Fixed cost C. Direct material D. Prime cost
2. Direct material cost + direct labour cost.
A. Work-in-process B. Total manufacturing cost C. Unit cost D. Prime cost
3. The amount paid to workers who are not involved in the making of the product
A. Indirect labour cost B. Direct labour cost C. Fixed cost D. Unit cost
4. The products not finished in one financial period – they will be completed in the next financial period
A. Finished product B. Work-in-process C. Direct material D. Indirect material
5. The expenses paid to run a factory, but none of them are directly involved with making the product
A. Variable cost B. Factory overhead cost C. Prime cost D. Direct material cost
6. These costs do not change even if the quantities produced by factory increase or decrease
A. Direct labour cost B. Fixed cost C. Variable cost D. Factory overheads cost
7. The cost of producing one unit (item)
A. Prime cost B. Unit cost C. Indirect labour cost D. Fixed cost
8. These costs changes with increase or decrease of quantities produced by factory
A. Variable cost B. Fixed cost C. Prime cost D. Unit cost
9. Cost price + Mark-up profit
A. Unit cost B. Total production cost C. Selling price D. Direct labour cost
10. These cost is categorised as fixed cost
A. Direct labour cost B. Direct material cost C. Factory overhead cost D. Unit cost

ACTIVITY F2: COST ACCOUNTING (MANUFACTURING) ETHICS AND INTERNAL CONTROL

Consider the following actions or decisions and state whether falls under **ethics** or **internal control of factories**:

No.	Action or Decisions	Answer
1.	Fair wages to workers	
2.	Foreman of a factory closely supervising the production process	
3.	Environmental regulations are being adhered to by the factory	
4.	Producing healthy and safe product	
5.	Improving security measures on stock of raw material, work-in-process and finished goods	
6.	Employing correct strategies to minimise wastage in the production line	

Cost Accounting (Manufacturing) Basic cost calculations

Illustrative example

Mthethwa sport-gear (Pty) Ltd is a private company owned and controlled by Khethukuthula Mthethwa. These company produces rugby jersey. During October 2020 company manufactured 10 000 jerseys.

Information

The following is the list of costs incurred for the month.

Details of incurred costs	Amount
Fabric used for the rugby jerseys	R150 000
Badges for the rugby jerseys	R10 000
Wages paid to the sewing machine operators	R200 000
Wages paid to the fabric cutters	R40 000
Rent paid for the hire of sewing machines	R30 000
Salary paid to the factory supervisor	R25 000
Other general factory overheads	R45 000

Required

Use the information provided above to calculate the:

- Direct material costs
- Direct labour costs
- Prime costs
- Manufacturing overheads cost
- Total cost of production
- Unit cost of rugby jersey
- Selling price of the rugby jersey if the company's policy is to use a profit mark-up of 75% on cost

Solution of illustrative example

- $$\begin{aligned} \text{Direct material costs} &= \text{fabric cost} + \text{cost of badges} \\ &= \text{R150 000} + \text{R10 000} \\ &= \underline{\text{R160 000}} \end{aligned}$$
- $$\begin{aligned} \text{Direct labour costs} &= \text{Wages (sewing machine operators)} + \text{wages (cutters)} \\ &= \text{R200 000} + \text{R40 000} \\ &= \underline{\text{R240 000}} \end{aligned}$$
- $$\begin{aligned} \text{Prime costs} &= \text{direct material cost} + \text{direct labour cost} \\ &= \text{R160 000} + \text{R240 000} \\ &= \underline{\text{R400 000}} \end{aligned}$$
- $$\begin{aligned} \text{Factory overheads costs} &= \text{rent (sewing machines)} + \text{salary of factory} \\ &\quad \text{Supervisor} + \text{General factory overheads} \\ &= \text{R30 000} + \text{R25 000} + \text{R45 000} \\ &= \underline{\text{R100 000}} \end{aligned}$$
- $$\begin{aligned} \text{Total cost of production} &= \text{Prime costs} + \text{Factory overheads costs} \\ &= \text{R400 000} + \text{R100 000} \\ &= \underline{\text{R500 000}} \end{aligned}$$
- $$\begin{aligned} \text{Unit cost of rugby jersey} &= \frac{\text{Total cost of production}}{\text{Total number of units produced}} \\ &= \frac{\text{R500 000}}{10\,000 \text{ units}} = \text{R50} \end{aligned}$$
- $$\begin{aligned} \text{Selling price of the rugby jersey} &= \text{cost price per unit} + \text{profit mark-up} \\ &= \text{R50} + (\text{R50} \times 75\%) \\ &= \underline{\text{R 87.50 per unit}} \end{aligned}$$

ACTIVITY F3: COST ACCOUNTING (MANUFACTURING) BASIC COST CALCULATIONS	
<p>Nina owns a furniture manufacturing business called Ngwane Wood Works. On the 5th October 2020, Mehlomlungu J.S school asks Nina for a quotation for 50 desks. Nina asks you to help calculate the price she should charge for the desks.</p> <p>She gives you the information below about the production of the desks.</p>	
Raw materials needed for 50 desks	
Wood	R50 000
Screws (12 screws are required per desk)	R10 each
General materials (glue, varnish, cleaning)	R1500
Labour requirements	
<p>Nina employs two people, Khetha and Phindile. Khetha will be responsible for assembling and varnishing the desks and will receive a wage of R1000 for each completed desk. Phindile is a permanent employee, who supervises the production. She receives a salary of R19 000 per month.</p>	
<p>Rent: Nina rents a workshop at a cost of R3 000 per month.</p>	
<p>Additional information: Nina tells you that it will take the whole of November 2020 to build the 50 desks and during that month no other products would be manufactured.</p>	
Required	
<p>Use the information above based on 50 desks to calculate the:</p>	
<ol style="list-style-type: none"> 1. Direct material cost 2. Direct labour cost 3. Prime cost 4. Factory overheads cost 5. Total cost of production 6. Unit cost of a desk 7. Selling price per desk. Nina uses a profit mark-up of 50% on cost. 	
ACTIVITY F3: COST ACCOUNTING (MANUFACTURING) BASIC COST CALCULATIONS	
ANSWER SHEET	
<p>1. Direct material cost</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div>	
<p>2. Direct labour cost</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div>	
<p>3. Prime cost</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div>	

4. Factory overheads cost

--

5. Total cost of production

--

6. Unit cost of a desk

--

7. Selling price per desk. Nina uses a profit mark-up of 50% on cost.

--

G.BUDGETING

THINGS TO DO AND REMEMBER

- Ask how your parents do budget at home.
- Read a scenario or case study where you are expected to do budget, by listing incomes versus expenditures and calculate surplus or deficit.
- Learn the definition and differences between, cash budget, zero budget, medium term budget, long term budget, capital budget.
- Reason for keeping budget for planning purposes.
 - We will be able to see how much we can spend.
- For monitoring purposes.
 - We will be able to monitor our expenditure so that we do not overspend
- A budget is a detailed plan for acquiring and using cash and physical resources over a specified of time so as to achieve the goals of the organisation/individuals.
 - **SHORT TERM BUDGET:** planning for a period of up to three months
 - **MEDIUM TERM BUDGET:** planning for a period of up to twelve months
 - **LONG TERM BUDGET:** planning for a period of more than twelve months
- **ADVANTAGES OF BUDGETING**
 - A budget is a management plan, therefore budget helps communicate this plan to all person within an organisation.
 - It assists in making provisions for the future, in terms of all allocation of cash resources.
 - Budget set benchmarks for evaluating performance.
- **CASH BUDGET:** A cash budget is a forecast of business activities, specifically relating to cash transactions.
- **PERSONAL BUDGET:** All individuals and households have to plan well in advance to provide sufficiently for daily needs and visions for the future.
- **BUSINESS BUDGET:** Business also prepare cash budgets, primarily as an instrument of control. All firms aims to maintain perpetual liquidity.
- **INCREMENTAL BUDGET:** The traditional approach to budgeting for the current year is to start with the previous year's budget. This is known as an **INCREMENTAL BUDGET** where the previous budget is taken as a **baseline**.
- **ZERO BASED BUDGETING:** Zero based budgeting is an alternative. It is drawn up from **scratch, with little or no reference to any previous budget estimates**.
- **CAPITAL BUDGET:** The term "capital budgeting" refers to outlay of funds for large projects e.g. open a new branch, install a new computer programme to handle customer billing system, improve security within the undertaking, purchase a new delivery van. Decision making in allocating funds for capital budget is guided by the principle that a commitment of funds today is done with the expectation of future returns in the form of additional cash flow.
 - Funds will only be made available if:
 - The investments will reduce costs
 - The investment will increase sales or income
 - It will reduce the burden of outside service provider, especially if they are unreliable or too expensive
 - It is a potential solution to a present problem within the firm.

ACTIVITIES

ACTIVITY G1

1. Define a budget
2. Why is it necessary to draw up a budget?
3. When do you think a budget is drawn up?
4. Name and discuss the different types of budget

ACTIVITY G2

Two netball teams of Mountain High School are planning to participate in a provincial tournament in Harding. The first team netball captain requested your help in preparing the budget for this tour.

REQUIRED:

- 2.1 Complete the following sentence:
A budget is a.....
- 2.2 Calculate the following amounts for the budget:
 - 2.2.1 Total expected receipts (before calculating the expected contribution of players).
 - 2.2.2 Total expected payments (complete the table provided).
 - 2.2.3 The total cost to be covered by players.
 - 2.2.4 The amount that EACH PLAYER has to contribute to the tour.
- 2.3 The tour organising committee expects certain key players to have difficulty in affording the minimum amount payable by each player. Suggest TWO possible methods to acquire additional funds to support these players.

INFORMATION:

- A. The trip will cater for 16 players and 2 coaches. The cost of the two coaches will be covered by the contributions made players and any other funds received.
- B. **SPONSORSHIP AND DONATIONS**
 - The school was able to secure a sponsorship of R1 000 per player from Lightning Sports.
 - A donation of R5 000 will be received from the Community Trust Fund.
- D. **TRANSPORT & INSURANCE**
 - A minibus will be rented at R3 000 for the entire week, plus an additional R2 per km. The distance to and from Harding is 850 km (return trip).
 - An insurance fee of R15 per passenger is payable to the rental company.
- E. **ACCOMMODATION**

Three rooms will accommodate the group for four nights at R1 120 per room per night.
- F. **MEALS AND REFRESHMENTS**

R400 per person is budgeted for the duration of the tour.
- G. **SPORTS KIT**

A total of R7 390 will be spent on team outfits, netball shoes and training gear.

ACTIVITY G3

3.1 Matching items

Choose a description column B that matches the concept in column A. Write only the letter (A-E) next to the question number (3.1.1-3.1.6) in the answer book. E.g. 3.1.7 F.

COLUMN A	COLUMN B
3.1.1 cash budget	A. The traditional approach to budgeting for the current year is to start with the previous year's budget.
3.1.2 Personal budget	B. Business also prepare cash budgets, primarily as an instrument of control. All firms aims to maintain perpetual liquidity.
3.1.3 Business budget	C. A cash budget is a forecast of business activities, specifically relating to cash transactions.
3.1.4 Incremental budget	D. The term "capital budgeting" refers to outlay of funds for large projects e.g. open a new branch, install a new computer programme to handle customer billing system, improve security within the undertaking, purchase a new delivery van
3.1.5 Capital budget	E. All individuals and households have to plan well in advance to provide sufficiently for daily needs and visions for the future.

ACTIVITY G4

Fill the missing words

- budgeting is an alternative. It is drawn up from **scratch, with little or no reference to any previous budget estimates.**
- The term "----- budgeting" refers to outlay of funds for large projects.
- : A----- budget is a forecast of business activities, specifically relating to cash transactions.
- The traditional approach to budgeting for the current year is to start with the previous year's budget. This is known as an----- where the previous budget is taken as a **baseline.**
- A----- is a detailed plan for acquiring and using cash and physical resources over a specified of time so as to achieve the goals of the organisation/individuals.

