

New Era

Accounting

Grade 9

EXTRACT from **TEXTBOOK**

AUTHORS

Trevor Hall (M Com, Dipl Acc, HDE)
Diane Woodroffe (B Com, HDE)
Pravin Singh (B Com Hons, NCTD)
Hanif Aboobaker (B Com Hons, LSTD)

TRAINING PRESENTED BY: Di Woodroffe

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WEALTH AND WORTH OF A BUSINESS

TASK 1 - What are you worth?

ASSETS (things you own)	LIABILITIES / DEBTS (what you owe)	WORTH

TASK 2 - ACCOUNTING EQUATION of Sam's Clothing Store. Sam sells clothes and does repairs



EQUATION 1

EQUATION 2

EQUATION 3

Use the coloured table and beans to record the following:
(Each bean represents R1 000)

1. Owner introduced R10 000 cash in the business
2. Owner bought equipment for R5 000 and paid in cash
3. Borrowed R6 000 from the Nedbank
4. Bought trading stock and paid cash R3 000
5. Bought more trading stock for R4 000 on credit
6. Paid R1 000 off the loan

DRAW UP A TABLE OF NET WORTH

TABLE OF NET WORTH

ASSETS	
Bank	
Equipment	
Trading stock	
LIABILITIES	
Loan	
Accounts payable	
NET WORTH	

CONTINUE WITH THE COLOURED TABLE

7. Paid R1 000 wages
 8. Received fee income of R2 000 in cash
 9. Sold trading stock for R5 000 cash. The original cost was R3 000.
 10. Paid R2 000 off the loan plus R1 000 interest on the loan.
 11. Sold trading stock on credit for R3 000. Original cost price was R1 000
- DRAW UP ANOTHER TABLE OF NET WORTH

TABLE OF NET WORTH

ASSETS	
Bank	
Equipment	
Trading stock	
Accounts receivable	
LIABILITIES	
Loan	
Accounts payable	
NET WORTH	
Capital	
Net profit	

..... - =

OR

..... = +

TASK 3: SPREADSHEET

Record the following transactions on spreadsheet 1

You are provided with information relating to Carol's Curls, a business owned by Carol Carr, during the first month of business.

Required:

- Record the transactions on a spreadsheet to monitor the finances of her business for March 2018. Use the following columns:
 - **ASSETS:** Bank, Hairdressing equipment, Office equipment
 - **LIABILITIES:** Accounts payable
 - **OWNER'S EQUITY**
- Draw up the Statement of Net Worth on 31 May 20.6.
- Comment on the Statement of Net Worth. Should Carol be satisfied with the performance of her business in the first month?

Transactions – March 2018

1. Carol went to the bank to open up a new cheque account in the name of 'Carol's Curls'. She authorised the bank to transfer an amount of R50 000 from her personal savings account into the bank account of the business.
2. Carol bought the following equipment on account from KZN Suppliers: Equipment for the salon, R11 000 Computer for the office, R8 000.
3. Carol placed an advertisement in the local newspaper. She paid R300 by cheque.
4. Carol bought supplies for the first month (shampoo, etc.), R800. Paid by cheque.
5. Carol returned some of the salon equipment to KZN Suppliers, R600. They deducted the amount off her account.
6. Carol received her first 4 clients. She charged them R70 each. She banked the money.
7. Carol paid wages to her assistant, R700.
8. Carol withdrew R500 for her personal use.

ACCOUNTING GAAP CONCEPT/RULE

BUSINESS ENTITY RULE

The financial affairs of a business are kept entirely separate from that of the owner. The business has an identity separate from that of the owner.

ACCOUNTING CONCEPT/RULE

HISTORICAL COST RULE

Assets and expenses are valued at the price paid

ACCOUNTING EQUATION:

1	ASSETS -	LIABILITIES =	NET WORTH
2.	ASSETS =	LIABILITIES +	NET WORTH
3.	ASSETS =	LIABILITIES +	CAPITAL – DRAWINGS + INCOME – EXPENSES

4	ASSETS +	DRAWINGS +	EXPENSES =	LIABILITIES +	INCOME +	CAPITAL
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TASK 4 EXPANDED SPREADSHEET

- The opening balances from the previous month's statement of net worth have been inserted.
- Enter the following transactions.
- Calculate the net profit
- Complete the owner's equity note
- Draw up a Statement of net worth on the 30 April 20.6

1. Earned income of R7 000 – was place on account (Accounts receivable)
2. Paid electricity of R800.
3. Bought supplies on credit for R750.
4. Earned income from clients of R6 000 which she banked.
5. Paid R1 000 off the suppliers account.
6. Received a loan from Nedbank of R20 000. Interest rate will be 15% p.a.
7. Owner withdrew R600 for personal use.
8. R400 worth of hairdressing equipment has been stolen. Carol does not have insurance.
9. Received R900 from accounts receivable (debtors)
10. Paid R400 plus one month's interest on the loan
11. Paid the following expenses:
Rent of R2 000
Wages of R2 500

ACCOUNTING EQUATION AND THE STATEMENT OF NET WORTH

All Financial Accounting knowledge is rooted in the Accounting Equation. It is essential for you to understand this equation as well as the terms associated with it.

Spreadsheets may be used to record the financial transactions of small businesses. These spreadsheets will reflect the expanded Accounting Equation and the double-entry principle that is used in ledgers. You need to understand the steps in the logic of this expanded

Accounting Equation as it enables you to work out the double entries that will be required in the books of a business.

STEP 1	From your knowledge of personal finances, you will understand that.....	BELONGINGS – DEBTS = NET WORTH
STEP 2	In the context of a business, the terminology changes to.....	ASSETS – LIABILITIES = CAPITAL
STEP 3	From your knowledge of Mathematics, you will understand that this equation can be rewritten as.....	ASSETS = LIABILITIES + CAPITAL $A = L + C$
STEP 4	When a business earns income (which we reflect as I), Assets increase and Capital will increase. The equation changes as follows.....	$A = L + (C + I)$
STEP 5	When a business pays expenses (which we reflect as E), Assets decrease and Capital will decrease. The equation changes as follows.....	$A = L + (C + I - E)$
STEP 6	When an owner withdraws some of the capital he has provided, Assets will decrease and Capital will decrease. The equation will change as follows.....	$A = L + (C + I - E - D)$
STEP 7	If we remove the brackets from this equation, the equation changes to.....	$A = L + C + I - E - D$
STEP 8	If we want to work only with pluses, we can add E and D to both sides to change the equation to.....	$A + E + D = L + C + I$

TASK 5 GENERAL LEDGER

- Refer back to Task 3 and enter the transactions in the General Ledger

BALANCING



TASK 6

- Balance/total the accounts in the General Ledger of Task 5.

TASK 7

- Using the same general ledger accounts enter the transactions from Task 4 above.
- Balance the accounts
- Draw up a Trial Balance on the 30 April 2018

TASK 8 SALES AND COST OF SALES



The fixed mark-up percentage method

If a fixed mark-up % is used at all times, there will be a fixed relationship between the three components of the formula above. For example, if a business uses a 50% mark-up % at all times, then the Sales figure will always be equal to 150% of the Cost of sales figure. In this case:

Cost of sales (COS)	100%
Gross profit (GP)	50%
Sales (S)	150%

TASK 8.1 COMPLETE THE TABLE TO CALCULATE THE MISSING FIGURES

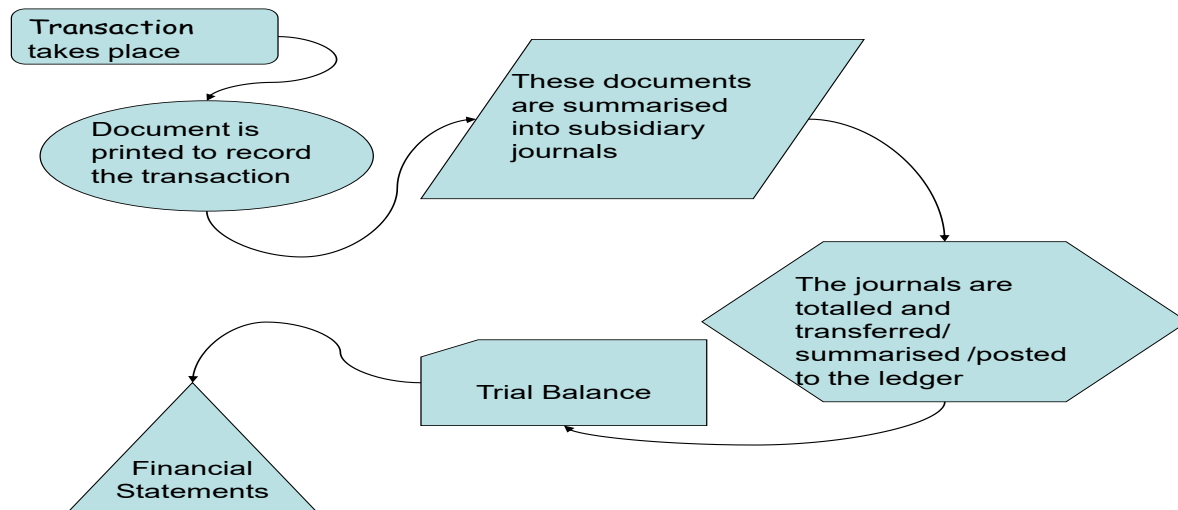
NO	MARK-UP%	SALES	COST OF SALES	GROSS PROFIT
1	60%		R280	
2	150%		R1 200	
3	75%	R1 050		
4	20%	R864		
5	40%			R960
6	90%			R3 240

TASK 8.2 Penny's Pens

Record the following transactions in the general ledger of Penny's Pens. Assume all transactions are for cash.

- Penny buys pens for R75 each and she sells them for R120 each.
- She had 100 pens on hand on 1 October 2017.
- She sold 80 pens on 12 October 2017.
- She bought 240 pens on 17 October 2017.
- She sold 170 pens on 28 October 2017.

SUMMARY OF THE FLOW OF ENTRIES IN THE ACCOUNTING CYCLE



CASH JOURNALS

Task 9

Brian Bell is the owner of BB Supermarket that buys and sells a wide range of household products. All merchandise is sold at a mark-up of 60% on cost and all transactions are strictly for cash.

The following balances / totals appeared in the General Ledger on 1 May 20.8:

Capital	R287 800
Drawings	10 000
Vehicle	131 000
Equipment	27 500
Trading stock	88 700
Bank (Debit)	2 000
Cash float	500
Loan from UBS	220 000
Sales	160 800
Cost of sales	100 500
Rent expense	80 000
Consumable stores	18 400
Wages and salaries	210 000

Required:

- 9.1 Open the above mentioned ledger accounts with the balances / totals on 1 May 20.8.
- 9.2 Enter the transactions in the Cash Receipts and Cash Payments Journals for May 20.8.

Provide the following columns:

CRJ: Analysis of receipts, Bank, Sales, Cost of sales and Sundry accounts.

CPJ: Bank, Trading stock, Wages and salaries, Consumable stores (including stationery) and Sundry accounts.

9.3 Post to the ledger.

9.4 Balance the accounts in the Balance Sheet accounts section. Pencil-total the accounts in the Nominal accounts section.

9.5 Draw up a Trial Balance.

Transactions:

- 1 Cashed cheque no. 2314 for R500 to increase the cash float.
- 2 Increased the loan to R250 000. Issued receipt no 256.
Cash sales, R24 400 (cash slips 333–363).
- 4 Bought and paid for more equipment from U-Traders, R24 000.
- 6 Issued a cheque for R5 200 to FF Shop fitters for more shelving and cupboards.
- 7 Bought merchandise from ABC Suppliers and issued a cheque for R52 000 less 10% trade discount.
Cashed a cheque to pay wages, R5 200.
- 8 Negotiated with Uno bank for an overdraft facility. The Uno Bank agreed that the bank balance of BB Supermarket could go into a negative balance up to a maximum of R180 000.
- 9 Received commission from Sarnia Services, R2 000.
Cash sales, R14 600 (cash slips 364–372).
- 10 Paid insurance to Liberty Insurers as follows: business assets R5 200 and owner's private assets R1 100.
- 12 Paid a registration fee to the Supermarket Association, R480.
- 13 Bought and paid for stock, R5 200, from Baxter Wholesalers.
- 14 Cashed a cheque to pay wages. Employees were given a 10% increase.
- 15 Bought consumable stores from Makro, for R420 and paid by cheque.
- 17 Cash sales, R6 800 (cash slips 373–379).
Returned consumable stores to Makro and received a cash refund, R30.
- 19 Bought more goods from Baxter Wholesalers for R10 800.
- 20 Paid the following charges: water and electricity to the Pinetown Municipality R880 and telephone to Telkom R4 100.
- 21 Cashed a cheque to pay wages.
The owner, Brian Bell, proved a personal cheque to increase his capital by R35 000.
Cash sales, R16 000 (cash slips 380-399).
- 25 Received goods ordered from Baxter Wholesalers, R3 600. Paid by cheque.
Paid for cleaning materials (consumable stores) bought for R880 from Lokal Chemicals.
- 26 Bought more consumable stores of R1 340 from Oxlo Supplies.
- 28 Cashed a cheque to pay wages.
- 29 Returned defective goods to Baxter Wholesalers, R1 200 and received their cheque.
Cash sales, R12 000 (cash slips 400–409).
- 30 Paid salary of the manager J. Cele, R8 800.
- 31 The owner cashed a cheque for personal use, R6 000.

DEBTORS JOURNAL AND DEBTORS ALLOWANCES JOURNAL

TASK 10

WE-R-NUTS: DJ, CRJ, General Ledger, Debtors Ledger, Debtors List

WE-R-NUTS is a retail business selling different types of nuts and seeds. The business uses a fixed mark-up percentage on cost of 50%. You are provided with information for July 20.8.

Required:

- 10.1 Debtors Journal for July 20.8.
- 10.2 Cash Receipts Journal of WE-R-NUTS for July 20.8.
- 10.3 Post to the following General Ledger accounts at the end of the month: Trading stock, Debtors Control, Sales and Cost of sales. Balance or total the accounts at the end of the month.
- 10.4 Post to the accounts in the Debtors Ledger.
- 10.5 Prepare a Debtors' list at the month end. Check that the list total is the same as the balance on the Debtors control account.

Debtors List on 30 June 20.8

D. Motala	R125
S. Martin	R 84
A. Cronje	R423
C. Munro	<u>R 56</u>
	<u>R688</u>

Balances / Totals on 30 June 20.8

Trading stock	R19 282
Debtors control (see list)	
Sales	R28 176
Cost of sales	R15 784

Transactions for July 20.8:

- 1 According to CS 112-115, cash sales of nuts amounted to R450.
The owner N. Armstrong invested a further R10 000 capital in the business by depositing this amount directly into the business bank account. Issued receipt no. 67.
- 2 R120 worth of pecan nuts was sold to S. Martin on account. Invoice 23 was issued.
- 3 C. Munro sent us a cheque to settle his account as at 30 June 20.8.
- 8 Goods sold to B. Fitt for cash amounted to R1 200. Issued CS 125-137.
- 12 A special customer, A. Cronje, bought a large quantity of nuts on account and was given a discount of 10% on the original selling price of R990.
While at the shop, A. Cronje paid R350 in part settlement of his account.
- 15 Cash sales totalled R900 (CS 138-150).
Received R75 from D. Motala in part settlement of his account.
- 18 C. Munro bought seeds and nuts with a total selling price of R270 on account.
- 21 Merchandise was sold on credit to S. Martin R93 and D. Motala R450.
- 26 Received a R204 payment on account from S. Martin.
- 27 Cash sales of merchandise totalled R3 600 (CS 151-176)
- 28 A. Cronje sent us a cheque for R900 to partially settle his account.
D. Dent, who rents the excess office space, sent us a cheque for R2 000.
- 30 D. Motala settled his account in full by sending us a cheque.

TASK 11

CREDITORS JOURNAL OF 2-DI- 4 FOODS FOR JULY 20.1

CJ7

Inv	D	Details	Fol	Creditors control	Trading stock	Stationery	Sundry accounts		
							Amount	Fol	Details
1042	2	Coles Caterers		800	800				
235	3	Moosa's Meats		1 200	1 200				
89	7	Wu Wholesalers		1 000		200	800		Packaging
280	15	Moosa's Meats		2 500	2 500				
1156	26	Coles Caterers		500	500				
				6 000	5 000	200	800		

CASH PAYMENTS JOURNAL OF 2-DI-4 FOODS FOR JULY 20.1

CPJ7

Doc	D	Details	Fol	Bank	Trading stock	Creditors control	Sundry accounts		
							Amount	Fol	Details
C45	1	Wu Wholesalers		1 800		1 800			
C46	7	Beacon		4 800	4 800				
C47	9	Merry Pak		1 200	700		500		Packaging
C48	15	Moosa's Meats		3 200		3 200			
C49	28	Cash		2 000			2 000		Wages
				13 000	5 500	5 000	2 500		