

NEW ERA

Accounting

Grade 11

Teacher's Guide

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PREFACE

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NOTE TO TEACHER

SELECTING TASKS:

This textbook comprises a variety and an extensive number of Tasks. It is not possible for every learner to undertake every Task in this book. However, every examination will comprise easy, moderate or difficult questions. Learners should aim at practice at each level.

Learners, with the help of their teachers, should aim at selecting the appropriate Tasks as follows:

1. Undertake all the Tasks that cover the essential prior knowledge and the basics of the topic.
2. Undertake one or two easy comprehensive Tasks to develop confidence in the topic.
3. Then move on to more difficult Tasks to extend your capabilities.
4. In preparing for examinations, check on the errors you have made in some of the Tasks you have already done, and also do one or two of the other Tasks that you have not already done.


ICONS USED IN THIS BOOK

In order to assist you in selecting the Tasks, the following icons are provided in each Task:

 Tasks covering essential basics of the topic. These Tasks must be completed by the learners.

 Tasks rated as 'easy'.

 Tasks rated as 'moderate or of medium difficulty'.

 Tasks rated as 'difficult'.

NOTES CONCERNING THE TEACHING PLAN

The attention of teachers is drawn to the official CAPS document. This sets out the recommended time-lines for covering the curriculum content.

For your convenience, this is summarised in the table below, with reference to the specific relevant pages in the Learner's Book.

As stated above, please note that a considerable number of Tasks have been provided in the Learner's Book and it is not possible for all these Tasks to be completed in an academic year. Teachers must select the most appropriate Tasks for incorporation in lessons and for learners' homework. Teachers should also assist learners in selecting additional Tasks for revision, remedial, study or extension purposes.



WEEKLY PLANNER FOR GRADE 11

TERM 1

NOTE:

Learners cannot do all the Tasks in the Learner’s Book – select what is appropriate for your learners out of the following sections.

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
1	Reconciliations	Bank Reconciliation. Pages 64 – 89 TASK 3.3 & 3.4 & 3.5 TASKS 3.11, 3.12, 3.13, 3.15, 3.16, 3.17	As so much of banking is covered by internet today, these concepts including EFT’s must be covered. Very important to cover internal control – Bank Reconciliation is an important internal control tool.	Copies of bank statements. Newspaper articles on banking fraud.
2	Reconciliations	Bank Reconciliation. Pages 89 – 108 TASKS 3.16, 3.17, 3.19, 3.21, 3.24 CLASS TASK 3.23	Errors. Post-dated cheques received and issued. Stale cheques. Previous month’s reconciliation.	Copies of bank statements. Newspaper articles on banking fraud.
3	Reconciliations	Creditors Reconciliation. Pages 108 – 120 TASKS 3.27, 3.28, 3.29, 3.30, 3.31, 3.32	Draw on the knowledge learnt under Bank Reconciliation to show that the Creditors’ Reconciliation follows the same principle. Very important to cover internal control .	Actual statements issued by shops / businesses.
4	Fixed assets	Depreciation and General Ledger accounts. Sale of an asset at the beginning of the year. Pages 121 – 134 TASK 4.1, 4.2, 4.3, 4.4, 4.6, 4.7, 4.9	Learners often experience difficulties with this section. Draw on their knowledge that when trading stock was sold the account was credited. Similarly the asset account must be credited. However, the complication is the accumulated depreciation account which must also be cancelled. Use the diagram on page 129 to explain.	Use the classified section of the newspaper together with car adverts to show how depreciation reduces the value of the assets.
5	Fixed assets	Sale of an asset during or at the end of the year. Pages 134 – 139 TASKS 4.10, 4.11, 4.12, 4.13, 4.14, 4.16, 4.17, 4.18, 4.19, 4.20, 4.21. 4.23	Learners need to understand the concept of the book value and as the asset is being sold after the beginning of the year they need to depreciate for the relevant period of time. Make use of time lines to calculate the number of extra months. Learners need to learn and follow the 5 steps involved in the asset disposal process.	

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
6	Fixed assets	Asset disposal and the Fixed Asset note to the financial statements. Pages 140 - 148	The Fixed Asset note was taught in Grade 10 but now learners need to record the disposal as well. Make sure learners realise that the disposal is recorded at book value. The need for internal control and ethics when staff is using the assets for private use is to be discussed throughout this section.	
7	Partnerships	Partnership ledger accounts with particular emphasis on the current accounts and the appropriation of the profit. Pages 149 - 180	Learners covered sole traders in Grade 10, now they just need to adjust to having more than one owner and the fair distribution of the profit.	Partnership agreement. Draw on learner's personal experience if they know people who are in a partnership with particular emphasis on problems experienced.
8	Partnerships	Final accounts. Pages 181 – 193 TASKS 5.5, 5.8, 5.9, 5.10, 5.11, 5.12, 5.13, 5.14, 5.15, 5.16, 5.19, 5.20, 5.22, 5.23. 5.24,	Learners have covered the Trading and Profit and Loss accounts in Grade 10. They need to revise these accounts now and add the Appropriation account. Ethics and internal control to be discussed continuously.	Case studies involving ethical issues.
9	Partnerships	Financial statements. Pages 194 – 230 TASKS 6.1, 6.2, 6.4, 6.5, 6.6, 6.7, 6.9, 6.10, 6.11.	Learners must understand and read the information that is included in the financial statements. This was taught in Grade 10 so the emphasis must be on the change to Owners' Equity. Make sure learners understand their GAAP principles and how they inform the process of recording transactions.	Show actual examples if possible.
10	Partnerships	Financial statements. Page 231 – 262. Choose appropriate Tasks. TASKS 6.14, 6.17, 18, 6.20, 6.23 ORALLY	Learners need constant re-enforcement of financial statements and the accompanying adjustments. Challenging Tasks are included but should be done by learners who want extension and who are capable of taking the challenge otherwise learners will get disillusioned. Ethics and internal control to be discussed continuously.	

WEEKLY PLANNER FOR GRADE 11

TERM 2

NOTE:

Learners cannot do all the Tasks in the textbook – select what is appropriate for your learners out of the following sections.

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
1	Partnerships	<u>Analysis and interpretation.</u> Profitability. Pages 263 – 273 TASKS 7.3, 7.5, 7.6, 7.8, 7.10, 13, 7.17, 7.19, 7.21	This topic was already introduced in Grade 10 so you will need to revise the old ratios and then introduce the new ratios – in particular the return on owners' equity. Try to get learners to understand what the ratios mean so that they do not just have to learn a lot of formulae. This understanding will go a long way to helping them when they have to comment on the ratios.	PAGES 272-288 FORMULAS
2	Partnerships	<u>Analysis and interpretation.</u> Return and liquidity. Pages 273 – 284 TASKS 7.24, 7.25	The return ratio must be compared to alternative investments. These rates do differ from bank to bank but also very importantly they are controlled by the monetary council. Liquidity is an extremely important concept for the learners to understand. However, it is too simplistic just to focus on the current ratio and the acid test ratio. Learners need to understand the flow of money by buying goods, selling the goods, collecting the money from the debtors and then paying their creditors.	This would be a good time to expose learners to the role of the monetary council and their adjustment of the interest rates in the country.
3	Partnerships	Analysis and interpretation. Solvency. Debt : equity. Consolidation. Pages 285 – 316	Learners need to make the necessary calculations but also be able to comment on the ratios and use them to make meaningful decisions in the business.	
4	Clubs	Difference between a <u>non-profit making concern</u> and a profit making concern. Subscriptions or Membership Fees account. Pages 317 – 327	Take note that learners only have to cover the ledger accounts and the Receipts and Payments Statement for clubs . However, they need to understand the difference between the different forms of operation. Use the learners' experiences from their communities of sports clubs or other non-profit making concerns.	Use examples from the community. Schools are also a very good example of a non-profit making concern.

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
5	Clubs	Membership fees and other ledger accounts Pages 328 – 335 TASKS 8.4, 8.5, 8.6, 8.7, 8.8, 8.9	This works overlaps with the periodic stock system. You can integrate that Module now if you wish. In view of stock valuation in Grade 12 it is vital that learners understand the principles of this stock system.	Use actual examples in class, e.g. pens or tennis balls to demonstrate how to work out the cost of sales
6	Clubs	Receipts and Payments Statement. Pages 335 – 351 TASKS 8.10, 8.11, 8.12, 8.13, 8.15, 8.17	Learners generally do not battle with this statement as they draw on their knowledge of a Cash Receipts and Cash Payments Journal. However, re-enforce the concept of what entries go in and what does not as this will help with teaching Cash Flow in Grade 12. Ethics and internal control must be integrated into the club work.	
7	Clubs	Revision. Continuation of the above. There are more Tasks in the Module 13.	TASKS 8.18.2 & 8.18.5	
8	Revision	Revise the first semester work	Make use of Module 13 and example examination papers in Module 14. Also make use of past papers.	

WEEKLY PLANNER FOR GRADE 11

TERM 3

NOTE:

Learners cannot do all the Tasks in the textbook – select what is appropriate for your learners out of the following sections.

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
1	<u>Cost accounting</u>	Costing concepts. Page 380 – 386 TASKS 9.1, 9.2, 9.4, 9.5	It is important that learners understand the difference between the different costs as well as the calculation and meaning of break-even. Of particular importance is the difference between what cost items are and what assets are.	Allow learners time to make fudge, cake, a sandwich, or something that they have to cost.
2	Cost accounting TASKS 9.6, 9.8, 9.9.	Introduce the General Ledger accounts Pages 387 – 397	Make sure learners understand the flow from raw materials to Work-in-progress to the Finished Goods Stock accounts.	
3	Cost accounting TASKS 9.10, 9.11, 9.12, 9.13, 9.14, 9.15, 9.19	General Ledger accounts. Introduce analysis of production costs. Page 397- 408	Analysis is Grade 12 work but it will really help if you allow the learners to start engaging with the different costs and the movement over the year. Introduce internal control and ethics throughout.	
4	Portfolio		Allow learners time to work on their portfolio/files.	
5	<u>Budgeting</u>	Introduction and Cash Budget of a cash only business. Pages 409 – 418 TASKS 10.1, 10.2, 10.3	It is important that learners understand the concept of the cash budget and which items are included. This is very important in that they have to distinguish between items for the Cash Budget and the Projected Income Statement.	Allow learners to draw up their personal budget. Analyse the state budget, school budget or any other budget that is relevant to your learners.
6	Budgeting	Cash budget or a business that buys and sells for cash and on credit. Pages 418 – 435 TASKS 10.5, 10.6, 10.7, 10.8, 10.10, 10.11,	Introduce the Debtors' Collection Schedule. Make sure the learners understand the function of the Debtors' Collection Schedule and how important it is in making internal control decisions. Make sure learners understand the link between the Creditors' Payment Schedule and the Debtors' Collection Schedule.	Allow learners to discuss the national budget.
7	Budgeting	Projected Income Statement. Pages 435 – 444	It is important that learners can draw up the Cash Budget and Projected Income Statement simultaneously. This requires a thorough understanding of the function of each. Internal control and ethics is to be covered throughout.	

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
8	<u>Inventory systems</u>	Periodic stock system and the difference to the perpetual stock system. Pages 445 - 490	Overlap this Module with the learners' knowledge of the Trading Stock account and the Periodic Stock system learnt in club accounting.	Use actual examples in class, e.g. pens or tennis balls to demonstrate how to work out the cost of sales.
9 and 10	Revision	Revise all the work covered during the third term.	Make use of extra Tasks in the Modules or the Revision Module.	TASK 13.27 PAGE 543 GL PRODUCTION

WEEKLY PLANNER FOR GRADE 11 TERM 4

NOTE:

Learners cannot do all the Tasks in the textbook – select what is appropriate for your learners out of the following sections.

WEEK	OVERALL TOPIC	SUB-PARTS	IMPORTANT ISSUES TO COVER	EXTRA RESOURCES
1	<u>VAT</u>	Concepts and calculations. Pages 491 – 497	It is essential that learners can calculate VAT using the inclusive or the exclusive system.	Draw on learners' knowledge of buying items in the shop and paying VAT. Also draw on their knowledge of calculating cost of sales.
2	VAT	Invoice or receipt base. Bad debts. Fraud. Pages 497 – 503	It is essential that learners understand the workings of VAT and how returns or bad debts will affect the amounts. Ethics is to be integrated into this topic.	Make use of current newspaper articles concerning VAT and VAT fraud.
3 – 10	Revision and exams		Make use of extra Tasks in the different Modules. Use Modules 13 and 14 for extra Tasks. Use past papers.	

MODULE 1

BUSINESS ETHICS

Note to Teacher – How to approach this Module:

Ethics and internal control are the first 2 Modules in this textbook in terms of the CAPS document. It is recommended that these 2 topics are covered at the beginning of the year so as to serve as an introduction to the year's work. However, Teachers are then urged to select Tasks at appropriate times during the year in such a way that these 2 topics become integrated into the rest of the work.

TASK 1.1 Identifying inclusions in a code of ethics

Each group will be allocated one of the following business scenarios by the Teacher.

Expected responses – Expectations of customers:

Case 1	Guy Boddie <i>Expectations: Qualifications, good reputation, friendly approach, sense of humour, non-judgmental, appearance reflects healthy living, ability to fit in with client's times, genuine interest in client's well-being, first-aid training.</i> <i>Stakeholders other than clients: Bank manager, taxman, his wife, other gym-users.</i>
Case 2	Kitty Katz <i>Expectations: Qualifications, caring approach, convenient situation of the business, good reputation, willingness to be called after-hours.</i> <i>Stakeholders other than clients: Bank manager, taxman, employees, her husband, neighbours.</i>
Case 3	Freddy Fixxit <i>Expectations: Good reputation, reasonable rates, good workmanship, trustworthy (engenders confidence that he will not con his clients), collection and delivery service, follow-up service.</i> <i>Stakeholders other than clients: Bank manager, taxman, employees, his wife, neighbours.</i>
Case 4	Flora Flower <i>Expectations: Good reputation, examples of previous work, ability to fit in with client's times, sensitive to client's preferences and budgets, follow-up service, transport (own car).</i> <i>Stakeholders other than clients: Bank manager, taxman, employees, her husband.</i>
Case 5	Steven Sole <i>Expectations: Reasonable rates, good workmanship, convenient location.</i> <i>Stakeholders other than clients: Bank manager, taxman, employees, his wife.</i>
Case 6	Peter Poole <i>Expectations: Qualifications, good reputation, ability to instil discipline, holistic approach (appreciates balanced lifestyle, not win at all costs), good facilities (e.g. heated pool), first-aid training.</i> <i>Stakeholders other than clients: Bank manager, taxman, his wife.</i>
Case 7	Clemmi Cooke <i>Expectations: Good reputation, willingness to exceed expectations, sensitive to client's preferences and budgets, follow-up service, delivery service, competitive rates, transport (own car).</i> <i>Stakeholders other than clients: Bank manager, taxman, employees, her husband.</i>
Case 8	Larry Locke <i>Expectations: Trustworthy, reliable, responsible, willingness to exceed expectations, clean.</i> <i>Stakeholders other than clients: Bank manager, taxman, his wife (he probably has no immediate dependents), clients' neighbours.</i>

Expected responses - Need for a code of ethics: to guide business dealings, to assure customers of quality of service. Advantage of establishing a code of ethics: to get acceptance from customers and other stakeholders. How this should be communicated to the stakeholders: Brochure, notice displayed in appropriate place, web-site and advertisements.

Expected responses - What should be included in the code of ethics: Quality of service, care of customers, treatment of employees, consideration of the environment.

TASK 1.2 ☼💧

The nature of and the need for a code of ethics

1.2.1	What is the advantage for a business to do this?
Customers and other stakeholders are assured that the owners are working towards good business practice.	
1.2.2	What effect does this have on business practice?
Likely to encourage more customers to support them.	
1.2.3	In what manner should this be communicated to the stakeholders?
Various methods, e.g. advertisements, notice in a prominent place, brochures, websites.	
1.2.4	Consider the business principles of Shell provided above. Which principle impresses you the most? Explain.
Various responses possible – depends on opinion – select from the principles displayed, with reasons.	
1.2.5	What are the likely consequences for a business if it does not follow its own code of ethics or business principles?
Lost customers, decreasing profits, fines for non-compliance with the law (e.g. environmental abuse), imprisonment for breaking the law (e.g. failure to pay VAT to SARS).	
1.2.6	Search the newspapers, business brochures or the Internet for an example of a code of ethics or business principles for a South African business. (You might well notice that many businesses opt for a much more concise code than does Shell – this is a matter of choice). Present this to the rest of the class.
Responses will depend on the codes chosen. Teachers may direct learners to the Business Report sections of the newspapers as codes of ethics are often printed with annual financial statements; or they may be incorporated into advertisements. Learners with access to the Internet will find these on the websites of large businesses (use a search engine such as Google). If learners have difficulty in accessing this information, Teachers can amend the Task to a selection of advertisements which reflect good business practice.	

TASK 1.3 ☼💧

Providing good service to customers

1.3.1	In future, if you are the victim of 'lousy service', what action would you take?
The value of this Task is in the interaction between the learners and the sharing of opinions. Teachers should guide learners towards acceptance of the opinion that lousy service simply does not make good business sense. Another point is that customers should not simply accept poor service – they do have rights.	
1.3.2	What consequences would there be for South Africa if we provide 'lousy service'?
The country would get a poor reputation. This will affect the economy, e.g. tourists will not visit, which leads to a loss of foreign exchange and employment opportunities; potential investors from other countries will place their capital in more efficient countries – this will negatively affect employment, growth and standard of living in South Africa.	

TASK 1.4 ☼💧

Making good decisions

Expected responses:

These will depend on the nature of the argument presented by the learners. The value of this Task is the interaction between the learners and the sharing of opinions. Teachers may lead learners to understand that there are stakeholders dependent on a person in both contexts. For example, a decision to become an alcoholic or drug-user affects others around the decision-maker and can cause unhappiness in the home with consequences for the family and friends. In a business context, there are stakeholders dependent on the business for their livelihood, e.g. employees, suppliers.

TASK 1.5

Making good decisions in business

Expected responses:

Teachers must take care not to impose their own personal beliefs on the learners, but to guide learners in sharing ideas and opinions which will lead them towards responsible citizenship with an understanding of human rights and dignity.

Case 1	The infected employee has constitutional rights, e.g. privacy, employment. The employer should guide and educate all employees in accepting this and in understanding the nature of HIV/AIDS. Failure to accept this could lead to their leaving this business.
Case 2	Mr Robb should be summoned to a disciplinary hearing to determine his guilt or otherwise and to determine the nature of severity of the offence and the appropriate consequence. Mr Robb must be given an opportunity to defend himself. However, he could lose his job if he is found to be guilty. The business could consider legal action against the employee as well, which could lead to imprisonment.
Case 3	One possible response: The partners should seriously look at ways of improving efficiency and profitability, and should involve employee representatives in this process. They should explain to employees that if the business cannot solve its profitability problem, it might well have to be sold or closed down.
Case 4	One possible response: The farmer should consider the ethical dilemma, i.e. profits as against environmental issues. Before taking drastic action, he should involve environmental experts in exploring other options – this is likely to be a problem for other farmers too.
Case 5	One possible response: The gifts are actually bribes. It appears that this might be done without the knowledge of the ship owners. This is not likely to give the business a good reputation and could have serious consequences. Although these bribes lead to an inflow of income which is needed to pay wages of employees, the business owners should look at more ethical ways of improving income.
Case 6	Miss Steele should be called to a disciplinary hearing to determine her guilt or otherwise and to determine the nature of severity of the offence and the appropriate consequence. Miss Steele must be given an opportunity to defend herself. The extenuating circumstances should be taken into account in determining her sentence. However, she could lose his job if she is found to be guilty. The business could consider legal action against the employee as well, but a degree of empathy might be appropriate if the reason is genuine.
Case 7	One possible response: The owners do have a right to move their business to a more suitable location. They also have a responsibility to their current employees. It appears that 100km is too far to transport them each day. The owners might well have to offer the employees severance packages or provide them with notice or assistance in finding alternative employment.
Case 8	One possible response: The doctor has a moral and ethical responsibility to his patients. It appears this is a problem that is very difficult to solve. If he increases his fees, he will lose patients. If he does not go on the course, he will not be better able to serve them. He should try to form an alliance with a doctor who is going on the course to give him feedback from the course, and he should use local expertise, e.g., from large hospitals in South Africa, to assist him.
Case 9	Affirmative action is an accepted process in South Africa in order to redress inequities of the past (opportunities in past eras favoured certain race and gender). A thorough and fair interview process should be held. If one candidate is clearly more suitable than the other, then that person should be preferred for the post. However, in terms of South African law, an assessment will be made of the business' move towards employment equity. A black female person should get the post if she meets the qualifications, and the business has a shortage of employees from this particular group.
Case 10	This might well be construed as unfair business practice as it unduly influences the decision-making process of potential customers. There has been a high profile case of this nature in recent times in South Africa. Competitors have a right to complain to the competition board and they can take legal action. If the competitors can prove that they suffered financially as a result of this practice, they can have a claim to damages.

Case 11	This is clearly fraud in the form of a bribe which unfairly influences the decision of awarding the contract. Competitors will have the right to take legal action and will have a good expectation of damages being awarded. The fact that the business has a responsibility to its employees continue to find business is not a justification for the fraud. If the business cannot justify its existence in a moral and ethical manner, it should not remain in business.
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TASK 1.6 Examples of bad business practices

Expected definitions – examples will depend on learners' responses:

Theft	The act of stealing assets.
Fraud	The act of stealing with the intention of misleading.
Negligence	Loss caused as a result of not discharging a duty in a reasonable and expected manner.
Bribery	Offering a person a reward in order to influence their decision.
Kick-backs	A reward offered to a person after the occurrence of a transaction which has led to another person's gain.
Money-laundering	The act of introducing illegally gained money into a legitimate system and disguising the source.
Discrimination	Bias and unfairness in the way a person is treated.
Racism	Discrimination against a person on the basis of race.
Poor working conditions	Untenable state of the workplace, possibly to save money, but which make employees' work experience unpleasant.
Employing illegal immigrants	Employment of persons who have no right to work in the country, i.e. no work permit – this has to be controlled in order to protect jobs for South African citizens.
Trading in illegal goods	Buying and selling of illegal goods, e.g. drugs.
Discriminatory wage practices	Favouring certain persons in terms of remuneration when this is not justified by their qualifications or expertise.
Misleading advertising	The act of attempting to deceive customers into buying an article by exaggerating the benefits or qualities of the article.
Abuse of the environment	Disregard for the damage caused to the environment – this is actually a cost which will be borne by someone – the supplier needs to bear this cost as he is benefiting from the business practice.
Foreign exchange fraud	Illegal trading in foreign currencies when this is not as a result of payment for international trade which has taken place.
Sexual harassment	The act of seriously pestering or annoying a fellow worker in a sexual manner.
Abuse of leave privileges	The act of taking leave when this is not justified and not in terms of the employment contract.
Misrepresentation (e.g. qualifications fraud)	The act of pretending to have qualifications or expertise in order to gain unfairly.
Over-charging	Charging a price higher than the legitimate price.
Price-fixing	The act of colluding with fellow suppliers in agreeing to set prices at a certain level and not under-cut each other.
Industrial espionage	The act of gaining privileged information on a competitor in a clandestine (secret) and illegal manner.
Insider trading	Using privileged information at your disposal in order to protect your financial position, possibly with the effect of causing loss to someone else.

TASK 1.7

Compiling a newspaper report

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Description of three alleged offences.	Poor description of the three alleged offences.	Satisfactory description of the three alleged offences.	Good and clear description of the three alleged offences.	Creative, realistic and clear description of the three alleged offences.
Comments from the persons who are responsible or accountable.	Poor comments from the persons who are responsible or accountable and little understanding of the concept of accountability is evident.	Satisfactory comments from the persons who are responsible or accountable, and partial understanding of the concept of accountability is evident.	Realistic comments from the persons who are responsible or accountable, and some understanding of the concept of accountability is evident.	Creative and realistic comments from the persons who are responsible or accountable, and full understanding of the concept of accountability is evident.
Consequences for the business or its employees.	Consequences for the business or its employees are mostly not realistic or valid.	Consequences for the business or its employees are partially realistic and valid.	Consequences for the business or its employees are mostly realistic and valid.	Consequences for the business or its employees are completely realistic and valid.
Content: Headline and quality of explanations.	Poor headline and explanations.	A satisfactory headline and satisfactory explanations which engage the interest of the reader.	A good headline and good explanations which engage the interest of the reader.	An eye-catching headline and well-constructed explanations which engage the interest of the reader.

TASK 1.8

Interviewing an unethical businessperson

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Depiction of the alleged unethical practice.	Poor depiction of the alleged offence.	Satisfactory depiction of the offence.	Good and clear depiction of the offence.	Creative, realistic and clear depiction of the offence.
Questioning and responses from role-players.	Poor questions and responses, poor understanding of the concept of accountability is evident.	Satisfactory questions and responses, satisfactory understanding of the concept of accountability is evident.	Good and realistic questions and responses, good understanding of the concept of accountability is evident.	Creative and realistic questions and responses, full understanding of the concept of accountability is evident.
Consequences for the business or its employees.	Consequences for the business or its employees are mostly not realistic or valid.	Consequences for the business or its employees are partially realistic and valid.	Consequences for the business or its employees are mostly realistic and valid.	Consequences for the business or its employees are completely realistic and valid.
Degree of interest in audience.	The role-play is generally not interesting and seldom engages the audience.	The role-play is moderately interesting and engages the audience on occasions.	The role-play is mostly interesting and generally engages the audience.	The role-play is very interesting and engages the audience at all times.

TASK 1.9 ☼

Corruption in South Africa?

This is a very open-ended Task. Learners are expected to provide a variety of different opinions. The value of this Task is in getting the learners to appreciate the different perceptions of the learners. Just as the learners in the class will have certain perceptions on corruption in South Africa, so too will the potential investors from other countries. If they have negative perceptions, they will not provide an inflow of funds to this country, which will affect employment and standard of living for all South Africans.

TASK 1.10 ☼

Worldcom

Mr Ebbers was held accountable for providing misleading information in the financial statements of WorldCo, a leading public company in the USA. This should have been identified by the auditors. There will be a variety of responses from learners on this article in terms of the censure of Mr Ebbers and the effect on stakeholders. There a number of stakeholders who suffered as a result of this case:

- Thousands of employees lost their jobs when the company closed down.
- Shareholders will have lost a fortune on the shares which became worthless – some of these could have been pensioners or pension funds and this would have affected their retirement savings and would have caused hardship to retired people.
- The auditors – they also faced legal action and closure of their business.
- Suppliers – they need to look for alternative business partners.
- Creditors and lenders – they will have received a small portion of the amount owed to them.
- Mr Ebbers' family – their lives will have been significantly affected by this case.

EXTENDED ACTIVITY FOR TASK 1.10

The *other* victims of Bernie Ebbers's Fraud

Date: August

Does Bernie Ebbers deserve to spend the rest of his life in prison? You decide. But first, consider the full extent to which history's greatest financial fraud affected lives – it's far greater than most of us realise. In fact, Bernie is still costing people money.

Unless his long-shot appeal succeeds, WorldCom's former high-living CEO will serve 25 years in a federal prison without the possibility of parole (though he could get about four years off for good behaviour). He's 63, so Jay Leno's joke from 2002 – about Ebbers spending his retirement years in a gated community of a different kind – looks prophetic. Just for the record, Ebbers insists that underlings committed an \$11 billion fraud without his knowing a thing about it. Right, said the jury.

Sympathy has focused on the thousands of WorldCom employees who lost not only jobs and medical insurance but also 401(k) accounts invested heavily in company stock. Next in line for sympathy come the company's shareholders, including many pension funds, which lost billions. But the truth is, the universe of folks who got whacked by the fraud is far larger.

Suppose your firm had been competing against WorldCom between 1999 and 2002. Lots of companies were, primarily AT&T but also Global Crossing, Qwest, Sprint, and a bunch of smaller players. WorldCom was lying about its expenses, but you didn't know it. All you knew was that the company seemed to be incredibly efficient, consistently making money while under-pricing you.

It was and is a brutally competitive business, so you absolutely had to match WorldCom's efficiencies. How? By firing people, for starters. AT&T fired tens of thousands in the late 1990s as it tried frantically to match WorldCom's infuriatingly low costs. Of course, those employees didn't need to be fired (at least not then), but it was too late for them once the fraud was revealed.

Other telecom players did the same thing, and some did more. Qwest wound up committing accounting fraud, and Global Crossing was under investigation and ended up declaring bankruptcy, its value going to zero. Those companies had plenty of their own problems, but the relentless pressure to match a major competitor which couldn't be legitimately matched – undoubtedly made matters worse.

That's some of the damage the fraud caused while WorldCom was flying high. Much more followed once the fraud was revealed and WorldCom filed for bankruptcy. Many suppliers immediately stopped getting paid, which was bad for all and terrible for some – local carriers were no longer being paid to complete WorldCom calls, yet it was illegal for those carriers not to complete them. For equipment vendors and every other kind of supplier to a company with \$35 billion of revenues, the result was more fired people and more clobbered shareholders.

But the effects of the fraud still weren't complete, for WorldCom was eventually allowed to emerge from

bankruptcy – and what sounds like good news actually caused still more problems. In the alchemy of modern corporate bankruptcy, when a failed company is allowed to reorganise rather than liquidate, it remains largely whole while most of its debts disappear. In WorldCom’s case the effect was especially dramatic. Before bankruptcy, it laboured under a truly mammoth debt of \$41 billion. After bankruptcy, all but \$5.5 billion magically vaporised. Yet the company retained most of the assets it had bought with all that borrowed money.

You think competing with a fraudulent WorldCom was tough? Now try competing with a totally legal WorldCom largely freed of its debt burden. Pre- bankruptcy, the stock declined to nothing and was delisted; post-bankruptcy, it reopened at \$23 a share. If you’re AT&T, Bell-South, SBC, Sprint, or Verizon, you’re loaded up with at

least triple WorldCom’s debt and all because you were a Boy Scout during the great telecom bacchanal and managed to stay solvent.

WorldCom, now known as MCI, will soon disappear as an independent firm when Verizon buys it. But it permanently, violently reshaped its industry, and its low-capital cost advantage will live on to the benefit of its new owner and the bedevilment of its competitors.

As for Bernie Ebbers, he’ll disappear too, behind prison walls, probably for the rest of his days. But he needn’t wonder if he’ll be remembered. Millions of shareholders, suppliers and former employees – of his own firm and many others – will never forget him.

TASK 1.11 Accountability: The environment

1.11.1	Why are the Non-Governmental Organisations (NGOs) asking for the Government to become involved in this case?
<p>The alleged abuse by the refinery is affecting not only the environment but the local community as well. Air pollution will lead to health problems. The community will probably be powerless to force a big company to rectify the problem, especially if it will take considerable funds to rectify. The NGOs or the community could take legal action but this will involve considerable legal costs and will take a long time. The refinery is obviously disobeying local regulations hence the Government can take action. The refinery is providing a valuable resource to the country’s industries and citizens (fuel) and the Government cannot allow this to negatively affect the economy.</p>	
1.11.2	Briefly explain the negative and positive points relating to the Engen refinery.
<p>Negative: The emissions are poisonous and can cause cancer; the refinery has not taken steps such as erecting monitoring devices on their fences to assess the potential danger. Positive: They have shut down the refinery to inspect every aspect of the refinery.</p>	
1.11.3	If you were one of the owners (shareholders) of this refinery, would you support the closure of the refinery? Explain.
<p>Yes / No depending on reasons. Expected responses: No, because shareholders have invested in the company and will lose financially were it to close, it would also mean that many employees will lose their jobs, but if it remains open then the poisonous emissions must be rectified, even if it costs extra for the company to rectify it. Or Yes If the costs of rectifying the problem lead to financial losses, the business will not be sustainable. Also: Fuel prices are regulated by the Government, so Engen might well want to negotiate with the Government for assistance in covering all its costs including the costs of rectifying the emissions.</p>	

TASK 1.12 Accountability & Transparency: Cigarette manufacturers

1.12.1	Why are the concepts of Accountability and Transparency particularly relevant to cigarette manufacturing companies?
<p>The consumers have a right to know what is included in the product. Cigarettes are dangerous to the health of the consumer. The dangers must be pointed out to the consumer. If these are not pointed out, consumers could sue the cigarette manufacturers who could be held accountable for deaths if the information or the dangers are not pointed out.</p>	

1.12.2	Why is the Government in Australia trying to pass this new law to have plain packaging on cigarette packets? Do you think that a similar law should be passed in South Africa? Explain.
The Australian Government is determined to reduce smoking in the country, probably because they feel this is the right thing to do, and reduction in smoking will lead to reductions in health care costs for the Government. They might also think that less spending on cigarettes by consumers could lead to an increase investment in savings which will benefit them in their old age.	
1.12.3	What do you think that the managing directors of cigarette manufacturing companies are saying to the Australian Government in response to this proposed new law?
They will not be happy. They will probably argue that their businesses affect a number of developing countries, that they provide employment and benefit the economies in terms of tobacco exports. The Australian Government might not regard these as legitimate arguments.	

TASK 1.13 ☼💧 **Transparency: Bribes**

A variety of responses is expected from learners. Teachers should guide learners into accepting that examples of the kick-backs and bribes exposed in these articles should not be tolerated and, if they continue, will likely result in a loss of customer goodwill for the company. The resignation by accountable officials is possibly the only way in which the company can demonstrate that it does not tolerate this sort of practice. Organisations such as Transparency International play a vital role in exposing this sort of bad business practice.

TASK 1.14 ☼💧 **The King Code**

A variety of responses from learners is expected. Teachers should guide learners in an understanding of the nature of the work performed by the King Commission (see learners' manual for an explanation), the need for the King Code and the leading position that this has earned for South Africa in the field of international corporate governance. Details of responses on the employee code of conduct can be extracted from the article provided. Teachers are advised to keep up to date on developments on the King Code, either through the Business Report in the morning newspapers, or on the Internet – Refer to Independent Online at www.iol.co.za and refer to Business Report. Other websites such as Moneyweb are also valuable as a reference.

EXTENDED ACTIVITY FOR TASK 1.14

King 2 is not yet the final word on governance

November 7, 2003

Transparency is good. But why is it good?
Surely not as an end in itself.

In theory, the timely disclosure of material information allows investors to act on it by the purchase or sale of shares. In practice, most shares on the JSE (Johannesburg Securities Exchange) are so thinly traded that the ability of large investors to build or unwind their positions is constrained.

In theory, comprehensive disclosure allows shareholders to praise or censure corporate actions. On praise there is no limitation. On censure there is limited purpose, because it can rarely unravel what boards have already determined.

Take, for example, executive remuneration. In practice, the authority of boards eclipses the shareholders. The system, as it stands, does not work badly. What should be asked is whether it can work better. King 2 is not the final word on corporate governance, enabling companies

to mouth commitment sometimes in inverse proportion to their compliance.

Rather, like King 1, it is part of an evolution towards ever-improving standards. Consider recent developments in more mature and liquid markets:

"Investment professionals worldwide believe the quality of financial reporting has declined slightly in the past four years Respondents [70 000 members of the Association for Investment Management & Research] showed the greatest dissatisfaction with statements of companies' cash flow and shareholders' equity ... More than two-thirds said companies' practice of giving authority of shareholders. Boards lead and control companies. And boards are inclined to perpetuate themselves by the directors they nominate.

The occasions when disaffected shareholders vote their own nominees on to a board are isolated and contentious. Take, for illustration, Comparex. In theory, directors act exclusively in the best interest of the company on whose board they sit. This is a legal requirement.

"Leading industrialised countries are proposing to give shareholders of listed companies a direct say in fixing the pay and benefits of top executives and board members as part of their efforts to toughen up their corporate governance code."

In practice, there are inevitably unspoken conflicts, because of the frequency with which directors owe their appointments to the influence of a dominant shareholder whose interests they might be tempted discreetly to advance earnings guidance increased the likelihood of manipulation of earnings reports."

To rebuild investor confidence, Governments of the Organisation for Economic Co-operation and Development intend "to encourage greater shareholder activism, including ... participation in the nomination and election of board members and the approval of remuneration schemes".

TASK 1.15 ☼💧 **Transparency: Salaries & remuneration**

Note to Teachers:

This Task may be done as suggested in the learners' manual, or Teachers may convert it into a debate. If Teachers prefer the debate approach, then groups will focus on only one side of the argument. This Task may be offered to learners as an alternative to Task 1.16. It is not necessary for learners to do both Tasks nor is it necessary to investigate both sides of the argument. However, it is advised that learners be exposed to both Tasks and both sides of the arguments through the report-back or debate process.

There is no stipulation on the content of the responses expected from learners, nor on the conclusions which they reach. Teachers should ensure that different opinions from learners are tabled in an orderly fashion, and that learners seriously consider the OPV ('Other Point of View') and that they CAF ('Consider All Factors'), both of which are concepts promoted in the de Bono Thinking Skills Programme.

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Research of opinions from selected businesspersons.	Poor construction of questions and responses and poorly communicated.	Satisfactory construction of questions and responses and satisfactorily communicated.	Good construction of questions and responses and mostly coherently communicated.	Questions and responses well constructed and coherently communicated at all times.
All factors considered, and opposing points of view considered.	Few factors considered and opposing points of view poorly understood.	Several factors considered and opposing points of view satisfactorily understood.	Most factors considered and most of the opposing points of view understood.	All factors considered and all pertinent opposing points of view well understood.
Quality of presentation.	Poor presentation of opinions; seldom engages interest of audience at times.	Satisfactory presentation of opinions; engages interest of audience at times.	Good presentation of opinions; generally engages interest of audience.	Opinions presented in a well-organised and balanced manner; engages interest of audience at all times.

TASK 1.16 ☼💧 **Strikes in South Africa**

Note to Teachers:

This Task may be done as suggested in the learners' manual, or Teachers may convert it into a debate. If Teachers prefer the debate approach, then groups will focus on only one side of the argument. This Task may be offered to learners as an alternative to Task 1.15. It is not necessary for learners to do both Tasks nor is it necessary to investigate both sides of the argument. However, it is advised that learners be exposed to both Tasks and both sides of the arguments through the report-back or debate process.

There is no stipulation on the content of the responses expected from learners, nor on the conclusions which they reach. Teachers should ensure that different opinions from learners are tabled in an orderly fashion,

and that learners seriously consider the OPV ('Other Point of View') and that they CAF ('Consider All Factors'), both of which are concepts promoted in the de Bono Thinking Skills Programme.

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Research of opinions from selected businesspersons.	Poor construction of questions and responses and poorly communicated.	Satisfactory construction of questions and responses and satisfactorily communicated.	Good construction of questions and responses and mostly coherently communicated.	Questions and responses well constructed and coherently communicated at all times.
All factors considered, and opposing points of view considered.	Few factors considered and opposing points of view poorly understood.	Several factors considered and opposing points of view satisfactorily understood.	Most factors considered and most of the opposing points of view understood.	All factors considered and all pertinent opposing points of view well understood.
Quality of presentation.	Poor presentation of opinions; seldom engages interest of audience at times.	Satisfactory presentation of opinions; engages interest of audience at times.	Good presentation of opinions; generally engages interest of audience.	Opinions presented in a well-organised and balanced manner; engages interest of audience at all times.

TASK 1.17  **Tender-rigging**

1.17.1	In your own words explain the nature of the offences of which the large construction companies are accused.
<p>They are colluding to take advantage of the tender process and fix prices. The tender process is supposed to ensure that large contracts are awarded fairly on merit to the company which offers the best price and the best quality of service. The companies are accused of 'rigging' the tenders. The article is not explicit of how they did this, but there is mention of 'The Party' where meetings are held between the bosses of the companies. This type of offence normally involves the companies inflating their prices and mutually agreeing on who will submit the lowest tender, thereby manipulating the minimum prices.</p>	
1.17.2	Explain why it is important for the Competition Commission to bring the problem under control as soon as possible.
<p>Taxpayers' money is used to pay for these large contracts. Inflated prices mean that the Government is not getting the most value from using taxpayers' money. Also, for large contracts there are not many companies in the country who can build large structures such as football stadiums. The agreement (or cartel) between the biggest five companies means that the Government's finances are being 'milked'. Smaller companies might also be disadvantaged because the bigger companies are getting all the contracts. This is unfair business practice.</p>	
1.17.3	What is the Competition Commission planning to do about the companies who are not co-operating? Do you agree with this? Explain.
<p>The Commission wants to impose the stiffest penalties that they can. They also want the local or national Government to stop dealing with these companies. The Commission is offering a leniency period for companies to 'own up' about their offences so that the problem can be solved. (Learners might agree or disagree with this strategy; some might think that the companies should be de-registered).</p>	

TASK 1.18

Research: Topical cases in the press

A wide variety of responses is expected. Teachers should guide learners into accepting the good business practice should be followed, but that a variety of opinion exists on specific issues. Teachers should encourage learners to follow the press in order to remain aware of topical issues.

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Examples to illustrate the topic.	Poor selection of examples illustrates poor understanding of the concept.	Selection of examples illustrates satisfactory understanding of the concept.	Good selection of examples well selected which illustrates good understanding of the concept.	Examples well selected in which illustrates full understanding of the concept.
The possible consequences for the business and people who are accountable if good business practice is not followed.	Possible consequences are poorly well thought out and generally invalid.	Possible consequences are generally well thought out and generally valid.	Possible consequences are mostly well thought out and mostly valid.	Possible consequences very well thought out and are valid at all times.
All factors considered, and opposing points of view considered.	Few factors considered and opposing points of view poorly understood.	Several factors considered and opposing points of view satisfactorily understood.	Most factors considered and most of the opposing points of view understood.	All factors considered and all pertinent opposing points of view well understood.
Quality of presentation.	Poor presentation of opinions; seldom engages interest of audience at times.	Satisfactory presentation of opinions; engages interest of audience at times.	Good presentation of opinions; generally engages interest of audience.	Opinions presented in a well-organised and balanced manner; engages interest of audience at all times.

CHECKLIST

SKILLS	Yes – proficient	Requires more attention	Complete
Explain what is meant by the words: 'ethical', 'moral', 'dilemma' and 'sustainable'.			
Understand the concepts of accountability, transparency, fairness, responsible management and good corporate governance.			
Understand and explain why it is necessary for businesses to establish codes of ethics or important values and codes of conduct.			
Offer opinions on ethical scenarios and cases relating to a business.			
Consider ethical aspects relating to all topics studied in the Grade 11 curriculum.			

ADDITIONAL RESOURCES

The following articles are provided as additional resources if necessary.

TOPIC: Black economic empowerment

This Task focuses on the debate of black economic empowerment. You are provided with an article which appeared in The Business Report on 18 August 2005.

Required:

- Why was it necessary for the Government to ensure that Black Economic Empowerment (BEE) is adopted in this country?
- What is your opinion about the BEE concept?

Can Black Empowerment address poverty?

By Geoff Parr August 18, 2005

Black Economic Empowerment (BEE) seeks to give increased ownership and control over businesses to historically disadvantaged persons (HDPs) and to increase the procurement spending going to BEE firms. Indeed, section 2(f) of the Competition Act states that one of its purposes is "to promote and maintain competition in order to promote a greater spread of ownership, in particular to increase the ownership stakes of HDPs".

Certainly, increasing ownership stakes of wealthy and even middle-income HDPs is easy enough, but the challenge is to make BEE deals broad based to the extent that they empower the masses. But can BEE really address the problem of poverty that affects so much of South Africa's population?

Poverty, or being very poor, indicates a shortage of both wealth and income, where the wealth of a household might be the accumulated stock of assets acquired by inheritance and by means of spending flows of income.

Importantly, wealth can be converted back into income by selling assets, ideally in later years of life, as older family members retire and, in the absence of any wage income, might have to survive by liquidating their stocks of accumulated wealth as well as relying on savings.

Unfortunately for the poverty stricken, each day might be a quest for survival, in which any assets acquired might have to be sold to finance consumption, rather than being accumulated as wealth. For households on or below the poverty line (whatever level of income that might be), consumption is equal to income and savings are therefore zero. In fact, if a household's income is not sufficient to finance consumption in a particular period, then it must resort to dis-saving, or selling of any liquid assets.

Economists refer to a concept known as the "marginal propensity to consume". This is the measure of a consumer's tendency to spend a certain portion of but the poor must lead a hand-to-mouth existence and so they will tend to spend all (100%) of their income - in other words, their marginal propensity to consume is 1.

When households are given non-cash assets, those with enough income to provide for their day-to-day needs might keep those assets as wealth, whereas the

poor must convert them into income, to spend on satisfying their immediate needs.

The implication is that an empowerment scheme that gives (or sells at a favourable price) shares to poor people will not necessarily increase the wealth of the recipients. Sadly, the shares will most likely be sold and thereby converted into income to be spent on food, transport, accommodation and clothing.

The proceeds of these shares will yield short-term benefits, and arguably the poorest households would benefit the most, if extra income were presumed to be most beneficial to those with the least of it. But the empowerment exercise will be a one-off shot in the arm, a poverty relief effort rather than empowerment in the sustainable sense that was intended by empowerment legislation (including the Competition Act).

Nor will businesses involved in such transactions be able to claim the BEE credentials for creating a class of poor black shareholders: in all likelihood, those already privileged will have bought the shares from their original recipients.

There are difficulties in ensuring that the benefits of BEE transactions are spread widely and to the poorest. That is surely the reason structures have been devised to hold shares on behalf of the ultimate beneficiaries. For example, some transactions involve partnership arrangements, workers' participation schemes that facilitate empowerment or the sale of shares to employee groups or union groups. These difficulties apply not only to the private sector, but also to the sale of shares in state enterprises.

Naturally, it seems the Government would still prefer to have control and sustainable ownership in these organisations passing to HDPs. But for the Government there are other options: giving away shares to the public (on the understanding that those who need the money instead will resell them); or selling them to the highest bidders and then applying the proceeds to its expenditure programmes.

This choice of options should depend on whether the Government feels it has made sufficient provision for poverty alleviation, in which case it will have space to

pursue other objectives, such as BEE, in the sale or partial sale of state-owned enterprises.

BEE footprints finally have a spot in reports

August 21, 2005

By Vuyo Jack

Reporting on black economic empowerment (BEE) initiatives by public companies is slowly becoming a reality that needs to be faced.

In the current economic climate in South Africa, any company that does not contribute in a substantive manner to BEE will have its sustainability questioned. When you forecast the cash flow of a company that does not contribute to BEE, it would diminish because the underlying business of the company would depend on the level of contribution to BEE relative to the Department of Trade and Industry or charter targets, and also how far ahead of its competitors the company is.

Stakeholders need to be informed on the level of BEE contribution by the company because this would affect the returns on their investment. When one explores the trends on BEE reporting in annual reports, there has been great improvement from the early 1990s.

In the beginning, the trend was to put all BEE-related initiatives to the corporate social responsibility section of the annual report. During this period, BEE was equated with social responsibility and was not really seen as a business imperative. However, we have recently seen BEE being dealt with in the main body of the annual report in a prominent position.

The other trend that is good is the separate sustainability report, which highlights the key sustainability issues a company faces. BEE is one of the issues that gets covered within the report.

What is interesting to note is the correlation of the BEE stages (based on Elisabeth Kubler-Ross theory) that the company is in, ranged against the quality of the reports produced.

The first stage that companies go through when they encounter BEE is denial. They genuinely do not believe that BEE is applicable to them and therefore do nothing to contribute to BEE. At this stage there is no reporting on BEE.

Once the heat of the trickle-down effect of BEE descends on them, they move to anger. During this stage, companies feel a lot of resentment and rage, which leads them to believe that BEE is reverse discrimination and that it is an unfair process imposed on them.

The level of reporting is confined to the basic one liners that are required by King 2 and they never venture any further information because in reality not much is done to contribute to BEE. Once the storm of anger settles, the bargaining stage sets in with its principle: "What contribution can we make to BEE that will gain us the maximum points on the BEE scorecard with minimum effort?"

This stage sees companies taking action such as unsustainable BEE deals, appointing more black directors in non-executive positions on their boards and creating BEE subsidiary/joint venture structures that may be fronts.

The key reporting feature of this stage is to describe the legal form of the deals, but not necessarily the economic substance of the deal, and also outline the policies and intentions that will be implemented in the future. There is little information on the actual state of BEE within the company at a particular point in time.

When the stage of bargaining fizzles because the strategies and plans lack substance, the depression stage clouds the company. This usually occurs after the companies have gone through a broad-based rating that evaluates the substance of their initiatives. This is a period where the lessons of sustainable BEE slowly filter to the marrow of the company.

The company is in a reporting limbo as it rehashes its intentions to BEE contributions but still no BEE progress gets reported, or sometimes the level of reporting on BEE may even be decreased. The final stage is the one of acceptance. This occurs when the company finally embraces BEE wholeheartedly. The level of reporting reflects congruence between the company's intention, the policies that are articulated internally and externally, and the action that is taken to make the company's BEE intention and policy a living reality.

The reports at this stage reflect a refreshing honesty and transparency, which in turn give the stakeholders an indication of the BEE direction the company is taking. This is a stage where the company's BEE report becomes a record of the footprints it is making in its BEE journey over time.

New skipper to navigate employment equity

July 29, 2005

By Mokgadi Pela

Mzwanele Jimmy Manyi was appointed this week by labour minister Membathisi Mdladlana as the new chairman of the Commission for Employment Equity. He was born in 1964 in Meadowlands, Soweto. He is married to Stella and they have three children aged 19, 17 and nine.

His education includes both Technikon and graduate schools of business at Wits University, the University of Cape Town and Harvard. He has over 20 years' experience in the corporate environment, mainly in blue chip firms and multinationals. His experience spans key sectors of the economy, including banking. He worked for seven years at executive level for Barclays plc and the Nedcor Group, where he ran the business banking division, business development, black economic empowerment (BEE) and Government relations.

Manyi also worked for four years at Toyota South Africa where he was appointed general manager. For 10 years he worked for Anglo American both as a mining and an exploration geologist. He says he has just joined the information and communication technology sector, armed with a lot of business experience. He is the director of BEE and corporate affairs at IBM. Manyi serves on several bodies including Nedlac and the Black Management Forum and is a director of various companies.

Why is employment equity important for South Africa?

Employment equity is a business imperative. It has to work hand in hand with skills development. If we succeed in growing our economy by 6%, we need to have trained enough black managers. Any company that wants to succeed in the next 10 to 15 years should have its demographics in place.

What needs to be done to promote understanding of the Employment Equity Act?

There needs to be a road show to encourage companies and employers in general to comply with the law and submit their equity reports to the department of labour. Employers should respect the law that they have agreed to at Nedlac, the forum for business, Government, labour and the community. With regard to broad-based Black Economic Empowerment, we need to ensure that there is alignment between the codes of good practice on employment equity and what is happening within the Department of Labour.

What have you inherited in your new role as chairman of the Commission for Employment Equity?

I have inherited a lot of information from the outgoing commission, especially quantitative analysis of the status of employment equity within the workplace. I know how many black managers are lacking at middle management and executive management levels. Our job is to check what the issues are and what needs to be done.

When is the talk going to end and the action going to start?

The first five years were full of teething problems. The next five years will be characterised by action. That is

why labour minister Membathisi Mdladlana is introducing a national roving inspectorate unit and the director-general review system with a clear aim of conducting highly specialised inspections and effective monitoring mechanisms.

What should we expect from your team?

We will be working closely with the inspectorate. Also, the social partners at Nedlac have agreed to support and implement employment equity in the workplace.

Do you have any mandate from the minister?

I have his full support. In fact, the terms of reference of this commission are stipulated in the Employment Equity Act. The key issue about this commission is to advise the minister on employment equity and the code of good practice.

Has the Department committed any resources to the commission, either in terms of human resource or finance?

The secretariat in the Department will be assisting us. The back-up that I have seen so far is adequate for me to deliver. I have also noticed that the turnaround time is quick with staff in the Department responding quickly to requests from members of the commission.

Is Government afraid of acting against the private sector to enforce the law?

We cannot say that. In the next few weeks the first employment equity prosecutions will take place in the Durban labour court against some Newcastle clothing manufacturers. While Government's role is not to be draconian, it is incumbent upon employers to comply with the law, especially after several corrective measures have taken place.

Are these cases a foretaste of things to come?

It will be sad if business forces Government to have a heavy hand. The only role Government can have is to regulate and regulate, and we should remember that Government doesn't want to do that. Part of our appeal to business is to take employment equity seriously to avoid a situation where we are forced to advise the Minister to be tough. Business is first to complain about crime, and it is lawlessness if business does not comply with legal provisions. We will not allow a situation where this country is turned into a banana republic.

What is your advice to workers feeling frustrated at the slow pace of employment equity transformation?

I would urge them to get out of the victim mentality. People must take responsibility for their development. Also, people can pick up a phone and contact the inspectorate of the Department of Labour. But that

should be the last resort. Development is not solely a manager's job. You must drive your own development. But if all else fails, make the call.

How does the commission view equity in the workplace?

People should understand that there are three sides to the employment equity coin. One side is women, the other people with disabilities, with black males being the last. When you push, you should push them together.

What is the role of black managers in promoting employment equity?

As people who are wearing these shoes, they should be the first to be change agents. When they need a statutory intervention, only then should they come to us. Black managers should remember that because there is a big spotlight on them, they should perform to the best of their abilities. Over weekends they must come together with their brethren and devise strategic plans to engage their counterparts in the workplace.

What is your view about black executives who scoff at affirmative action?

Black executives need to understand that they are where they are because of the employment equity law. This whole notion of people not wanting to be called AA candidates is naive. This legislation has delivered for Jimmy Manyi. They should remember that even when black people had the skills and experience, they would not be promoted. This law is the one that brought us to where we are. I also wish to urge black executives to be developmental and bring others up. Every black executive should be coaching at least 10 people.

What are your views on the financial services charter?

This mechanism has provided a lot of impetus for transformation in the banking sector. It is still early days to see its effects.

How would you rate the performance of Barclays in the same area?

I think Barclays has a demonstrable history of embracing transformation. That is why it heeded the call to disinvest from South Africa during apartheid. It came back and I was appointed to assist the bank to develop a transformation policy. When I left at the end of last year, the bank was doing well in terms of the financial sector charter scorecard.

What is your favourite dish?

I eat almost everything except pork.

What about your favourite holiday destination?

I am usually controlled by my kids.

Where do you live?

Sandton.

What about your hobbies?

I play golf or sit at home in my garden and think.

What is the most useful mistake you have made?

Getting married at the age of 20, but this turned out to be a good thing. I am now 41 and my marriage is stronger than ever. By the time I turn 50, my kids will have finished university.

What keeps you awake at night?

How my children are going to turn out. They are exposed to such a lot of tempting things.

TOPIC: AFFIRMATIVE ACTION

This Task focuses on the debate of affirmative action.

You are provided with an article which appeared in The Business Report on 19 July 2005.

Required:

- Why was it necessary for the Government to ensure that the EEA was passed by parliament?
- What is your opinion about employment equity and affirmative action?

Employment equity vs Discrimination
By Ivan Israelstam (chief executive of Labour Law Management Consulting) July 19, 2005

The Employment Equity Act (EEA) has two main functions. Firstly, it enforces affirmative action. That is, it requires employers to recruit and develop black, female and disabled people as a means of correcting the disadvantages caused by the "old South African dispensation". Affirmative action aims to give people from these population groups the chance to gain the knowledge, skills and/or work experience of which history deprived them.

However, the biases and discrimination that characterised the "old South Africa" have not died out, and still exist in the hearts and minds of many people. Therefore, the second function of the EEA is to prohibit unfair discriminatory acts that demean, persecute or otherwise

disadvantage employees. It also prohibits employers from discriminating unfairly against applicants for employment. Such unfair discrimination could include, but is not limited to, discrimination on arbitrary or subjective grounds such as race, gender, family responsibility, religion, age, disability, opinion, and trade union affiliation.

However, where discrimination takes place for the purposes of promoting affirmative action, such

discrimination would not normally be unfair. In the case of Coetzer and Others v the Minister of Safety and Security (2003 2 BLLR 173), the Labour Court again voted against (alleged) racial discrimination despite the fact that it had been perpetrated in the name of affirmative action.

Coetzer and his colleagues were all members of the police force's (SAPS) explosives unit. They complained that it was unfair for them to be refused promotions due to the fact that they were white males and therefore did not belong to groups designated for affirmative action (black, female or disabled people).

The SAPS claimed that it was merely carrying out its Employment Equity Plan (EE Plan) in accordance with the law. The court noted however, that the SAPS had also undertaken not to erect absolute barriers against advancement of employees from non-designated groups.

Also, while there were no vacant posts for non-designated employees at the time, there were vacant posts for members of designated groups. However, no applications from members of designated groups had been received. The SAPS was therefore ordered to promote the white males.

In Oerlikon electrodes SA v CCMA and Others (2003 9 BLLR 900), the Labour Court was asked to review an award made by a CCMA commissioner relating to the dismissal of an employee for using racist language. The arbitrator had found the dismissal to be unfair partly because the employer's disciplinary code did not provide for dismissal on a first offence of using racist language.

The employee was consequently reinstated with retrospective effect. The employer, disputing this arbitration award, took the CCMA to Labour Court, which found that:

- The employee had admitted to calling a repairman of a service provider a "Dutchman" and had further admitted that this was a derogatory term. The employee had not, as claimed, been provoked by the repairman calling him a "koelie" as this had happened only after the employee had called the repairman a "Dutchman";
- The employer's disciplinary code did require two warnings before dismissal could be implemented.

However, the employer was not required to follow its disciplinary code rigidly:

- The term "Dutchman" was racist in the sense that it connoted white supremacy. While this might not be seen as being as serious as terms such as "kaffir", it was still unacceptable;
- The employer had the right to deviate from its disciplinary code when circumstances called for this;
- The CCMA commissioner had improperly interfered with the employer's right to impose discipline;
- The dismissal was fair.

From this judgment it is clear that the courts will not allow employers to practice racism unless it is done in the name of genuine affirmative action. Even moderate forms of racism will not be tolerated in South African workplaces. Employees may, under certain conditions, be fired even if the employer's disciplinary code does not provide for dismissal.

TOPIC: E-COMMERCE FRAUD

This Task focuses on the E-commerce fraud. The rise of electronic business has been a feature of the 21st century. Regrettably, this has led to further opportunities of business fraud. You are provided with an article which appeared in the Business Report on 18 July 2005.

Required:

- In your opinion, who is accountable to eliminating this type of fraud?
- Would you purchase goods on the Internet with a credit card? Explain.

E-commerce in the stranglehold of fear

July 18, 2005

Washington - After enjoying phenomenal growth in its first 10 years, Internet commerce faces new challenges as consumers' fears of viruses, spyware and a range of fraud schemes continue to grow.

The e-commerce revolution led by companies like eBay and Amazon.com, both created a decade ago, has made the Internet a permanent part of the world of commerce. But even as more consumers join the rush, many are growing fearful about maintaining their privacy, protecting their personal data and the potential of falling victim to nefarious elements in cyberspace.

A survey of US Web users by the Pew Internet and American Life Project released this month shows 91%

have changed the way they behave online as they try to avoid these problems. Among the other findings of the survey:

- 81% said they stopped opening e-mail attachments unless they are sure these documents are safe;
- 48% have stopped visiting sites that they fear might deposit unwanted programs on their computers;

- 25% have stopped downloading music or video files from peer-to-peer networks to avoid things like spyware.

A separate Conference Board survey last month showed more than half of online consumers say their level of concern has grown over the past year and many have changed the way they use the Internet, with some scaling back online purchases.

Nearly 70% of online users have installed additional security software on their PCs, and 54% now "opt out" of special offers; 41% are purchasing less online, the survey by the business research firm showed.

The research firm Gartner, in its poll of 5 000 US adults, showed growing concerns about "phishing," in which fake e-mails are disguised to look like legitimate requests from banks or credit cards firms, a technique used in identity theft schemes.

In the 12 months to May 2005, an estimated 73 million US adults who use the Internet said they received an average of more than 50 phishing e-mails in the past year, Gartner said. That was up 28% from a prior survey.

Also, some 2.4 million online consumers reported losing money directly because of the phishing attacks, although most said this was repaid by banks or credit card issuers, the Gartner survey indicated.

Online retail sales in the US market, the world's most developed, amounted to \$141.4 billion (R billion) in 2004, according to the National Retail Federation. Some forecasts see that figure hitting \$331 billion by 2010.

Globally, eBay alone is expected to have sales of more than \$40 billion this year, up by a third over last year. But Gartner estimates that US banks and credit card issuers lost about \$1.2 billion last year to phishing schemes. And analysts say the high-tech community needs some kind of system of authenticating e-mail to ensure that an e-mail actually comes from the person who's purporting to send it. "Companies need to take steps quickly to beef up online security," said Avivah Litan, vice president and research director at Gartner.

"We are seeing unprecedented levels in consumer transactions online. Yet businesses cannot rely on the Internet to lower costs and improve marketing efforts indefinitely if consumer trust continues to decline."

Pew found 93 million US Internet users, or 68%, cited computer trouble in the past year that is consistent with problems caused by spyware and viruses, although 60% were not sure where the problem originated.

One in four said they found new programs on their computers that they did not install or new icons that seemed to come out of nowhere, with one in five saying their starting point, or home page, had inexplicably changed.

"These survey results show that as Internet users gain experience with spyware and adware, they are more likely to say they are changing their behaviour," said Pew's Susannah Fox.

"But what is more alarming is the larger universe of people who have struggled with mysterious computer problems, but have no idea why. Internet users are increasingly frustrated and frightened that they are not in charge of their Internet experience." - AFP

TOPIC: SEXUAL HARASSMENT

This Task focuses on harassment.

You are provided with an article which appeared in the Natal Mercury on 15 August 2005.

Required:

- In your opinion, who is accountable to eliminating this type of abuse?
- Why has the Government gazetted regulations in this regard now? Was this sort of abuse not apparent in previous decades?

No wolf-whistling at work, it's against the law

By Graeme Hosken Natal Mercury

Pretoria – Wolf-whistlers beware.

Amendments to the country's sexual harassment laws now outlaw wolf-whistling and enable employers to lay charges of sexual harassment against offenders.

The Amendments to the Code of Good Practice on the handling of sexual harassment cases in the workplace were gazetted on Friday. The guide for employers has as its aim the elimination of sexual harassment in the workplace and provides the appropriate procedures to deal with the problem and prevent its recurrence.

In terms of the code, nothing confers the authority or obligation on employers to take disciplinary action against non-employees. But a non-employee who is a victim of sexual harassment may lodge a grievance with the employer of the harasser "where the harassment had taken place in the workplace or in the course of the harasser's employment".

According to the code, sexual harassment in the working environment is a form of unfair discrimination. It is, therefore, prohibited.

Wolf-whistling is listed as one of the acts of unwelcome conduct in the code.

Unwelcome conduct includes physical, verbal or non-verbal actions. Physical conduct ranges from touching to sexual assault and rape, as well as strip-search by, or in the presence of, the opposite sex.

Verbal conduct includes "unwelcome innuendos, suggestions, hints, sexual advances, comments with sexual overtones, sex-related jokes or insults, graphic comments about a person's body made in their presence or to them, inappropriate inquiries about a person's sex life,

whistling of a sexual nature and sending by electronic means or otherwise of sexually explicit text".

Non-verbal conduct includes unwelcome gestures, indecent exposure and the display of or sending by electronic or any other means sexual explicit pictures or objects.

Jackie Branfield of the Action Desk for Abuse Against Women and Children said: "This new amendment is one way of making sure that women are treated with the respect and dignity they deserve."

TOPIC: TRADING IN ILLEGAL ITEMS

This Task focuses on illegal trading.

You are provided with an article which appeared in the Sunday Tribune on 14 August 2005.

Required:

- In your opinion, who is accountable to eliminating this type of abuse?
- In your opinion, what has caused this sort of abuse to occur in recent times?
- How can this be stopped?

Experts argue over human organs

By Fred Kockott

Sunday Tribune News: August 14 2005

The sale of organs by living donors – one of the greatest medical taboos – is increasing worldwide, yet in South Africa debate on the issue has hardly begun.

Visiting South Africa in 1998 and 1999, University of California medical anthropology professor Nancy Scheper-Hughes warned that the poorest areas of the world were becoming kidney warehouses of sorts and South Africa a transplant tourism destination.

At one conference, Scheper-Hughes was accused of lying and was shouted down.

But now, South Africa's most prestigious private health care group, Netcare, is at the centre of criminal proceedings focused on this spectacularly lucrative trade.

The proceedings have attracted worldwide publicity and will fuel international debate surrounding the sale of organs by living donors.

Scheper-Hughes advocates tighter measures to combat and prohibit the sale of organs, arguing that people who sell their organs are exploited victims of poverty and desperation.

Tragedy

"The division of the world into organ buyers and organ sellers is a medical, social, and moral tragedy of immense and not yet fully recognised proportion," said Scheper-Hughes.

But, in the UK, a growing number of kidney specialists who previously condemned the idea of selling organs, argue that payments to living donors – controlled to

avoid exploitation – might be the only way to solve the global shortage of human organs and counter the black market trade.

They argue that it is futile to try to stop this illegal trafficking of kidneys, that desperate people will not be deterred by laws and that it would be more sensible to create an ethical market in organs.

The only country where the sale of human organs is allowed is Iran.

Revulsion

A bioethics professor at the Open University of England, Janet Radcliffe-Richardson, further argues that the objections to the idea of regulated organ sales are based on an immediate gut reaction of revulsion and horror at the idea. She also says that objections on the grounds that regulated trade would exploit the poor do not hold up.

"They (victims of poverty) have too few choices open to them. So why do you go in and reduce their choices further, taking away their right to decide for themselves?" said Radcliffe-Richardson.

On related arguments that organ donation should be purely altruistic, Radcliffe-Richardson said, "If a father who saves his daughter's life by giving her a kidney is altruistic, it is difficult to see why his selling a kidney to pay for some other operation to save her life should be considered less so."

TOPIC: MONOPOLIES & UNFAIR COMPETITION PRACTICES

This Task focuses on the ethical debate surrounding monopolies and their potential to control and fix prices. You are provided with an article which appeared in the Business Report on 28 June 2005.

Required:

- Why is it necessary for the Government to intrude with regard to monopolies?
- What can the Government do to keep prices under control?
- What is your opinion on the SAA case? Do Comair and Nationwide Airlines have a valid complaint?
- Is paying bonus commissions the same as a bribe? Explain.

State to crack down on monopolies

By Andile Ntingi June 28, 2005

Johannesburg - The Government was poised to crack down on South Africa's monopolies and cartels by raising the level of competition, while stimulating development in the downstream industries, trade and industry minister Mandisi Mphahla said yesterday.

In a veiled reference to firms such as Telkom, Mittal Steel South Africa (which dominates the steel industry) and Sasol (the petrochemicals group) Mphahla said the Government would work towards bringing direct competition to these local giants to force them to lower the prices that they charged their customers.

The banking industry, which is dominated by four big lenders, is another sector that is on the radar screens of the competition authorities because of its perceived steep fees.

"The Government intends sending a strong message to all sectors and firms in the economy that there must be increased competition to promote the growth of downstream and value-adding economic activity, which holds the key to a sustainable and job-creating economy," said Mphahla. "In particular, the Government is focused on lowering the costs of key resource-based inputs and telecommunication prices."

To prevent the high concentration of pricing power, Mphahla said a concerted effort would be made to strengthen competition laws and to eliminate the controversial import-parity pricing model that compelled downstream industries to pay exorbitant prices for key inputs such as steel and chemicals.

In many respects, the dominance of the steel and chemical sectors by a few large companies is responsible for stifling development in downstream industries such as construction, plastics, rubber and paint, most of which are labour intensive.

Complaints have been levelled by downstream manufacturers against Sasol and Mittal Steel South Africa for using the import parity pricing mechanism, which they say is responsible for inflating prices.

An import-parity price model is based on a practice of fixing the price of a domestically produced good to be equivalent to that of an imported product. In other words, shipping costs and import tariffs are added to the price of a home-made product, to make it equal to the price of an imported good.

Mphahla said the strategy of reducing costs for manufacturers would be accompanied by the provision of specific incentives to assist struggling downstream industries.

Earlier this month, Lumkile Mondli, the chief economist at the Industrial Development Corporation, told Business Report that one of the reasons South Africa failed to attract meaningful foreign direct investment was the high barriers to entry in some of the domestic industries.

Mondli said a plan that slashed transport, energy and telecommunications costs would crowd in investment and boost economic growth and employment.

Increases in the cost of essential inputs such as water, electricity and telephones often ran above the country's inflation target of between 3% and 6% a year. In some instances, these high costs were responsible for sucking the life out of manufacturers already struggling from the impact of the strong rand and increased import competition from Asia's low-cost producers, such as India and China.

SAA appeals tribunal ruling *By Adele Shevel* 21 August 2005

South African Airways (SAA) lodged an appeal with only a few hours to spare on Friday against the R45-million fine imposed by the Competition Tribunal for abusing its dominant position in the local airline market.

SAA has appealed both the Tribunal's finding and penalty. The carrier had until close of business on Friday to appeal against the ruling, though it had said at the outset it would appeal.

The fine is the biggest ever handed out by the Tribunal. It found that the incentive schemes offered by the airline were unlawful and a prohibited practice. The abuse of dominance relates to two incentive schemes for travel agents that SAA operated.

The first involved a system whereby agents were paid a bonus commission if they made sales above a certain specified target. The other involved rewarding travel agency staff with SAA tickets on the number of airline tickets they sold.

I-Net reports that the Tribunal found the schemes gave agents a commercial incentive to sell tickets of SAA in

preference to those of its rivals and that they were able to influence customer preferences in that regard.

Complaints over the incentive scheme were received from Comair and Nationwide Airlines. The case follows a complaint lodged by Nationwide in 2001. According to I-Net this entitles the two affected airlines to proceed with a civil claim against SAA in the High Court – if they can prove that they suffered damages as a result of the abuse during the relevant period.

The appeal from South Africa is all-encompassing, taking on virtually every aspect of significance, from the Tribunal's definition of the market to its finding of abuse and the fine itself.

Meanwhile, Shan Ramburuth, the acting commissioner at the Competitions Commission, says: 'The commission will consider cross-appealing the Tribunal's decision with respect to the penalty. We would argue that it's too low.' The Competition Appeal Court will determine a date on which to hear the appeal.

TOPIC: PRICE FIXING

This Task focuses on the ethical debate surrounding price fixing. You are provided with an article which appeared in the Business Report on 10 June 2005.

Required:

- What is the nature of the investigation into the car industry?
- Why is the Competition Commission concerned about this?

Car industry group meets competition commission meets *By Roy Cokayne* June 10, 2005

Pretoria - National Automobile Dealers' Association (Nada) representatives met officials from the competition commission yesterday, following the release last week of the findings of the commission's investigation into the motor industry.

Gary McCraw, Nada's executive director, declined to comment further until the organisation had received feedback from its legal advisers.

Major dealership groups have also been coy in their reaction to the commission's findings.

Brand Pretorius, the chairman of McCarthy Motor Holdings (MMH), said the company was awaiting guidance from its suppliers.

Pretorius referred to the consent order agreement reached last year between Toyota South Africa and the commission, in which Toyota South Africa agreed to pay an administrative penalty of R12 million and discontinue minimum resale price maintenance, a euphemism for price-fixing. He said Toyota South Africa handled this matter on behalf of its dealers.

"We will co-operate fully [with the commission] and should there be any specific allegation against McCarthy dealers, these allegations must be substantiated because we have no information at our disposal about this," said Pretorius.

Teresita van Gaalen, the managing director of Subaru South Africa, said all the company's dealers had received letters from the commission about their referral to the competition tribunal.

She reiterated that Subaru South Africa was "absolutely unaware" of having being involved in any anti-competitive practices and intended to defend itself at the tribunal hearing.

The commission said last week that evidence revealed that BMW South Africa, DaimlerChrysler South Africa, General Motors South Africa, Nissan South Africa and Volkswagen South Africa and their dealers entered into franchise and dealer agreements that contained a number of restrictions on competition.

A decision in this regard on the Ford Motor Company of Southern Africa still has to be finalised by the commission.

Why are cars in South Africa so outrageously overpriced?

June 2, 2005

The price-fixing by car makers is just one aspect of our motor industry that should be investigated, from CB Rogers, Durban.

More important would be an investigation into why our cars are so outrageously overpriced. To give just two examples: When my nephew emigrated to Australia, he bought a new car that was imported into Australia from South Africa. He was amazed to find that its price was R55 000 less than in South Africa.

One does not have to be an economist to see that there is something fundamentally wrong here. How is it that this car, which is assembled in South Africa from components manufactured in and transported all the way from Japan, can be transported back across the world to Australia to be sold at such a vastly cheaper price?

The second example concerns the Smart car, but it applies to most other cars in the UK. Some time ago, my daughter in the UK considered buying one of these cars. At the time, the cheapest model was priced at just over £6 000 (R74 495). Just why then are we asked to pay R122 000?

It can't be transport costs, because these apparently don't feature in our car exports to Australia. So, is it all Government tax or is it simply greed?

Isn't it about time someone challenged the greedy car manufacturers and produced a local "people's car" at an affordable price?

CB Rogers, Durban

TOPIC: MONEY LAUNDERING

This Task focuses on the abuse of money-laundering.

You are provided with an article which appeared on the Internet on 28 June 2005.

Required:

- What is money-laundering?
- Why is it necessary for countries not to gain a reputation for being open to money-laundering?
- In your opinion, is the US Government justified in banning the banks suspected of money-laundering, or have they over-reacted? Explain.

US moves to scrub out money-laundering banks

August 25, 2004

Washington - The United States has moved to banish from the country two foreign banks suspected of helping the Iraqi regime of Saddam Hussein, before its ouster last year, launder money siphoned from the UN oil-for-food program.

The Treasury Department on Tuesday formally designated Infobank of Belarus and First Merchant Bank, operating in Turkish-controlled northern Cyprus, as institutions of "primary money laundering concern," which effectively shuts them out of the US financial system.

The designation means the targeted banks cannot maintain any correspondent accounts in the United States, a key tool for conducting business in the country. In addition, US banks have been instructed to keep an eye out for attempts by the two targeted banks to get access to the American market through intermediaries.

"Today's designation alerts the global financial community of the threat posed by these entities," Treasury Undersecretary Stuart Levey said in a brief statement.

"It also serves notice to others that there will be significant consequences for institutions that launder tainted

money or engage in similar corruption: we will cut you off from the US financial system."

The action against Infobank is seen as an implicit warning to Belarus President Alexander Lukashenko, who is reported to have close ties to people running the privately-owned bank his Government licensed to engage in foreign exchange transactions.

US officials believe Infobank was at the heart of a scheme run by Saddam Hussein and his closest associates to use the oil-for-food program to extract bribes from foreign contractors, impose illegal surcharges on them, and plainly smuggle out oil in violation of UN sanctions.

The former Baghdad regime was able to pocket that way \$10.1 billion (R67.6 billion) between 1997 and 2002, according to US congressional estimates.

Infobank helped the Government of Saddam launder these profits through several other foreign banks and shell corporations, treasury officials said, and then return them to the Iraqi Government, which used the proceeds to purchase weapons or finance military training.

First Merchant Bank has been used as a conduit for the laundering of fraudulently obtained funds, the officials said.

In addition, the individuals who own, control, and operate it have links with organised crime and apparently have used First Merchant Bank to launder criminal proceeds, according to US Government data.

US officials declined to say whether the Cyprus-based bank had played any role in the scheme to scam the UN program.

The oil-for-food program was launched by the United Nations in late 1996 in response to criticism that Gulf War-

era UN sanctions were hurting more the Iraqi people than the Saddam Government.

It allowed limited UN-supervised sales of Iraqi oil on condition that the proceeds would be used to purchase food and medicine for the Iraqi people.

But the program is now under investigation for allegations of massive bribery as Iraqi officials demanded kickbacks from eager contractors, and UN controllers appeared to be looking the other way.

The US administration - as well as the United Nations - are under strong pressure from Republicans in the US Congress, who are successfully pushing through legislation that would withhold 10% of US dues to the world body in the next fiscal year, if the probe does not move forward. – AFP.

TOPIC: EMPLOYING ILLEGAL IMMIGRANTS

This Task focuses on the debate concerning employing illegal immigrants. You are provided with an article which appeared in the Business Times on 31 July 2005.

Required:

- Why would a business want to employ illegal immigrants?
- Why does the Government feel it is necessary to control employment of immigrants?
- What is a quota?
- In your opinion, is this a good policy by the Government? Explain.

Employ illegally and go to jail

Government toughens immigration penalties - By Gaenor Vaida 31 July 2005

South African companies employing foreigners need to ensure that they obtain the right working visas – or heads of companies could find themselves behind bars.

Zahida Ebrahim, an associate in the immigration law unit at Sonnenberg Hoffman Galombik, says that under the amended Immigration Act, companies that are first-time offenders face a fine or a jail sentence up to a year – for the individual responsible for running the business.

Second offenders face a fine or jail sentence up to two years, while third-time offenders face mandatory jail time of up to three years.

The Government has been criticised for the difficulties companies have in bringing in foreign skills, even when

there is a known shortage of a particular skill.

Ebrahim says that the amendments to the Immigration Act have sought to open the door to foreign skilled professionals. "The Government's objectives in this regard are laudable and the changes to the Act are indeed promising," says Ebrahim.

For example, the 2% remuneration penalty is lifted. Employers previously had to pay it when hiring foreign professionals. Now quota permits are a set number of permits which are issued for specific positions in particular market sectors, generally where skills have been identified as scarce.

Article shortened

TOPIC: QUALIFICATIONS FRAUD

This Task focuses on the problem of qualifications fraud. You are provided with an article which appeared in The Business Report on 4 October 2004.

Required:

- Why would people lie about their qualifications?
- Why is it necessary for the Government to intrude in this matter?

- If you were employing a person on the strength of his qualifications, what would you do to be sure of the person's qualifications?

Government to weed out qualifications cheats

October 4, 2004

The Government is devising new guidelines to deal with qualifications and other credential cheats, a seminar on qualifications fraud in the workplace heard this week.

Public Service and Administration Department anti-corruption specialist Maphethang Fulo said plans were well advanced for the public service to verify the credentials of all new employees.

Once implemented, the new guidelines would require all Government departments to check all the documentation of incumbents prior to appointments being finalised.

"At present there is no uniform policy in place which means that some departments check documentation only after an appointment has been made, while some check ahead of time," she told the seminar organised by credentials verification company Kroll MIE.

Another programme in the pipeline was to link corrupt employees to the Government's PERSAL payment system.

"Once the anti-corruption measure has been implemented, individuals found guilty of corruption will be tracked through the Government's PERSAL payment system. It will ensure that everybody within the service is aware of that individual's previous transgressions related to bribery and corruption."

Speaking at the same seminar, DeLoitte legal senior partner Murray Dicks said employees who had secured

their position with bogus qualifications could be sued by their employers for damages on the basis of misrepresentation. In addition, it was relatively easy to dismiss them following established procedures because they had lied about their qualifications. The courts had determined that checking the credentials of a job applicant was perfectly legal, Dicks said

Leon Esterhuysen, a forensic document specialist, said forgeries were widespread and that employers should verify documents' validity.

A variety of means were used to tamper with documents, including the use of chemicals to remove the ink from documents such as degrees and diplomas prior to them being altered to suit the ends of the forger, Esterhuysen said.

Kroll MIE marketing manager Elmarie Liebenberg said more than one in ten of all job applicants lied about their qualifications.

"There is growing pressure on job applicants to cheat because of widespread unemployment." Liebenberg said the quality of many forged or fraudulent qualifications was such that it was impossible for a human resources manager to tell whether it was the real thing or not. – Sapa

This article was originally published on page 3 of The Cape Times on October 04, 2004

TOPIC: MISLEADING ADVERTISING

This Task focuses on the misleading advertising.

You are provided with an article which appeared in The Business Report on 18 July 2005.

Required:

- Why was it necessary for the Consumer Affairs (Unfair Business Practices) Act to be applied in this case?
- Have you had any personal experience of misleading advertising? Explain.
- In your opinion, should penalties be applied to businesses which mislead customers through false advertising, or should the buyers be more vigilant?

Government probes cellphone ads

By Roy Cokayne July 18, 2005

Investigation launched into work-from-home offers that target poor consumers

Pretoria - The Department of Trade and Industry is investigating allegations of misleading advertising by cellular companies related to monthly costs. The investigation, by the Consumer Affairs Committee, has been launched in terms of the Consumer Affairs (Unfair Business Practices) Act.

Cellphone call prices are already under the scrutiny of the Independent Communications Authority of South Africa (Icasa), and the regulator has launched an inquiry

into the handset subsidies operators give customers who sign a long-term contract, which Icasa believes prevent consumers from switching networks.

Today Icasa is due to release a discussion document for public comment on pricing by cellphone operators.

Ebrahim Mohamed, the director of consumer investigations at the trade and industry department's Consumer Affairs Committee, said on Friday that the investigation

was partly in response to complaints about the practices of cellular operators.

He said it was difficult to say how long the investigation would take. Cellular service providers and interested parties had been invited to comment, and the committee would draft a report once they had all commented.

The operators had had "a free rein for far too long", and it was a good thing that the authorities were "now starting to rein them in", said Webber.

Mthobi Tyamzashe, Vodacom's communications director, said the company would respond to the invitation to comment, but was still trying to formulate its position. Ravin Maharaj, MTN's media relations manager, was unable to comment.

An investigation into "work-from-home opportunities" advertised in newspapers, magazines and other media has been launched by the Consumer Affairs Committee at the Trade And Industry Department under the Unfair Business Practices Act.

A notice in the Government Gazette said the "opportunities" to be investigated included, but were not confined to, typing, addressing envelopes and labels, filling envelopes, gathering names and addresses, administrative opportunities, compiling data and direct sellers of consumer goods "who did not truthfully identify themselves, the firm and their products in any advertisements".

Ebrahim Mohamed, the director of consumer investigations at the Consumer Affairs Committee, said on Friday that the committee had received complaints about work-from-home opportunities.

"We had done certain specific investigations ... and there have been one or two prohibitions. "We are calling for comment so we can be further informed and take the matter from there," said Mohamed. Ray Webber, the spokesperson for Communication Users' Association of South Africa, was not aware of the investigation but welcomed it.

He could only assume it involved special deals in which customers were offered a phone at R35 a month but where the price increased after a year and consumers had to have itemised billing and caller identification. He said it was interesting that the Government and Icasa were "all initiating things to clip the wings of cell operators. "But we've decided to do a general investigation. These work-from-home opportunities occur across the country in all the provinces.

They affect poor rural consumers who don't have jobs and are keen to get involved to get a living to sustain their families but are faced with problems and lose their money," he said.

TOPIC: STRIKES, REMUNERATION & SALARIES

This Task focuses on the wage gap.

You are provided with an article which appeared in The Business Report.

Required:

- Why was it necessary for the Consumer Affairs (Unfair Business Practices) Act to be applied in this case?
- Have you had any personal experience of misleading advertising? Explain.
- In your opinion, should penalties be applied to businesses which mislead customers through false advertising, or should the buyers be more vigilant?

Why it matters what directors are paid

By Riedwaan Baboo June 13, 2005

Cape Town - The average fee earned by executive directors, excluding gains from share options, increased from an average of R2.6 million in 2003 to R3.7 million last year. This amounts to a 38% increase.

In 2003 it took a worker earning the average minimum wage 111 years to earn what the average director earns in one year. With the huge increase in executive directors' fees last year, it takes that same worker 150 years to earn the average annual fee of a director.

This emerges in the latest directors' fees survey conducted by the Labour Research Service and it is a trend that should be of concern to organised labour, corporations and the Government as well as civil society.

For organised labour, this earnings differential exposes the huge income inequality within the workplace. This

information is important for workers as they continue to challenge the growing wage gap within their workplaces.

Directors' excessive remuneration should matter to corporations as this elitism is not sustainable in the long run. Despite the importance of wage income for households, companies insist on keeping wage levels depressed. This clearly indicates that not all the interests of its stakeholders are regarded as equally important.

The excessive remuneration of directors should indicate to shareholders that the current notion of corporate governance and corporate social responsibility as vehicles and mechanisms for corporate transformation is defective.

It has been unable to change corporations into "responsible citizens". There needs to be a serious reappraisal of this framework.

Telkom chief executive Sizwe Nxasana tripled his remuneration last year while thousands of workers were retrenched. Why must workers continue to bear the burden of a drive to maintain profit margins?

Surely, given the context of high unemployment and widespread poverty, retaining workers and job creation must be a performance criterion for directors.

Mittal on thin ice with pay committee **By Renée Bonorchis** **June 22, 2005**

Johannesburg - While most remuneration committees are typically made up of three to five people, Mittal Steel South Africa's committee had just one local director, according to its latest annual report.

Last year the committee, made up of non-executive directors Khotso Mokhele and Aditya Mittal, held five meetings. Mittal attended none of them. A footnote indicates that Mittal, "with the committee's consent", appointed a director of the company to participate on his behalf. This director is not named.

This flies in the face of the JSE Securities Exchange's listings requirements, which call for the names of the remuneration committee members to be disclosed. When asked, Mittal Steel South Africa said Aditya Mittal had named one of the company's foreign directors, Inder Dalia, to act on his behalf. Dalia had "mostly" attended meetings by telephone.

The JSE further asks for the committee's mandate and the number of meetings held to be disclosed. The

company complied with these requirements and indicated that the committee, which was arguably understaffed, had a broad and difficult mandate to fulfil.

"The committee is primarily responsible for assisting the board on human resources and remuneration policies, succession planning and the appointment as well as terms and conditions of service of the executive directors, and other members of senior management," the

There's no economic logic behind remuneration **"I can find nothing in economic theory that justifies this development"** **By Ann Crotty** June 22, 2005

It seems that the market for top retail executives clears at a package of about R100 million. And if you were in the market for a top executive for one of the big banks you'd have to be offering a package of about R60 million.

Maybe what you could do if you wanted an executive for a big group of shops or banks is recruit several top executives from the media sector, where they are currently on special offer at a fraction of the price, then reskill them so that they'd be able to deal with irate customers rather than irate newspaper readers.

It should matter to the Government because the excessive remuneration of directors undermines and delays the democratic transformation of our society. Corporations need to be regulated so that they act in the interests of all stakeholders.

It should be important to the broader civil society because it reflects that the current economic framework is unable to reign in "crass capitalism", which entrenches and exacerbates inequality.

Article shortened

annual report noted on the remuneration committee's mandate.

The King 2 Code on corporate governance does not dictate the number of directors who should sit on a remuneration committee.

Charl Kocks, a director of CA-Ratings, the local agency that offers corporate governance ratings, said there was no clear answer when it came to how large or small this committee should be.

He said the remuneration team was particularly important because "unfortunately, the modern practice is for directors' remuneration [and that of senior management] to be determined before the shareholders opine on the directors' remuneration at the annual general meeting".

"[It] makes no logical sense, yet so it is. And it is, in labour law terms, difficult to get a refund from someone who has already spent it on the fourth Rolls-Royce.

The basic problem is that people are potentially deciding on their own salaries using other people's money." Kocks said that since the remuneration committee needed to be made up of people considered wise, tough, independent, free of bias and more, "the number of people on the committee will be equal to or less than the suitably qualified directors available".

Article shortened

You could buy enough of them so that if a few didn't make the grade in their new executive environment they could be left by the wayside and you'd still be ahead by tens of millions of rands.

That's of course assuming that you haven't got one of those media executives with a Koos Bekker-type remuneration package that runs to the hundreds of millions of rands.

As you can probably see, try as I may, I cannot work out the economic logic behind the dramatic surge in executive remuneration over the past five years. Should we assume that previous generations of top executives were grossly underpaid? Or that suddenly the job of top executive has become hugely more demanding? Or that in recent years the supply of people who could fill these jobs has all but dried up?

According to those in the know, you can express as much indignation as you like about the multimillion-rand packages, but they are here to stay and in fact will inevitably increase in line with "market forces". Because we are told these packages are the result of vigorous investigations of the market for top executives and these are the sort of remuneration levels at which the supply of executives matches the demand.

But does this mean that if the Shoprite board was to offer someone an option package worth an extra R27 million, or 20% more than Whitey Basson's option package, which has a current value of roughly R135 million, that Shoprite would be assured of getting 20% more value from its top executive? And how would the board measure that value? Additional earnings growth this year? Next year? Six years hence? A stronger share price this year? Next year?

If Basson was given 20% less, would he cut back his efforts by 20%? And would Shoprite's earnings and share price drop by the same amount?

It is very possible that in a number of instances - perhaps Pick 'n Pay's Sean Summers or Edcon's Steve Ross - the share price would take a considerable knock if the top executive departed, as would the profit performance, at least initially.

This possibility should raise concerns about the need to make succession planning more public. Mind you, highlighting the existence of replacements would take from the aura of unique ability that is often used to justify the payment of these huge packages.

In my lack of understanding of this gravity-defying remuneration situation I take some comfort from comments made a few years ago by William McDonough, the former president of the New York Federal Reserve Bank.

"I can find nothing in economic theory that justifies this development. I am old enough to have known the chief executives of 20 years ago and those of today. I can

assure you that we chief executives of today are not 10 times better than those of 20 years ago."

I'd suggest that for half of what he is getting, Summers, who is an extremely talented, driven and committed executive, would pitch up for work at Pick 'n Pay. As would most of the other top corporate executives.

It may not be greed that drives top executives to horde such huge packages so much as the principles of comparative economics, better known to us as the economics of envy.

Thus Summers' remuneration committee and the attendant remuneration consultants believe that he should be getting at least as much as Basson, who in turn should be getting at least 10% more than ... and around and around it goes.

Perhaps the most important consideration is that, by virtue of the fact that they effectively control the remuneration-granting process, these guys get large packages ... because they can.

This is what makes them different from the rest of us. The rest of us may also be greedy but we are largely ineffectual.

For instance, there would be little point in my retaining the local remuneration consultants, "Options R Us", to come up with a detailed justification for a million rand package for me.

It wouldn't get beyond my editor. She would laugh and remind me of the vow of poverty we journalists take and not even bother to pass it on to someone who might pass it on to one of the lowliest of the members of the Independent Newspaper Group's remuneration committee.

By contrast, being effectual and being a chief executive means that you don't have to bother with these mundane hurdles. And you certainly don't have to worry about shareholders getting involved.

Given their short-term fixation, these shareholders are only too happy to rubber stamp any remuneration cheque and will certainly not bother to look for the underlying economic logic that might explain supply and demand in this particular market.

Wage gap deepens grievances and weighs on the economy

By Alide Dasnois August 1 2005

Highveld Steel chief executive Andre de Nysschen was admirably frank last week about his company's wage policy.

Solidarity and the National Union of Metal Workers of South Africa (Numsa) rejected the offer of a 5.5% pay increase, arguing that with Highveld's profit for the six months to June likely to be as much as 78% higher than last year, the company could well afford the 8% increase they wanted.

But the strong results, De Nysschen said, came from improved market conditions and not worker performance. "The good numbers obviously belong to the shareholders," he said.

This argument has a certain seductive symmetry. Whatever the question, the answer is the same. In a bad year, well, the shareholders obviously can't afford

to pay the workers much. In a good year, "obviously" the good numbers belong to the shareholders.

But as long as this argument does not apply to directors too, workers are unlikely to find it convincing.

Directors at Highveld Steel are not outrageously well paid like some of their counterparts in, say, banking or mining, as the series on executive pay by Ann Crotty and Renée Bonorchis in Business Report this year has shown. And Highveld does have an explicit policy of incentive-based rewards "earned through the achievement of demanding performance conditions consistent with shareholder interests over the short, medium and long term", as the annual report explains.

But, though R5 million of this was paid through a long-term incentive plan rather than as salary, total payments to executive directors at Highveld Steel still jumped about 40% between 2003 and 2004, from R10,7 million to R15,3 million.

Unsurprisingly, this has not escaped the notice of the trade unions.

And it's not only at Highveld Steel that workers are scrutinising executive pay with increasing interest. In the latest round of wage negotiations from Eskom to Pick 'n Pay, the pay packages of the top men (and a few women) are attracting more and more attention from their employees.

Pay workers more; they're the primary source of profit

By Terry Bell July 22, 2005

The Pick 'n Pay strike threatened for today has brought to the fore important questions of profit, productivity, and the wage and welfare gap.

Productivity, in particular, is one term much bandied about these days. It is generally said to be the key to affluence. Yet what exactly does it mean, whose affluence is being talked about and what is the effect on labour relations?

Like so many statistical references, productivity can become mired in the verbal mumbo jumbo employed by statisticians and economists.

But in simple terms, it means the level of output of the various factors of production: land, labour and capital.

This is usually reduced, since the costs of land and capital are usually subtracted, to the level of output per worker employed. And output, in its turn, is usually measured by profit accruing.

In other words, for most purposes - and certainly in the retail trade - productivity is the measure of how much profit each worker produces for any given enterprise - a calculation made by dividing the total profit by the

Clearly, workers feel cheated when executive pay increases far outstrip their own and outraged when people who already earn millions of rands a year are awarded even more millions through share option schemes.

But is moral outrage the only reason for the call to narrow the gap between the best-paid and the worst-paid?

No, says Cosatu's Neil Coleman. Redistributing income from executives to workers is an economic imperative. This is because workers spend a bigger proportion of their income than executives do on goods produced in South Africa, stimulating demand, and because, as part of a training programme, higher wages unleash productivity.

Narrowing the income gap is a social imperative because, in a country with high unemployment and not much of a social security net, far more people depend on the wages of each worker than on the salary of each executive. And it's also a moral imperative, he says, because no arguments about skill or scarcity can justify huge pay packets alongside so much poverty.

So what would be an acceptable differential? A ratio of something like seven to one, from the top earner to the bottom earner, could be a very long term goal, says Coleman.

Gasp. Under present conditions that would mean the Pick 'n Pay's Sean Summers would get about R138 040 a year instead of the roughly R10,7 million he was paid last year.

number of employees. How much this ratio rises or falls is the indication of a rise or fall in productivity.

This has a direct bearing on labour relations, and on the perceptions of workers and their unions. For here is the root of the growing wage and welfare gap.

Productivity in South Africa has increased fairly rapidly and more wealth has been created nationally. At the same time, jobs have been shed in record numbers.

Fewer workers are producing more profit. Highly profitable companies have employed more workers, but profits have risen at an even faster rate, with the result that productivity records arise.

Shareholders and company bosses tend to take a keen interest in such calculations. So too do trade unions and their members.

For, as unions argue, with justification, it is workers who are the primary source of profit and productivity. In this they are in accord, not only with Karl Marx, but also with the great liberal economists such as Adam Smith and David Ricardo from whom Marx took the labour theory of value.

Within the labour movement, there is a perception that the country's low-paid workers are handed relative crumbs in wage rises, even when profits soar.

On the other hand, disproportionate portions of profit seem to be creamed off into the pockets of directors and managers.

What is particularly irking to the unions is that increases in profit are usually used as justification for further fattening the annual packages of company directors and managers.

But Business Report has shown bosses are capable of increasing their remuneration even when profits, let alone productivity, fall. However, any fall in profit is almost always used as justification for freezing or lowering the wages or wage rises of workers.

It is against this background that the threatened strike of Pick 'n Pay workers should be seen.

This major retailer has a relatively good reputation in terms of labour relations and has responded to the strike threat by pointing out, correctly, that it is one of the highest payers in its sector.

The company also points out that more than a quarter of its 32 089 full-time employees also own shares or have share options in the company. The higher up the corporate ladder workers climb, the more their shares and options.

But this is a low-paid sector and it is one in which Pick 'n Pay has made steadily increasing profits. From 2003, the

operating profit has grown from R734 million to R1.015 billion this year, a 38% increase in three years.

This year's annual report reveals that the operating profit increased by 22% from the R834 million recorded last year. This means that each of the company's 32 529 permanent and casual workers was responsible for more than R31 000 of profit.

The workers' demand is for a pay rise of R400 a month across the board. The company has responded with an offer of R310.

As Mduduze Mbongwe, the South African Commercial Catering and Allied Workers' Union deputy general secretary, points out, the improvement in profitability was used to justify a 19% increase in the remuneration of chief executive Sean Summers.

This seems to bring his annual pay packet up to R12 million. It also resulted in the company declaring a 20.8% dividend to shareholders, the bulk of whom are in the higher-paid, upper reaches of management.

In contrast, the union's flat rate demand would add only R3 million more per month to the company's wage bill than the chief executive's annual package. In fact, the total annual cost of the union's flat rate demand would be little more than R156 million.

Deducted from the operating profit last year, this increase would leave the company with an operating profit of R858.8 million. Given these facts, the workers and their union see their demands as almost too fair.

Pick 'n Pay urged to stand firm
"20 000 workers can't dictate to a population of 44 million"
By Dirk De Vynck July 25, 2005

Cape Town - If Pick 'n Pay gave in to workers' unrealistically high pay demands, it could have a detrimental impact on South Africa's inflation, analysts said on Friday.

Members of the South African Commercial, Catering and Allied Workers' Union (Saccawu) went on strike on Friday, affecting about 150 Pick 'n Pay stores. Yesterday there was no sign of an end to the strike.

The retail chain is offering workers a 7.9%, or R310, a month increase, whichever is greater. But Saccawu is demanding an increase of 12%, or R400, a month, whichever is greater.

Evan Walker, retail analyst at Andisa Securities, said although a protracted strike could have a negative impact on Pick 'n Pay's profits, the issue stretched much further.

"Adhering to the union's wage demands could necessitate Pick 'n Pay to pass on the extra cost to consumers, as management's ultimate job was to make returns for shareholders," Walker said.

Naturally, higher prices would lead to accelerated inflation, which was to the detriment of all South Africans.

"Pick 'n Pay's management had to defend their position for the benefit of the whole country," Walker stressed.

If the retail group were to give in to Saccawu's demands, it could cause a ripple effect with not just other food retailers, but other industries. Walker said the acceptance of the union's demands would also set a precedent for next year's negotiations.

"If it is 12% this year it could just as well be 12% next year. This is unrealistic and could lead to the whole country bearing the brunt of it. Twenty thousand workers can't dictate to [a population of] 44 million," Walker said.

John Loos, a senior economist at Absa, said were Pick 'n Pay to give in to a 12% pay hike, there could be two possible scenarios. For one, the increased labour cost could be passed on straight to the consumer, which could push up inflation. The other option was for the retailer to cut back on staff.

Sean Summers, Pick 'n Pay's chief executive, said Friday's disruption by union workers at nine stores, which included attempts to illegally barricade and prevent entry to these stores, had cost the group R24 million in turnover on the day.

Pick 'n Pay and Saccawu have been in talks for seven months, during which the union has not moved R1 from their starting point, while Pick 'n Pay moved from its initial mandated offer.

Summers noted that Saccawu had accepted R300 and no percentage increase from Edgars, while Shoprite Checkers had offered R210 against the union's R285 demand.

Pick 'n Pay shares closed down 0.75% on Friday at R26.30.

The food and drug retail sector closed up at 1.66%.

TOPIC: REMUNERATION

This Task focuses on the transparency in determining remuneration policy in a business. You are provided with an article which appeared in the Business Report on 3 July 2003.

Required:

- In your opinion, are the requirements by the Johannesburg Securities Exchange a step in the right direction? Explain.
- Why is it necessary for South Africa to ensure that its standards are higher than those of other major countries?
- What prompted other securities exchanges (bourses) in the rest of the world to follow the JSE in its approach?

Nowhere to hide for company bosses

By Vernon Wessels July 3, 2003

Johannesburg - Directors on the boards of JSE Securities Exchange-listed companies could take it for granted that new requirements would force disclosure of all payments made to them, Russell Loubser, the chief executive of the bourse, said yesterday.

The JSE's tougher listing requirements, due to take effect in September, attempt to close loopholes on disclosure for all kinds of emoluments that could be made to non-executive and executive directors.

This would include share options, directors' fees, basic salaries, bonuses and performance-based payments, expenses, material benefits, contributions and all other emoluments made from the holding company, subsidiaries, associates, joint ventures or related entities.

The JSE has expanded the listing requirements to enforce some of the principles in the King 2 Code on corporate governance, including the splitting of the position of chief executive and chairman.

Other requirements will include the appointment of an audit and remuneration committee, consisting mostly of non-executive (and preferably independent) directors as well as a risk committee, depending on the nature of the business and board structure.

No director may trade in the company's shares between the financial year-end or interim period until the results have been made public, or while the company is under a cautionary.

It was necessary to incorporate the code in the listing requirements because South Africa, as an emerging market, needed to ensure its standards were higher than those of developed countries to attract more investment, he said.

When the JSE introduced its proposals to a major global bourses meeting in July last year, they were met with amusement, but this quickly changed following the collapse of Enron and Accounting scandals at firms such as WorldCom, Loubser said. More stock exchanges are now adopting the JSE's approach.

"The JSE has an added responsibility as the largest exchange in Africa and the only one on the continent represented on the World Federation of Exchanges to businesses and the greater African financial community," Loubser said.

Firms with a year-end on or after September would need to comply with the new requirements. William Frater, a senior analyst at Frater Asset Management, welcomed the JSE's attempts to align the listing requirements closer with the principles of King 2.

The remuneration policy of a company, however, should be put to the vote at the annual general meeting so that payment packages for top executives were approved by shareholders prior to payment, he said.

TOPIC: HIV / AIDS

This Task focuses on the ethical debate surrounding HIV/AIDS. You are provided with an article which appeared in the Sunday Tribune on 14 August 2005.

Required:

- Should it be a responsibility of businesses to have plans or initiatives for HIV/AIDS?
- What is your opinion on testing for HIV/AIDS in the workplace?
- Is this necessary or is this an invasion of privacy? Explain.

Big firms on the cutting edge of HIV testing and treatment *By James Macharia*

Johannesburg – When Martin Vosloo told his colleagues that he was infected with the virus that causes Aids, some spat in his face and threatened to kill him.

That was about six years ago, soon after Vosloo, 48, joined South Africa's power utility, Eskom. "They spat in my face. I was called names and on two occasions I had to flee because I was threatened with death," said Vosloo, a healthy-looking white South African.

Social stigma and denial are major challenges in the fight against the disease in South Africa, the country with the highest number of people living with HIV/Aids in the world. Years on, the hostility is fading for Vosloo, who now leads a support group for HIV-infected workers at Eskom, where about one in 10 of the 30 000 workers is infected with the virus.

Several big firms, such as Eskom, De Beers, the world's biggest diamond producer, and mining company Anglo American have in the past few years stepped up efforts to test their workers for HIV, and treat infected staff in a bid to save their bottom lines. They say Aids hurts businesses as workers die, requiring others to be hired and trained. Sickness results in lost working hours. Most workers who die are in the 30 to 50 age group, when they are at their most economically productive.

New figures say more than 6,5 million of South Africa's 47 million people may now be HIV positive. Amid rising anger over a slow response to the disease, the Government launched an antiretroviral (ARV) campaign in 2003, the second largest worldwide after Brazil's.

But the drugs haven't reached many, and companies have had to help battle the disease. Eskom says it pays for ARV drugs for its HIV-infected workers and their infected spouses. De Beers does the same, even after the workers have left employment.

The power firm, which runs a testing and counselling clinic, ties performance bonuses for its managers on how many of their staff have visited its testing and counselling clinic.

Anglo says it aims to lift the rate of testing this year to 50% from 21% in 2004 for its South African workers. "Testing is key because early detection means loss of man hours due to sickness or death is minimised," says Brian Brink, Anglo American's senior vice-president in charge of health.

At De Beers, about 10% of staff, or about 1 000 workers, are infected with the virus. The Aids project is run in close collaboration with the miners' union. "De Beers is a model in the mining industry. No other company gives ARVs to its workers and their spouses even after they leave employment," says Archie Palane, the National Union of Mineworkers' deputy general secretary. "In other companies, when workers are found to have Aids, they become among the first to go when retrenchments come".

The New York-based Global Business Coalition (GBC), which groups 200 international companies fighting the impact of Aids, says Eskom, De Beers and Anglo are global trendsetters. About 40 South African firms have joined the GBC, including Barloworld, Telkom, SABMiller, Sappi, FirstRand, Old Mutual and Liberty Group, and many run similar Aids programmes for their workers.

"We are not yet doing enough to start winning the war, but Eskom, De Beers and Anglo American are at the very front edge of testing and treatment worldwide," says Richard Holbrooke, a former US ambassador to the UN and head of the GBC.

But the biggest challenge is being faced by small firms. "Most people in Africa work in businesses that employ less than 20 people, and these have no real programmes to deal with Aids. It's a complicated problem."

A recent survey shows most mid-sized South African firms are turning a blind eye to HIV/Aids despite forecasts that the epidemic is set to ravage the country's workforce. Just half of business owners surveyed have a formal strategy to tackle Aids and of those, over a third have no one to oversee that policy, the Grant Thornton 2005 Business Owners Survey shows. Shane, the owner of a car repair garage and petrol station, says he has few resources to tackle Aids amongst his staff of 15.

"I do not know their status and it's really not my problem," says Shane, who declined to give his full name and the name of his business. "Maybe if one falls ill we will know, but we've never had testing here," says Shane. Holbrooke says he has no immediate answers for small firms. But starting "opt out" testing where workers are routinely offered HIV tests – is an important step, he says. Those who do not wish to be

tested can always refuse, Holbrooke adds, citing Botswana where treatment numbers have jumped since 2002 after the country launched routine testing.

Challenging the myths about Aids and changing workers' attitudes through education are essential, says Vosloo. "I

guess the fact that I am white has also helped shatter myths, especially among black colleagues, that this is a disease for them. "I also prove one does not have to be skinny and have pimples all over the face to have HIV," Vosloo says. - Reuters.

TOPIC: CORPORATE RESPONSIBILITY

This Task focuses on *Transparency*. It also provides an opportunity to integrate your learning in Science and Geography.

You are provided with an article which appeared in the Business Report on 30 May 2005.

Required:

- Shell has been very transparent in terms of its corporate responsibility. In your opinion, does this create a good or bad impression of the business? Explain.
- Do you agree with the opinion expressed by the chief executive, Jeroen van der Veer? Explain.
- It appears that the company faces some ethical dilemmas. It acknowledges that it engages in some negative practices, i.e. certain 'blots on its report card'. Why would the company knowingly engage in these practices? Explain their dilemma. Which groups of stakeholders does this affect?

Extended Activity:

Place yourself in the position of the chief executive, Jeroen van der Veer. Using presentations in the form of a poster or PowerPoint, visually communicate the improvement in corporate responsibility issues to the directors and shareholders of Shell.

Shell spills less but bribery rises again

By Stephen Voss May 30, 2005

London – Royal/Dutch Shell, Europe's second-largest oil company, has reported fewer oil spills and worker deaths, no change in greenhouse gas emissions and a rise in bribes in an assessment of its corporate responsibility.

The company, which operates in 140 countries, spilled 6 600 tons of liquids in 2004, down from 6 700 tons in 2003. US offshore pipelines damaged by Hurricane Ivan spilled 1 500 tons alone, making it overshoot a target of 6 100 tons.

The growth of the energy companies in the decades ahead will depend on their ability to operate with integrity and to listen to "society's expectation," chief executive Jeroen van der Veer said in the Shell report published yesterday.

The report describes environmental and safety performance in 2004, a year when high oil prices focused attention on the world's reliance on polluting, fossil fuel energy sources.

The main blot on Shell's environmental report card was flaring of natural gas in Nigeria, which the company said it would not phase out until 2009, a year later than planned, partly because the Nigerian Government had been slow to pay its share in building gas pipelines. Its operation faced 9.2 million tons of gas, down 100 000 tons from 2003, but it missed a target of 9 million tons. Shell's greenhouse gas emissions were unchanged from a year earlier at 112 million tons of carbon dioxide equivalent.

The company aims to keep emissions of greenhouse gases at or below 117 million tons until 2010, which

represents a 5% reduction from 1990. Meeting that goal 'will depend on improvements in energy efficiency and, for a large part, on further flaring reductions.

Last year 37 people were killed working for Shell, down from 47 in 2003. Two were staff and 35 were contractors. Shell, which employs about 112 000 staff, used armed security in 13 countries, down from 16 countries in 2003. Six contractors were killed in incidents such as kidnappings last year, including five in Nigeria.

'Contractor safety in Nigeria and Russia pose a particular challenge,' the report said. Shell said it had 2.6 injuries per million working hours of employees and contractors in 2004, the same rate as the previous two years, and missing a target on 2.4.

More accidents at big construction projects in Nigeria, India and Russia offset fewer injuries at its US lubricants business. Shell staff or intermediaries paid or accepted 16 bribes last year, contravening its policy, the reports said. That was double the number in 2003, and four times the number for 2002.

Shell, which has a policy of not making political payments, said it made one mistake in 2004 when it paid a US industry association that contributed 10% to a political action committee.

Shell cancelled 64 contracts last year because they could not match its business principles, most often because of health, safety and environmental issues. Brazil and the US had the most contracts cancelled.

MODULE 2

OBJECTIVES, RESPONSIBILITIES AND CONTROL OF BUSINESSES

NOTE TO THE TEACHER:

Ethics and internal control should not be seen as stand-alone topics but should be integrated into all the different Modules and Tasks. As you work through the Tasks, in the book you will notice that several examples are used throughout the book. Sometimes, it is a question on its own or other times, it is part of a question. You are strongly urged to do these Tasks as well, as in the new Accounting curriculum learners are required to analyse and interpret to a great extent. This means that learners must continually be asking questions in any Tasks with special emphasis on ethics and internal control. So, for example, when you are covering Bank Reconciliation, discuss subjects like bank or ATM fraud and the ethics of what is taking place. Also discuss, what internal control mechanisms should be introduced into a business to prevent unethical situations from occurring.

Therefore, this Module, devoted to Internal Control should not be done as a full Module in class. The following is a suggested proposal as to how to integrate the Tasks in this Module into your other topics. Please remember that the best learning will be something current that the learners are able to relate to, so you are strongly urged to bring in as many current case studies as you can.

PROPOSED TEACHING OF THIS MODULE

No.	Topic	Task	Relevant Module
1	Purposes and objectives	2.1 and 2.2	Discuss as an introduction at the beginning of Grade 11. You will be drawing on their knowledge from Grade 10.
2.	Risks	2.3 and 2.4	Discuss as an introduction at the beginning of Grade 11. You will be drawing on their knowledge from Grade 10.
3.	Internal control	2.5 – 2.7	Discuss at the beginning so that learners understand the concept and then keep re-inforcing throughout the year.
4.	Internal control of fixed assets	2.8	Do in conjunction with Module 4.
5.	Role of independent and internal auditors	2.9 and 2.10	Discuss in conjunction with Modules 5 and 6 on partnerships. Although the external auditor is only relevant to Companies, it is important that learners realise the role that these people play and, therefore, the influence they have on the internal control mechanisms.
6	Internal auditors	2.11, 2.12 and 2.13	Integrate these Tasks into Module 7 when you are studying analysis and interpretation of financial statements.
7	Careers in Accounting and Auditing	2.14 – 2.16	These Tasks are for extension purposes and should be done at any time during the year. It is important that the learners are aware of all the career opportunities that are available in the accounting and auditing world and not to see a career in this as just one of sitting behind a desk doing bookkeeping operations.

Note to the Teacher:

Teachers are advised to use personal experiences of learner's in communicating concepts relating to business objectives.

TASK 2.1  **Stakeholders****Possible responses:**

No.	Stakeholders	Main area of interest
1.	The owners (e.g. partners)	The profit made by the business (in return for their investment of capital in the business)
2.	Employees (e.g. trade unions)	The remuneration earned by employees is fair in relation to the profit of the business, and in relation to the highest paid employees in the organisation.
3.	Long-term lenders	The profit is sufficient to finance interest payments, the assets are sufficient to repay the loans, and that security for the loans is adequate.
4.	Creditors	Current assets are sufficient to repay immediate debts.
5.	SA Revenue Service (SARS)	Profit is correct so that the correct tax can be levied.
6.	Potential owners	Profit is sustainable and reasonable in relation to the capital invested.
7.	Bank (for an overdraft)	Assets and profit are sufficient to ensure repayment of an overdraft.
8.	Any other interested persons, e.g. the community or environmental groups	Good business practice is being followed in terms of community or environmental responsibility, e.g. expenditure on waste disposal, AIDS projects, etc.

TASK 2.2  **Revision**

2.2.1	What is a Mission Statement?	A published statement which sets out the main and overall purposes for which an organisation exists.
2.2.2	What do you understand by the term 'Objectives' in the context of a school or a business organisation?	Specific aims that an organisation has in order to achieve its mission.
2.2.3	What do you understand by the term 'Strategies' in the context of a school or a business organisation?	Ways in which an organisation will operate in order to achieve its objectives and mission.
2.2.4	Why is it necessary for a school or a business organisation to explicitly state and communicate their Mission Statement, Objectives and Strategies to stakeholders?	So that all stakeholders can understand how they can play a role in helping an organisation succeed in its purposes – a guide to influence the behaviour of all stakeholders.
2.2.5	Why is it not advisable for the owners to draw up their own Mission Statement and Objectives without consulting stakeholders?	In this case, stakeholders might not accept the mission and objectives as they might feel that their opinions are not valued.
2.2.6	Who, in a school or business organisation, should be responsible for ensuring that the organisation attempts to comply with its stated Mission statement, objectives and strategies?	Every person. However, the Governing body or Board of directors is ultimately accountable for ensuring that the organisation achieves its mission and objectives.

2.2.7	It has traditionally been accepted that, in a capitalist economy, the making of a profit is the main objective in a business organisation. Why would most stakeholders support this objective?
Because they will invest their capital elsewhere if they feel that a reasonable return is not being earned.	
2.2.8	Apart from the profit motive, list the other objectives that, in your opinion, are important for business organisations to adopt for themselves.
Honesty and integrity in business dealings. Good customer care and support. Fair treatment of employees. Environmental concern – no negative impact on the environment. A variety of other answers possible.	

TASK 2.3 Risk and accountability

2.3.1	Why is it important for stakeholders to assess the risks before getting involved in a business organisation and why is it important for businesspersons to try to minimise the risks they face?
A variety of responses is expected, e.g.: There is no point in undertaking the business venture if it is likely to fail. The business must be sustainable as many stakeholders will rely on it for their livelihood. It is irresponsible of businesspersons not to minimise their risks – it makes good business sense, and it leads to benefits for all concerned.	

2.3.2

No.	Risk	Ways of minimising the risk	Who is responsible or accountable?
1.	Fire	Regular checks of electrical installations. Install fire alarms and fire hydrants. Insurance cover can reduce the negative financial effect.	The maintenance personnel. However, the owners are also ultimately accountable for ensuring that these employees discharge their responsibilities.
2.	Theft	Security guards, alarm systems, creation of an awareness of the potential problem.	The security personnel. However, the owners are also ultimately accountable for ensuring that these employees discharge their responsibilities.
3.	Fraud	Good systems of internal control so that one person serves as a check on another.	The accounting and internal audit personnel. Owners accountable for ensuring that these employees discharge their responsibilities.
4.	Injury	Good safety measures. Insurance cover can reduce the negative financial effect.	The supervisors or managers. Owners are accountable for ensuring that these employees discharge their responsibilities.
5.	Economic downturn	Good business planning, e.g. putting aside financial reserves to cater for difficult times. Good service and advertising to boost the number of customers.	The owners and senior managers.
6.	Natural disasters, e.g. flood, earthquakes, tsunami	Drills to minimise damage, secure structures.	The owners and senior managers.
7.	A variety of other valid responses is expected and is not limited to the above.		

TASK 2.4 Role-play

Suggested marking grid:

Criteria:	Level 1	Level 2	Level 3	Level 4
Validity and realism, and quality of presentation	The scenario has major flaws, is generally not related to the topic and is not interesting	The complaint or misjudgment is partly interesting, valid, realistic and satisfactorily depicted and communicated with several shortcomings	The complaint or misjudgment is generally interesting, valid, realistic and generally well depicted and communicated with some shortcomings	The complaint or misjudgment is very interesting, valid, realistic and well depicted and well communicated in the role-play
Concept of accountability by the person responsible is depicted in the role-play	Little or no understanding of accountability comes through in the presentation	Understanding of accountability partly comes through in the presentation	Understanding of accountability generally comes through in the presentation	Clear understanding of accountability comes through in the presentation
The solution of the problem	The solution of the problem is lacking in validity and one-dimensional	The solution of the problem is valid but simplistic with little creativity	The solution of the problem is valid and realistic but creativity is lacking	The solution of the problem is valid, realistic and creative – several options considered

TASK 2.5 Types of control

TYPE OF CONTROL	DESCRIPTION
1	C
2	A
3	D
4	B

TASK 2.6 Accounting controls

Division of duties
Division of duties – allocating duties to different employees so that one serves as a check on another.
Proper documentation
Proper documentation – ensuring that the evidence of each transaction is properly recorded.
Proper authorisation
Proper authorisation – ensuring that only certain responsible people are given the right to permit transactions to occur.
Proper recording and follow-up
Proper recording and follow-up – ensuring that the transactions are properly entered in the books so that reliable financial information is provided for decision-making.

TASK 2.7 Fraud

2.7.1	If you were Dee, list the ways in which you could defraud this business.
<p>Variety of responses possible, e.g.:</p> <p>Do not record certain cash sales, and pocket the cash when a customer pays.</p> <p>Take stock for personal use and alter the stock count sheets.</p> <p>Create fictitious employees and 'pay' them out of petty cash.</p> <p>Retain cash paid by a debtor and write off the account as a bad debt or issue a credit note to reduce the account.</p>	
2.7.2	If you were Jock, list the ways in which you could prevent Dee from defrauding this business.
<p>Allocate some of Dee's duties to a part-time employee, e.g. depositing of cash, checking arrival of stock.</p> <p>Jock should do monthly checks of stock, debtors and cash.</p> <p>Use an auditor to cross-check documents, e.g. cash slips to deposit slips.</p> <p>Calculate financial indicators from the financial statements (e.g. mark-up %) to identify problem areas.</p>	
2.7.3	Your Teacher will get suggestions at random from the class. If you have not thought of certain points, add these to your lists.
<p>Write the different suggestions on the white/black board.</p>	

TASK 2.8 Business objectives

2.8.1	Decide on the two main objectives you will have for each business.
<p>Variety of responses possible, e.g. profit per year of at least 20% of capital invested, variety of flavours to engage customers, support of local suppliers, etc.</p>	
2.8.2	What items will you spend your initial capital on in each business, and what assets will need to be safeguarded in each business to achieve your objectives?
<p>Display cabinets/fridges, security systems, furniture, cash registers, initial stock, set-up expenses, e.g. advertising / insurance.</p>	
2.8.3	What procedures will you establish in these businesses in order to ensure that you achieve your objectives? Allocate these procedures to Aboo Baker and to the sales assistants.
<p><u>Aboo Baker:</u></p> <p>He must supervise the conduct of the assistants (check that they adhere to working hours).</p> <p>He must check cleanliness of the kiosks.</p> <p>He must check cash received to the sales documents.</p> <p>He must ensure that the cash is deposited in the bank.</p> <p>He must alert the owners to any problems.</p> <p>He must ensure that the assistants are paid on due date.</p> <p>He must ensure that the appropriate stocks are ordered.</p> <p><u>Sales assistants:</u></p> <p>They must treat customers with courtesy, they must ensure cash is properly documented.</p> <p>They must arrive at work on time.</p> <p>They must take care of business assets and stock.</p> <p>They must ensure that the kiosk is clean and well-maintained.</p>	
2.8.4	How would you check that the procedures are being carried out and that the assets are safeguarded in your absence?
<p>Variety of responses possible, e.g. random checks, employ an internal auditor.</p>	

Note to the Teacher:

Sustainability is very important in modern day business world and it is something that the learners need to appreciate now and not only when they study companies in Grade 12. Therefore you are urged to discuss this topic on an on-going basis and to draw attention to any articles in the news or press relating to sustainability and the projects that the various companies are involved in.

TASK 2.9  **Article on consumer interest**

2.9.1	In your opinion, why is the use of corn seen as good substitute for petroleum?
<p>Petroleum comes from oil which is going to run out sometime in the future. Oil is associated with pollution both in the mining of the resource and the burning of it. Corn, on the other hand, can be broken down (biodegradable) and will not pollute the environment; also it is renewable (can be replanted). Learners to come up with their own interpretations.</p>	
2.9.2	Why then, in your opinion, and based on information given are the environmental groups opposed to the manufacturing process? Discuss fully.
<p>The corn used in the process is not grown but is genetically manufactured. This probably means that it has not been fully tested and what side-effects it brings and what is going into the manufacturing process. They are also upset as the consumers have not been informed that the corn is genetically engineered.</p>	
2.9.3	Do you believe that Cargill Dow is acting in an ethical manner? Why? Discuss fully.
<p>No, as they are not correctly informing the consumers. They are exploiting the consumers by misleading them i to believing they are buying environmentally friendly products.</p>	
2.9.4	In your opinion, do you think Cargill Dow is sustainable? Why?
<p>No. The side-effects of the products could be disastrous. The fact that they are not being honest will probably mean that the business will be closed down in the foreseeable future. Businesses that are involved in unethical behavior will not be sustainable.</p>	

Note to the Teacher:

Although internal auditing is a Grade 12 Assessment standard, the purpose of looking at their role in Grade 11 is for the learners to appreciate firstly, the role of the internal auditor and, secondly, how this role will then impact on the role of the external auditor. If learners realise that the internal auditor will be accountable to the external auditor, they will realise a further important aspect of their position.

TASK 2.10  **Independent auditor's report**

2.10.1	Summarise the contents of the independent auditor's report, i.e. what is the opinion expressed – is it positive, negative or qualified?
<p>Response depends on the audit report selected – it will usually be positive, but there will probably be some explanation on issues that the report does not cover</p>	
2.10.2	If you were a stakeholder in the business organisation, how does this auditor's opinion affect your opinion of the business?
<p>It would reassure me that the financial information is reliable or unreliable, and will provide me with an indication as to whether my investment in the business is secure</p>	
2.10.3	Does the independent auditor express an opinion on whether or not fraud has occurred in this business? If not, explain why the independent auditor has not done so.
<p>No – the independent auditor does not check every transaction – he merely gets an overall opinion on reliability and that the accounting systems are in place.</p>	

2.10.4	What procedures would you expect the independent auditor to carry out before expressing an opinion on the financial statements?
He should check all types of transactions on a random basis. He should check the values of all items in the Balance Sheet (e.g. stock, fixed assets, etc.)	
2.10.5	Why is it important for an independent auditor to be well-qualified?
His opinion is relied upon by the general public and prospective investors – they could suffer financial loss if his opinion is incorrect or negligent.	
2.10.6	What would you regard as an acceptable qualification for an independent auditor? Explain how to obtain this qualification.
Chartered Accountant – CA (SA) University degree, e.g. B Com Post-graduate study, e.g. Diploma in Accounting CA Board exam – for entry into the profession	
2.10.7	If the independent auditor is negligent in carrying out his duties and expressing his opinion, what consequences should the auditor face?
Various opinions possible, e.g. damage claims (if error or negligence), imprisonment (if fraud involved), de-registration from the profession and withdrawal of his qualification.	
2.10.8	Why is it not compulsory for sole traders and partnerships to have their financial statements audited by an independent auditor?
They can check their own books themselves if they wish to do so.	
2.10.9	An independent auditor must not be an employee of the business organisation on whose financial statements the opinion is expressed. Why is this important?
He can be seen to be independent and that no-one has influenced his opinion – if a salary is paid to him he might be suspected of impartiality.	
2.10.10	The independent auditor charges the business a fee for the service of auditing the books and the financial statements. This fee is based on the time spent in the auditing process by the independent auditor and his team. In your opinion, does this affect the reliability of the audit report and the opinion expressed therein? Explain.
Possibly – the auditor could lose his appointment the following year if the owners or directors do not like his opinion. However, he is expected to rise above this concern and apply his mind ethically and responsibly to his task of expressing an opinion on which others can rely.	

TASK 2.11 **Advertisements – Vacant posts**

2.11.1	Briefly explain the main differences between the three examples of posts advertised.
Various responses possible: Example 1 requires a highly qualified practitioner – CA (SA). The other two examples appear are lower paid and do not require a CA qualification – it appears that the internal auditor envisaged in Example 2 and the investigator envisaged in Example 3 will be given specific job descriptions in discharging their duties and they will have less freedom in making decisions about their tasks.	
2.11.2	In your opinion, why does example 1 reflect a negotiable salary, whereas the other two posts reflect a definite salary? What is meant by a negotiable salary? What approximate salary would you estimate for Example 1?
Negotiable. This will be determined by agreement between the employer and the employee; they are obviously looking for the best person possible and will be prepared to increase their offer depending on the qualities of the applicant they want to secure; a CA is a professional – one of the hallmarks of a professional is that he/she earns what he/she is 'worth', i.e. in line with the quality of contribution to the organisation; expected salary anywhere between R400 000 and R600 000, possibly more.	

2.11.3	In your opinion, which of the three examples reflects the most demanding or difficult job to perform, and which example reflects the highest qualifications required? Comment.
Example 1 - the salary is negotiable and the requirements are very general and all-encompassing; in the other two examples the requirements are very specific – this implies there is a definite list of skills needed.	

TASK 2.12 ☼ Analyzing auditor's comments

Various answers are possible.

2.12.1	Operating profit on sales has decreased from 12% (in 20.7) to 5% (in 20.8).
Opinion: Yes Reasons: Decrease in operating profit is due to a decreased gross profit; decrease in sales; increase in cost of sales or an increase in operating expenses.	
2.12.2	The debtors' collection period for 20.8 is 45 days (the figure for the previous year was 30 days).
Opinion: Yes Reasons: Debtors are taking longer to pay. This has a negative effect on the cash flow of the business – encourage debtors to pay quicker.	
2.12.3	The creditors' payment period has changed from 29 days (in 20.7) to 30 days in 20.8.
Opinion: Yes / No Reasons: This is more or less the same. Need to check that cash is being received from debtors before paying creditors.	
2.12.4	In comparison to the previous year, the stock turnover rate has decreased from 6 times to 3 times.
Opinion: No Reasons: If stock turnover rate has decreased it means stock is being sold quicker.	
2.12.5	Gross profit on cost of sales was 50% in 20.7, but it is 40% in 20.8.
Opinion: Yes Reasons: A lower mark-up will result in lower net profit.	
2.12.6	Interest as a percentage of fixed deposits has decreased from 8% in 20.7 to 5% in 20.8.
Opinion: Yes Reasons: The less the percentage the less the income and, therefore, the lower the profit. This might be due to a bank decrease in rates – try to look for the most favourable investment rates. Interest rates are externally controlled. Ensure that you have the best investment options available.	
2.12.7	Motor vehicle expenses have increased by 6% over the past year.
Opinion: Yes Reasons: An increase in motor expenses means higher expenses and less profit. Investigate the reasons for this. It could be that the vehicle is getting old and needs to be replaced.	

2.12.8	Rent income has increased by 20% over the past year.
Opinion:	No
Reasons:	The higher the income the higher the profit, but we need to know why? Is it because of better control? This is good. Rent income normally increases annually.
2.12.9	The telephone expenses have increased by 25% from 20.7 to 20.8.
Opinion:	Yes
Reasons:	Increase in telephone costs means less profit. Private calls need to be controlled.
2.12.10	Debtors allowances as a percentage of gross sales was 1% in 20.7, but this has increased to 2% in 20.8.
Opinion:	Yes
Reasons:	Need to investigate why more goods are being returned. Could indicate a quality problem which will result in bad publicity for the business.

TASK 2.13 ☼💧💧 Investigation of financial statements

Inspect the financial statements. If you were the internal auditor for this business, what would you want to investigate? Explain briefly.
<p>Various answers possible:</p> <ul style="list-style-type: none"> • Less mark-up in 20.5 (60% decreased to 56.6%). • Therefore, slightly less gross profit as a percentage of sales despite sales increasing. • Decrease in income from services rendered. • Expenses increased by R38 100 (21%) – mainly salaries and wages; motor vehicle expenses and sundry expenses. • Much higher stock (R41 000 last year and R74 000 this year). • Decrease in cash from R15 400 to R3 700. • Increase in trade and other payables from R41 700 to R50 000. • Etc.

TASK 2.14 ☼💧💧 Internal auditor: Checklists

Member A	List the checks you would expect the Internal Auditor to perform in order to check that cash sales and VAT in each department are properly recorded and accounted for.
<p>Assess the internal control system with regard to sales – which employee is handling which task. At random:</p> <ul style="list-style-type: none"> - Check that cash receipts are in numerical sequence and all are accounted for. - Check that cash received is checked by a person other than the cashier and checked against the bank deposit slip. - Check that stock records are amended for each randomly selected cash slip. - Check recording of selected cash slips in the CRJ. - Check posting of CRJ to ledger, including VAT accounts. - Check that the VAT accounts balanced off at the end of the month when payments are made. - Check arithmetical accuracy of ledger accounts dealing with Sales and VAT. 	

Member B	List the checks you would expect the Internal Auditor to perform in order to check that debtors are properly recorded and accounted for.
<p>Assess the internal control system with regard to debtors – which employee is handling which task. At random:</p> <ul style="list-style-type: none"> - Check that invoices and credit notes are in numerical sequence and all are accounted for. - Check that invoices are recorded on debtors statements. - Check that cash received from debtors is checked by a person other than the cashier and checked against the bank deposit slip. - Check that stock records are amended for each randomly selected invoice and credit note. - Check that credit notes and general journal vouchers are properly authorised by a designated person and entered properly in the journals (especially bad debts). - Check recording of selected invoices and credit notes in the DJ and DAJ. - Check posting of DJ, DAJ and GJ to general ledger and debtors ledger. - Check that statements are posted to each debtor. - Check that money collected from debtors is properly receipted and entered in the CRJ, GL and DL. - Check the process of dishonoured cheques – entry in CPJ with proper posting to GL and DL. - Check that the Debtors listing is prepared each month and that this is cross-checked to the balance on the Debtors control account. - Check arithmetical accuracy of ledger accounts and listings. 	
Member C	List the checks you would expect the Internal Auditor to perform in order to check that pur-chases of stock in each department are properly valued, recorded, and accounted for.
<p>Assess the internal control system with regard to stock – which employee is handling which task. At random:</p> <ul style="list-style-type: none"> - Check that orders are made only by designated authorised personnel. - Check that the order form agrees with the goods received note and the invoice. - Check that goods are counted by a separate person when they enter the premises. - Check that returns are entered on a goods return note and that this agrees with the credit note received from the supplier. - Check that the invoices and credit notes are properly recorded in the CJ and CAJ. - Check posting of CJ and CAJ to GL and CL. - Check creditors listing agrees with control account. - Check that the cost of sales is correctly calculated and entered on each sales transaction selected. - Check that stock counts are done regularly and that these agree with the stock sheets and the balances on the Trading stock account. - Check that stock deficits/surpluses are properly investigated by responsible personnel. - Check that write-offs in the GJ are properly authorised by a designated person. - Check arithmetical accuracy of Trading stock account and stock records. 	
Member D	List the checks you would expect the Internal Auditor to perform in order to check that fixed assets in each department are properly valued, recorded and accounted for.
<p>Assess the internal control system with regard to fixed assets – which employee is handling which task. At random:</p> <ul style="list-style-type: none"> - Check that orders for fixed assets are made only by designated authorised personnel. - Check that assets are counted by a separate person. - Check that the order form agrees with the goods received note and the invoice when they enter the premises. - Check that returns are entered on a goods return note and that this agrees with the credit note received from the supplier. - Check that the invoices and credit notes are properly recorded in the CJ and CAJ. - Check posting of CJ and CAJ to GL and CL. - Check that fixed asset counts are done regularly and that these agree with the Fixed Asset Register and the balances on the fixed asset accounts. - Check that depreciation, disposals and write-offs of fixed assets are properly authorised by responsible personnel and are properly entered in the GJ, GL and Fixed Asset Register. 	

Member E	List the checks you would expect the Internal Auditor to perform in order to check that salaries and wages in each department are properly valued, recorded and accounted for.
Assess the internal control system with regard to salaries and wages – which employee is handling which task. At random:	
<ul style="list-style-type: none"> - Check letters of employment and employment contracts to the SJ and WJ. - Check clock cards for wage earners to the WJ to ensure correct calculation of normal time and overtime. - Check time rates to business policies. - Perform a head-count of employees – identify them to ID documents and trace to entries in SJ and WJ. - Check arithmetical accuracy in SJ and WJ including gross and net remuneration, PAYE, Medical Aid, Pension, UIF, etc. - Check posting to GL. - Check net payments to employees as recorded in the CPJ. - Check acknowledgement of receipt of cash by wage earners (signature) or check bank transfers to employees' bank accounts. - Check PAYE, Medical Aid, Pension, UIF, etc. - Check employee assessment policies and assess whether consequences for under-performance are carried out. - Check leave policies to assess whether employees are complying. 	

TASK 2.15 Case study

Suggested marking grid:

	Level 1	Level 2	Level 3	Level 4
Quality of questioning, presentation of responses, and communication	Poor questioning, presentation and communication	Questioning, presentation and communication done in a satisfactory manner, with some deficiencies in logic or engagement	Good questions asked, responses presented and communicated in a logical and engaging way	Questions well thought out, responses extremely well presented and communicated in a logical, professional and engaging manner
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Assessment of the nature of the job, including enjoyable aspects and frustrations	Different aspects of the job poorly identified and poorly expressed	Different aspects of the job identified and expressed in a satisfactory manner	Different aspects of the job identified and well expressed	Different aspects of the job very well identified and clearly and well expressed
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Assessment of skills, values & attitudes: personal attributes and characteristics required in the career	Personal aspects and attributes poorly identified and poorly expressed	Personal aspects and attributes required in the job identified and expressed in a satisfactory manner	Personal aspects and attributes required in the job identified and well expressed	Personal aspects and attributes required in the job very well identified and clearly and well expressed
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Identification of qualifications and remuneration	Qualifications and remuneration poorly identified and poorly expressed	Qualifications and remuneration identified with some shortcomings, and expressed in a satisfactory manner	Qualifications and remuneration identified and well expressed	Qualifications and remuneration correctly identified in all respects and clearly and well expressed
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Total available marks				16

Use the following assessment rating scale to report the learner's results:

Rank	7	6	5	4	3	2	1
	Outstanding	Meritorious	Substantial	Adequate	Moderate	Elementary	Not achieved
%	80 – 100%	70 – 79%	60 – 69%	50 – 59%	40 – 49%	30 – 39%	0-29%
Mark	14 - 16	12 - 13	10 - 11	9	7 - 8	6	0 - 5

Note to the Teacher:

Encourage the learners to analyse their results and identify their problem areas. They should rewrite those sections to get practice so that they will eventually master the skill that is inhibiting their progress.

This does not only apply to learners who achieved a 4 or lower but also applies to those learners who achieved a 5 or 6. With more effort, they could achieve a 7.

TASK 2.16 Job descriptions

Responses depend on advertisements selected – refer to Task 2.11 for examples. Further examples are presented below.

Suggested marking grid:

	Level 1	Level 2	Level 3	Level 4
Comparison of qualifications	Poor comparison with major deficiencies in research methods	Satisfactory comparison, with limitations in the quality of research	Comparison of all four jobs is good, good research and accurate	Comparison of all four jobs very well researched and accurate
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Comparison of job descriptions	Poor comparison with major deficiencies in research methods	Satisfactory comparison, with limitations in the quality of research	Comparison of all four jobs is good, good research and accurate	Comparison of all four jobs very well researched and accurate
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Comparison of salaries	Poor comparison with major deficiencies in research methods	Satisfactory comparison, with limitations in the quality of research	Comparison of all four jobs is good, good research and accurate	Comparison of all four jobs very well researched and accurate
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Presentation of findings	Poor presentation	Satisfactory presentation with limitations	Interesting and , clear presentation which interests the listeners	Interesting, clear, concise presentation which interests and engages the listeners
	(1 mark)	(2 marks)	(3 marks)	(4 marks)
Total available marks				16

Use the following assessment rating scale to report the learner's results:

Rank	7	6	5	4	3	2	1
	Outstanding	Meritorious	Substantial	Adequate	Moderate	Elementary	Not achieved
%	80 – 100%	70 – 79%	60 – 69%	50 – 59%	40 – 49%	30 – 39%	0-29%
Mark	14 - 16	12 - 13	10 - 11	9	7 - 8	6	0 - 5

Note to the Teacher:

Encourage the learners to analyse their results and identify where they did not achieve. They should rewrite those sections to get practice so that they will eventually master the skill that is inhibiting their progress.

This does not only apply to learners who achieved a 4 or lower but also applies to those learners who achieved a 5 or 6. With more effort, they could achieve a 7.

FURTHER EXAMPLES OF ADVERTISEMENTS:

<p>Business Times Careers Aug 21 2005 PAG (Professional Assignments Group) www.pag.co.za FINANCIAL MANAGER R450 K Germiston. B Com (Hons) with manufacturing exp. and strong costing background. Financial management reporting, treasury, commercial support, business planning and corporate governance. Strong leadership skills and proven risk management control experience. <i>Contact details omitted.</i></p>	<p>Business Times Careers Aug 21 2005 PAG (Professional Assignments Group) www.pag.co.za MANAGER CORORATE FINANCE R380K Pretoria. B Com (Hons) / CA(SA) / MBA with min 8 years exp. in financial services. Full financial management function including cash flow, budgets, management reports, year-end audit, asset register, tax returns and management of staff. Report to FD. SAP advantageous. <i>Contact details omitted.</i></p>	<p>Business Times Careers Aug 21 2005 PAG (Professional Assignments Group) www.pag.co.za COST ACCOUNTANT R204K Pretoria. M/A, pension, 13th cheque, B Com / Diploma + 3 yrs exp. in manufacturing. Full costing function. JIT and TRIM, sales & material cost information, variance analysis, stock revaluations, BOM, standard costing, MIDP claims, standard labour costs, forecasts and month-end reports. MFG Pro. <i>Contact details omitted.</i></p>
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<p>Business Times Careers Aug 21 2005 INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA LIMITED IT AUDITOR Applications are invited from persons in possession of a B Com degree or equivalent underpinned by internal audit article experience of at least two years and at least one year's IT audit experience. A diploma in IT auditing and a CISA qualification will be an advantage. Reporting to the Head: Internal Audit, the successful candidate will be expected to prepare comprehensive audit programmes for assigned IT audits following COBIT to assess risk, required controls and significance of non-adherence, perform audits assigned, evaluate the adequacy and effectiveness of internal controls in the IT environment, draft audit reports and discuss the reports with relevant managers, and make recommendations to management to correct unsatisfactory controls, improve operations and reduce costs. The Corporation offers competitive remuneration packages, including excellent fringe benefits and career development opportunities. <i>Contact details omitted.</i></p>	<p>Highway Mail Aug 19 2005 ACCOUNTS ADMINISTRATORS / BOOKKEEPERS Durban North, Berea and Pinetown based clients seek: Position 1. General administrator with relevant exp (Quickbooks and Impact essential). Salary neg. Position 2. Bookkeeper to B/Sheet (Quickbooks or Pastel essential). Salary R70 000 p.a. <i>Contact details omitted.</i></p> <p>Business Times Careers July 31 2005 THE PERSONNEL CONCEPT www.thepec.co.za CFO: PRIVATELY OWNED COMPANY R850k – R705K + bonuses + share options CA (SA) with max 8 years senior financial mgmt exp consider joining this highly successful company formed from a mgmt buyout, seeking to appoint a new CFO. Run the full financial function whilst playing an active role on the board. <i>Contact details omitted.</i></p>
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TASK 2.17 Research: Commercial courses

Responses should include the major courses such as B Com, B Acc, MBA, and diploma and post-graduate courses.

CHECKLIST

SKILLS	Yes – proficient	Requires more attention	Complete
To appreciate the value of setting objectives.			
Understand the risks associated with running a business.			
To understand the concept 'internal control'.			
Understand the difference between fraud and error.			
To appreciate the need for internal control.			
Devise systems for internal control.			
Understand the role of independent and internal auditors.			
To explore career opportunities in Accounting and Auditing.			

MODULE 3

RECONCILIATION

Note to the Teacher:

It is important that learners understand and are able to draw up cash journals and post to the bank account in the General Ledger. This should have been covered adequately in Grade 10. The following three Tasks may be used to assess the competency level of your learners. If your learners are sufficiently competent with these skills proceed to Task 4.

TASK 3.1  **Ashley: Revision - Case study**

3.1.1	Explain how Ashley benefits from operating a current banking account.
Safety – he does not have to keep large amounts of cash as the cheque account allows for daily depositing. Cheques are reasonably safe and convenient means of payment. Any other valid reason may apply.	
3.1.2	Calculate Ashley’s bank balance on 30 June.
$2\ 500 - 1\ 800 + 1\ 960 = \underline{R2\ 660}$	
3.1.3	Will Ashley’s bank balance be the same as that of the bank statement? Explain.
No. The bank has already deducted the charges from Ashley’s account. Ashley’s books will not have reflected the charges.	
3.1.4	If not, what would the balance in the bank statement be?
$2\ 660 - 124 = \underline{R2\ 536}$	
3.1.5	Ashley’s financial records would have to be updated with the charges appearing on the bank statement. In which journal would he record this?
CPJ	
3.1.6	After updating his financial records, will Ashley’s bank account balance be the same as that of his account at the Bank? Explain.
Yes. His bank account balance of R2 660 will decrease by R124 thus giving him a balance of R2 536.	

TASK 3.2

BB Traders: Revision Task on cash journals

CASH RECEIPTS JOURNAL OF BB TRADERS FOR JANUARY 20.5

CRJ

Doc. no.	D	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Sundry accounts			
								Amount	Fol	Details	
R001	1	B. Ben			500 000			500 000		Capital	
R002	4	Alpha Insurance Association			500 000			500 000		Loan: Alpha Ins. Assoc.	
R003	9	Namaqua Butchery		13 500	13 500			13 500		Rent income	
R004	15	B. Ben			120 000			120 000		Capital	
CRT	17	Sales		53 980	53 980	53 980	29 940				
CRT	23	Sales		43 870	43 870	43 870	24 370				
CRT	30	Sales		49 450	49 450	49 450	27 470				
EFT		Sandveld Trust			110			110		Interest on fixed deposit	
					1 280 910	147 300	81 780	1 133 610			

CASH PAYMENTS JOURNAL OF BB TRADERS FOR JANUARY 20.5

CPJ

Doc. no.	D	Details	Fol	Bank	Stationery	Trading stock	Sundry accounts		
							Amount	Fol	Details
001	2	Cash		1 500			1 500		Petty cash
002		Cash		2 000			2 000		Cash float
003	5	AK Agents		300 000			300 000		Premises/Land & Buildings
004	6	FFS Shopfitters		53 575			53 575		Equipment
005	7	ABC Wholesalers		19 645		19 645			
006		Office Suppliers Ltd.		12 250			12 250		Equipment/Furniture
007	8	Witbank Municipality		1 500			1 500		Licence
008	9	Hawk Insurance Brokers		6 000			6 000		Insurance
009	11	Office Suppliers Ltd		24 000			24 000		Equipment
010	12	Hawk Insurance Brokers		12 000			12 000		Insurance
011	13	Afghan Stationers		575	575				
012	14	B. Ben/Cash		2 500			2 500		Drawings
013	16	Cash		500			500		Petty cash
014		TJ Traders		22 168		22 168			
015		Sandveld Trust		50 000			50 000		Fixed deposit: Sandveld Trust
016	17	Fast Carriers		1 250		1 250			
017	20	Municipality/Electricity Dept.		3 950			3 950		Water and electricity
018	21	FM Stationers		600	600				
019	22	B. Ben/Cash		850			850		Drawings
020	23	SA Transport Services		2 850		2 850			
021	25	Alpha Insurance Association		37 560			25 000		Loan: Alpha Ins. Assoc.
							12 560		Interest on loan
022	26	NM Stationers		3 045	3 045				
023	27	City Treasurer		6 850			6 850		Rates and taxes
024		Witbank Wholesalers		16 510		15 998	512		Consumable stores
025	30	L. Lane		17 200			17 200		Salaries
026		M. Michael		17 500			17 500		Salaries
027		Cash		1 840			1 840		Petty cash
B/S		Memela Bank		412			412		Bank charges
				618 630	4 220	61 911	552 499		

TASK 3.3 Baseline assessment

COLUMN A	COLUMN B
A	13
B	11
C	9
D	10
E	14
F	15
G	17
H	18
I	21
J	19
K	23
L	16

COLUMN A	COLUMN B
M	3
N	22
O	4
P	6
Q	8
R	2
S	20
T	1
U	7
V	12
W	5

TASK 3.4 Joe Duffy: Bank Statement and cash journals

3.4.1	Calculate the bank balance in the books of Joe Duffy. Indicate whether the bank balance is favourable or unfavourable.						
	<table> <tr><td>Total deposits</td><td>R19 400</td></tr> <tr><td>Total cheque payments</td><td><u>2 900</u></td></tr> <tr><td>Favourable bank balance</td><td><u>R16 500</u></td></tr> </table>	Total deposits	R19 400	Total cheque payments	<u>2 900</u>	Favourable bank balance	<u>R16 500</u>
Total deposits	R19 400						
Total cheque payments	<u>2 900</u>						
Favourable bank balance	<u>R16 500</u>						
3.4.2	Calculate the bank balance as per the bank statement. Indicate whether the bank balance is favourable or unfavourable.						
	<table> <tr><td>Total deposits</td><td>R19 400</td></tr> <tr><td>Total cheque payments</td><td><u>2 900</u></td></tr> <tr><td>Favourable B/S balance</td><td><u>R16 500</u></td></tr> </table>	Total deposits	R19 400	Total cheque payments	<u>2 900</u>	Favourable B/S balance	<u>R16 500</u>
Total deposits	R19 400						
Total cheque payments	<u>2 900</u>						
Favourable B/S balance	<u>R16 500</u>						
3.4.3	From Joe Duffy's point of view, is the bank balance an asset or a liability?						
	Asset						
3.4.4	From the bank's point of view, is the bank balance an asset or a liability?						
	Liability						
3.4.5	Compare the bank balances in 3.4.1 and 3.4.2 above. What conclusion can you draw from these?						
	Both balances are equal – all deposits appear on the bank statement and all cheques issued have been presented to the bank.						
3.4.6	Refer to the payment of R1 500 in the CPJ on 06-05. This amount also appears on the bank statement. What does this imply?						
	The cheque has been presented to the bank for payment.						
3.4.7	Refer to the payment of R1 500 in the CPJ on 06-05. This amount appears on the bank statement on 10-05. Explain the difference in the dates.						
	Joe Duffy issued the cheque on the 06 th ; the payee presented the cheque on the 10 th . The payee can present the cheque to the bank at any time after he has received the cheque. The cheque is no longer valid after six months when the cheque becomes stale.						
3.4.8	Does Joe Duffy make daily deposits? Explain.						
	No. He makes deposits periodically. He probably wants to save on bank charges – deposits attract a fee called cash deposit fees.						

3.4.9	Joe Duffy made three cheque payments during May. For what reasons could these cheques have been issued? Give four examples.
To buy stock; to pay a supplier; to purchase consumables; to pay for repairs; etc.	
3.4.10	Assume that the deposit of R5 400 does not appear on the May bank statement. What would this imply?
The books of Joe Duffy and the bank would not be in balance.	
3.4.11	Give a possible reason for the deposit of R5 400 not appearing on the bank statement.
The deposit is late – the amount was deposited after the bank statement had been completed.	
3.4.12	Assume that the cheque for R600 does not appear on the May bank statement. What would this imply?
The books of Joe Duffy and the bank would not be in balance.	
3.4.13	Give a possible reason for the cheque for R600 not appearing on the bank statement.
The payee has not yet presented the cheque to the bank for payment.	

TASK 3.5 Bank Statement

BANK STATEMENT (Extract)

Details	Date	Debits	Credits	Balance
Balance	01-11			6 142
Deposit	03-11		1 500	7 642
Cheque 781	05-11	1 122		6 520
Deposit	06-11		1 761	8 281
Deposit	10-11		2 344	10 625
Cheque 780	15-11	138		10 487
Cheque 784	18-11	669		9 818
Deposit	21-11		1 800	11 618
Cheque 783	25-11	467		11 151
Deposit	26-11		2 315	13 466
Deposit	28-11		1 966	15 432

TASK 3.6 Case study on Internet fraud

3.6.1	What do you understand by "spyware"? Explain to the person sitting next to you how you think the hackers use this spyware.
<p>Learners to discuss with their fellow pupils from their own experience.</p> <p>It is not so much the full understanding of how the equipment works, but the realisation that this is taking place and therefore, internet users have to be extra vigilant.</p> <p>Spyware is used by hackers to read the customer's data.</p> <p>This can take the form of reading your profile on the internet or at an ATM.</p> <p>By some sophisticated mechanism, they can 'hack' into your system and read the keystrokes to obtain your PIN code, etc.</p> <p>In most cases, the customer has to allow them in by accepting their email.</p>	

3.6.2	This article was written a few years ago. Do you think that this type of fraud has been eliminated today? Why? Discuss using examples from your own experience or from what you have read.
<p>Learners to give their own opinions. Fraud and hacking on the internet is still taking place, so therefore, the authorities have not been able to stop it completely. As soon as they stop one process, the hackers develop something else.</p>	
3.6.3	What, in your opinion, makes a person engage in fraud of any sort? Do you believe they are justified in their opinion?
<p>Learners to give their own opinions. Suggestions: It is unethical and unlawful. People are often driven to this type of crime due to greed or due to their personal circumstances, e.g. hunger, etc. However, it does entail a degree of intelligence to be involved in this type of crime – can they not put these skills to better use? Perhaps it is so lucrative and the sentences are not very high.</p>	
3.6.4	How can customers making use of the internet banking facility assist the banks in reducing the amount of fraud? Discuss as many measures as you can.
<p>Do not give out your pin or banking details. Do not let anybody else work on your internet banking. Log off when you are finished. Do not respond to emails that ask for private details and pin codes. Do not accept email from people you do not know. Be vigilant at all times. Etc.</p>	
3.6.5	In your opinion what is the effect of fraud of this nature on the economy of the country.
<p>Even if the clients are insured, somebody is losing and this has a negative effect. This results in higher premiums which causes hardships to people. So much money is spent on security that could be better spent elsewhere. Has a negative effect on tourism and investment in the country.</p>	

TASK 3.7 On-line banking

Suggested marking grid:

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Research	Some attempt to conduct a research but little valuable evidence.	Adequate research is evident in order to complete the report.	A thorough re-search is evident so that a meaningful report can be produced.	Excellent research which ensures that an in-depth report can be produced.
Interpreting information	Some attempt to adequately interpret the information.	Adequate interpretation based on re-search.	Thorough interpretation of data so that a meaningful report is produced.	Excellent interpretation of data ensuring an in-depth report.
Explanations	Some attempt to give explanations.	Adequate explanations given.	Thorough explanations ensuring a meaningful report.	Excellent explanations ensuring an in-depth report.

TASK 3.8

Bank Statement

<p>FIRSTBANK GROUP</p> <p>PIETERMARITZBURG NORTH PO Box 3211 PIETERMARITZBURG 3200</p> <p>MR G. VAN ROVER PO BOX 991 PIETERMARITZBURG 3200</p> <p>PIETERMARITZBURG NORTH 7925 MONTHLY MAIL</p>	<p>FirstBank of South Africa Limited Registered Bank Reg. No. 19433/24356560 VAT Reg. No. 41500209871 23 March 20.6</p> <p style="text-align: right;">Statement No. 231 Page 1 of 1</p>				
BANK STATEMENT / TAX INVOICE					
Masterplan Cheque Account					
Account Number: 05 114 006 7					
Details	Service fees	Debits	Credits	Date	Balance
BALANCE BROUGHT FORWARD				03.01	238.91
AUTOBANK CASH WITHDRAWAL AT CASCADES 11H01 460098	11.80	1 000.00		03.02	-761.09
INTEREST ON OVERDRAFT		42.45		03.14	-803.54
CHEQUE 423	3.40	120.00		03.14	-923.54
ELECTRONIC BANKING PAYMENT: SALARY 324	4.73		14 000.48	03.20	13 076.94
INTERNET PAYMENT TO TELMOK 460098	5.19	555.66		03.20	12 521.28
MCHOICE SERVICE AGREEMENT 1017989	8.59	579.00		03.21	11 942.28
QW MEDICAL AID 12345	5.19	789.00		03.21	11 153.28
OLD MUTUAL INSURANCE PREMIUM 34446	5.19	1 210.00		03.22	9 943.28
CHEQUE 425	2.80	6 578.99		03.22	3 364.29
ELECTRONIC TRANSFER: R. JACKSON 21311	2.80		300.75	03.22	3 665.04
SERVICE FEE		49.69		03.22	3 615.35
<p>These fees are inclusive of VAT at 14.00%. Please verify all transactions reflected on this statement and notify any discrepancies to the bank as soon as possible.</p>					

3.8.1	State three reasons which indicate that this bank statement refers to a private individual and not a business concern.
	<ul style="list-style-type: none"> • It is addressed to a private individual and not to a business. • The Autobank cash withdrawal at Cascades. • Electronic banking payment in respect of salary. • A business would make deposits more regularly. • Etc.
3.8.2	Complete the missing details marked '*'. Indicate overdrawn amounts with a '-'. E.g. - R19
	Refer to the bank statement.
3.8.3	Mr G. Van Rover made a deposit of R250 on 24 March 20.6. Give one possible reason why this deposit does not appear on the bank statement.
	The bank statement is dated 23 rd while the deposit was made on the 24 th .

3.8.4	Cheque no. 424 for R2 500 was issued during March 20.6. Give one possible reason why this cheque does not appear on the bank statement.
The payee has not presented the cheque to the bank.	
3.8.5	Which transaction indicates that Mr G. Van Rover does internet banking?
Internet payment to Telmok.	
3.8.6	Are electronic payments/transfers safer than writing out cheques? Explain.
Yes. Cheques can fall in the wrong hands. Cheques can be lost or stolen. Electronic payments are cleared quicker than cheques. Etc.	

TASK 3.9 Introduction to Bank Reconciliation

3.9.1	Calculate the bank balance in the books of G. van Rover on the 23 March 20.6.
CRJ total: R14 551.23 CPJ total: R10 754.65 Bank balance: $238.91 + 14\ 551.23 - 10\ 754.65 = \underline{R4\ 035.49}$	
3.9.2	Compare the balance in the bank account to the balance you calculated on the bank statement in the previous Task.
Bank statement balance is R3 615.35 while the bank account balance is R4 035.49.	
3.9.3	Discuss potential problem areas and why the balances do not agree.
R250 commission which was deposited on the 23 rd does not appear on the bank statement. Cheque no. 424 for R2 500 in respect of rates and taxes does not appear on the bank statement. R42.45, R579, R789, R1 210 and R49.69 appear on the bank statement but do not appear in the CPJ.	
3.9.4	Process entries that you deem are necessary in order to correct the situation above. You are required to give an explanation as to why you are processing the entries.
R250:	Record in the Bank Reconciliation Statement (credit side) as an outstanding deposit. The deposit appears in the CRJ but not on the bank statement.
R2 500:	Record in the Bank Reconciliation Statement (debit side) as an outstanding cheque. The cheque appears in the CPJ but not on the bank statement.
R42.45:	Record in the CPJ as interest on overdraft. The interest appears on the bank statement but not in the CPJ.
R579:	Debit/stop order – record in the CPJ.
R789:	Debit/stop order – record in the CPJ.
R1 210:	Debit/stop order – record in the CPJ.
R49.69:	Bank charges – record in the CPJ.
Updated CPJ total: $10\ 754.65 + 42.45 + 579 + 789 + 1\ 210 + 49.69 = \underline{R13\ 424.79}$	
Updated bank balance: $238.91 + 14\ 551.23 - 13\ 424.79 = \underline{R1\ 365.35}$	

BANK RECONCILIATION STATEMENT ON 31 MARCH 20.6

	Debit	Credit
Balance as per bank statement		3 615.35
Outstanding deposit		250.00
Outstanding cheques: No. 424	2 500.00	
Balance as per bank account	1 365.35	
	3 865.35	3 865.35

CASH RECEIPTS JOURNAL FOR MARCH 20.6

CRJ

Doc	D	Details	Bank	Sundry	Details of sundry
Transfer	20	Salary	14 000.48	14 000.48	Salary
Transfer	22	R. Jackson	300.75	300.75	Rent
Rec 100	23	B. Beki	250.00	250.00	Commission
			14 551.23	14 551.23	

CASH PAYMENTS JOURNAL FOR MARCH 20.6

CPJ

Doc	D	Details	Bank	Sundry	Details of sundry
ATM	2	Cash	1 000.00	1 000.00	Sundry expenses
C423	14	Mnet	120.00	120.00	TV fees
C424	16	City Treasurer	2 500.00	2 500.00	Rates and taxes
Internet	20	Telmok	555.66	555.66	Telephone
C425	22	Wakefields	6 578.99	6 578.99	Rent
B/S	23	Firstbank Group	42.45	42.45	Interest on o/draft
B/S		Mchoice	579.00	579.00	Subscriptions
B/S		QW Medical Aid	789.00	789.00	Medical aid
B/S		Old Mutual	1 210.00	1 210.00	Insurance
B/S		Firstbank Group	49.69	49.69	Bank charges
			13 424.79	13 424.79	

3.9.5	Report back to the class and share your ideas.
Note to Teacher:	
Allow learners time to share their ideas and explore their own opinion. Ensure that they justify their opinion and ideas with sound, logical reasoning.	



Suggestion: Allow students who are struggling with this concept to draw their own diagram using drawings, pictures from magazines or the internet to demonstrate this concept.



Suggestion: Groups can work on a poster to show in picture format the journey of a cheque or a dishonoured cheque or a credit card purchase and pin them up on your classroom wall.

TASK 3.10  **Sarah: Discussion on ethics**

Learners are to discuss and give their own opinions.

Suggestions:

Do you agree with Sarah?	It is unethical and unlawful to issue cheques when you do not have the money in the account.
Why?	You will give yourself a bad name and could end up been blacklisted. This could have a negative result next time you apply for credit.
Explain to her what the consequences are of her approach to writing out cheques when she does not have the money in the account.	Even if people owe you money, it is not an excuse to write out cheques without having the money in the account.
Share your feelings with the person sitting next to you.	The bank levies heavy bank charges on all R/D cheques.

TASK 3.11 Khan Stores: Bank Reconciliation

3.11.2

KHAN STORES

CASH RECEIPTS JOURNAL FOR MAY 20.8

CRJ

Doc. No.	D	Details	Fol	Bank	Sales	Cost of sales	Debtors control		Sundry accounts		
							Receipts	Discount allowed	Amount	Fol	Details
	31	Totals	b/f	2 937	2 101	1 401	836	44			
B/S		Glow Flora		875					875		Rent income
				3 812	2 101	1 401	836	44	875		

B

CASH PAYMENTS JOURNAL FOR MAY 20.8

CPJ

Doc. No.	D	Details	Fol	Bank	Station-ery	Creditors for wages	Creditors control		Trading stock	Sundry accounts		
							Payments	Discount received		Amount	Fol	Details
	31	Totals	b/f	6 019	207	2 000	496	18	2 025	1 291		
B/S		J. Sewak (r/d)		416						416		Debtors control
B/S		QuikBank		454						167		Bank Charges
										287		Interest on o/d
B/S		Olive Insurers		750						650		Insurance
										100		Drawings
B/S		J. Khan		1 500						1 500		Drawings
				9 139	207	2 000	496	18	2 025	4 411		

B

3.11.3

GENERAL LEDGER OF KHAN STORES BALANCE SHEET ACCOUNTS SECTION

Dr				BANK				B				Cr				
20.8				20.8				20.8								
May	31	Total Receipts	CRJ	3 812	May	1	Balance	b/d	930							
		Balance	c/d	6 257		31	Total Payments	CPJ	9 139							
				10 069					10 069							
					June	1	Balance	b/d	6 257							

3.11.4 BANK RECONCILIATION STATEMENT AS AT 31 MAY 20.8

	Debit	Credit
Balance as per bank statement	5 506	
Outstanding deposit		530
Outstanding cheques: No. 753	499	
No. 755	782	
Balance as per bank account		6 257
	6 787	6 787

Note to Teachers:

The one column method can also be used.

3.11.4 BANK RECONCILIATION STATEMENT AS AT 31 MAY 20.8

Balance as per bank statement	(5 506)
Outstanding deposit	530
Outstanding cheques: No. 753	(499)
No. 755	(782)
Balance as per bank account	6 257

TASK 3.12 Tripco: Bank Reconciliation

3.12.2 CASH RECEIPTS JOURNAL OF TRIPCO FOR FEBRUARY 20.8

CRJ

Doc. No.	D	Details	Fol	Bank	Sales	Cost of sales	Debtors control		Sundry accounts		
							Receipts	Discount allowed	Amount	Fol	Details
	28	Totals	b/f	37 460	33 500	25 125	1 960	40	2 000		
B/S		ZipBank		300					300		Interest income
B/S		B. Bugbear		2 100			2 100	-			
B/S		N. Fellow		420					420		Bad debts recovered
B/S		Municipality		670					670		Water & electricity
				40 950	33 500	25 125	4 060	40	3 390		

B

CASH PAYMENTS JOURNAL FOR FEBRUARY 20.8
CPJ

Doc. No.	D	Details	Fol	Bank	Consumable stores	Trading stock	Creditors control		Sundry accounts		
							Payments	Discount received	Amount	Fol	Details
	28	Totals	b/f	22 980	1 230	13 360	1 900	190	6 490		
B/S		H. Flier (r/d)		1 960					1 960		Debtors control
B/S		ZipBank		819					503		Bank charges
									316		Interest on o/d
B/S		Cash Co. Ltd.		2 960					2 960		Loan: Cash Co. Ltd.
B/S		Rob Morse		2 500					2 500		Salary
				31 219	1 230	1 900	190	13 360	14 729		

B

3.12.3
**GENERAL LEDGER OF TRIPCO
BALANCE SHEET ACCOUNTS SECTION**

Dr				BANK				B				Cr			
20.8				20.8				20.8							
Feb	28	Sundry accounts	CRJ	40 950	Feb	1	Balance	b/d	3 780						
						28	Sundry accounts	CPJ	31 219						
							Balance	c/d	5 951						
				40 950					40 950						
Mar	1	Balance	b/d	5 951											

3.12.4 BANK RECONCILIATION STATEMENT AS AT 28 FEBRUARY 20.8

(or make use of the 1 column method)

	Debit	Credit
Balance as per bank statement		9 641
Outstanding deposit		6 800
Outstanding cheques: No. 095	3 950	
No. 096	5 990	
No. 097	550	
Balance as per bank account	5 951	
	16 441	16 441

Note: Cheque no. 087 was outstanding in the previous month, i.e. January. This cheque has been presented for payment in the current period, i.e. February. The cheque will not be recorded – it will be ticked off in the January Bank Reconciliation Statement.

TASK 3.13 ☹️💧💧 Bank Reconciliation

No.	Item	Cash Journal		Bank Reconciliation Statement	
		CRJ	CPJ	DEBIT	CREDIT
1.	Bank charges as per B/S.		X		
2.	Cheques not yet presented for payment.			X	
3.	R/D cheques.		X		
4.	Interest on overdraft.		X		
5.	Rent deposited into banking account by tenant.	X			
6.	Direct payment made by debtor into banking account of the business.	X			
7.	Interest earned on current banking account.	X			
8.	Debit orders as reflected in the B/S.		X		
9.	Deposit not yet credited by the bank.				X
10.	Credit card levies as reflected in the B/S.		X		

TASK 3.14 ☹️💧💧 Ben: Internal control

No.	Problem	Solution
1.	Mary is responsible for too many jobs.	Try to employ somebody else or do the job yourself to ensure division of duties .
2.	Mary receives the cash and banks the money.	Try to get somebody else to check Mary. ROTATE
3.	Mary does not always complete a receipt .	Receipts must always be completed to act as proof that the transaction has taken place.
4.	Mary does not deposit cash regularly .	Either Mary must deposit the cash daily or somebody else must assist her.
5.	There are large outstanding deposits at the end of the month.	All deposits must be made before the bank reconciliation is completed at the end of the month.
6.	Mary is drawing up the bank reconciliation.	Somebody else must complete the bank reconciliation process. division of duties

TASK 3.15 ☼☼ Scoop Dealers: Bank Reconciliation

3.15.1 SCOOP DEALERS

CASH RECEIPTS JOURNAL FOR MARCH 20.9

CRJ

Doc. No.	D	Details	Fol	Bank	Debtors control		Sales	Cost of sales	Sundry accounts		
					Receipts	Discount allowed			Amount	Fol	Details
	31	Totals	b/f	7 801*	2 409	120	3 988	2 650	1 404		
B/S		H. Appleton		1 300	1 300	-					
B/S		Mr Doodle		2 500					2 500		Rent income
				11 601	3 709	120	3 988	2 650	3 904		

B

• $2\,409 + 3\,988 + 1\,404$

CASH PAYMENTS JOURNAL FOR MARCH 20.9

CPJ

Doc. No.	D	Details	Fol	Bank	Trad- ing stock	Creditors control		Debtors control	Sundry accounts		
						Payments	Discount received		Amount	Fol	Details
		Totals	b/f	9 375*	4 444	1 908	110	1 345	1 678		
B/S	3 1	FirstBank		259					181		Bank charges
191		QR Stores		1 250		1 250	-		78		Interest on o/d
B/S		C. Springer (r/d cheq)		451				451			
B/S		Multisat		350					350		Drawings
B/S		Allsure Insur- ers		450					450		Insurance
				12 135	4 444	3 158	110	1 796	2 737		

B

* $4\,444 + 1\,908 + 1\,345 + 1\,678$

3.15.2

**GENERAL LEDGER OF SCOOP DEALERS
BALANCE SHEET ACCOUNTS SECTION**

Dr				BANK		B		Cr	
20.9					20.9				
Mar	31	Total Receipts	CRJ	11 601	Mar	1	Balance	b/d	250
		Balance	c/d	784		31	Total Payments	CPJ	12 135
				12 385					12 385
					April	1	Balance	b/d	784

3.15.3 BANK RECONCILIATION STATEMENT AT 31 MARCH 20.9

	Debit	Credit
CREDIT Balance as per bank statement		3 156
CREDIT Outstanding deposit		800
DEBIT Outstanding cheques: No. 191	1 250	
No. 201	280	
No. 220	2 450	
No. 223	760	
CREDIT Balance as per bank account		784
	4 740	4 740

3.15.4	All businesses should prepare bank reconciliation statements regularly. Provide two reasons for this.
	<ul style="list-style-type: none"> • Confirms the accuracy of all transactions recorded in the cash journals and the balance in the bank account. • Keeps track of outstanding cheques, deposits, r/d cheques, bank charges, debit orders, etc. • Identifies errors/omissions in the cash journals. • Identifies errors/omissions in the bank statement.

TASK 3.16  **Completion of table: Cash journals**

No.	Provisional totals (before receipt of the bank statement)		Debit orders	Electronic transfers (amounts received)	R/d cheques	Bank charges	Interest on overdraft	Final totals	
	CRJ	CPJ						CRJ	CPJ
1.	500	230	50	120	0	12	0	620	292
2.	1 444	1 983	234	896	220	54	72	2 340	2 563
3.	7 320	3 337	1 389	455	1 444	68	0	7 775	6 238
4.	6 528	7 002	612	0	989	119	345	6 528	9 067
5.	1 535	4 650	2 000	1 652	350	130	386	3 187	7 516

TASK 3.17  **Bank Reconciliation**

3.17.1

No.	Balance as per Bank account (indicate if debit or credit)	Outstanding deposit	Outstanding cheque	Balance as per Bank Statement (indicate if debit or credit)
1.	2 000 Dr	3 450	2 450	1 000 Cr
2.	520 Cr	150	0	670 Dr
3.	15 Cr	98	89	24 Dr
4.	5 612 Dr	12 277	2 344	4 321 Dr
5.	909 Dr	1 245	444	108 Cr

3.17.2 BANK RECONCILIATION STATEMENT

	Debit	Credit
Balance as per bank account		520
Outstanding deposit		150
Outstanding cheques	0	
Balance as per bank statement	670	
	670	670



Skill check!

- If learners have not mastered this skill encourage them to prepare the Bank Reconciliation Statement for numbers 3 and 5.

3. BANK RECONCILIATION STATEMENT

	Debit	Credit
Balance as per bank account		15
Outstanding deposit		98
Outstanding cheques	89	
Balance as per bank statement	24	
	113	113

5. BANK RECONCILIATION STATEMENT

	Debit	Credit
Balance as per bank account	909	
Outstanding deposit		1 245
Outstanding cheques	444	
Balance as per bank statement		108
	1 353	1 353

Note to Teacher:

Learners need to understand the difference between receiving a post-dated cheque and paying a post-dated cheque. When a post-dated cheque is received, it *cannot be deposited* until the due date. This causes a problem as the cheque can be lost or mislaid if it is not put in a safe place and that you remember to deposit it on the date of the cheque.

When a business issues a post-dated cheque, they regard it as if the amount has already been taken out of the bank and therefore it is recorded in the Cash Payments Journal *immediately*. The date written on the cheque is not relevant.

TASK 3.18 ☼🌳 Ntuli Traders: Bank Reconciliation

3.18.1 NTULI TRADERS

CASH RECEIPTS JOURNAL FOR OCTOBER 20.9

CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	12 300	12 300		
B/S		M. Milligan		2 500	2 500		Rent income
				14 800	14 800		

B

NOTE:

The cheque for R800 received from H. Reubens is not recorded as the cheque is post-dated.

CASH PAYMENTS JOURNAL FOR OCTOBER 20.9

CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	8 425	8 425		
B/S		Credit Bank		240	240		Bank charges
B/S				135	135		Interest on overdraft
B/S		Midas Insurance Co.		3 100	2 100		Insurance
					1 000		Drawings
B/S		M. Fysh (r/d)		390	390		Debtors control
51		Care Hugo & Co.		1 230	1 230		Creditors control
				13 520	13 520		

B

NOTE:

Even though cheque no. 51 is post-dated, it must be entered in the CPJ and treated as outstanding in the Bank Reconciliation Statement.

3.18.2

**GENERAL LEDGER OF NTULI TRADERS
BALANCE SHEET ACCOUNTS SECTION**

Dr				BANK		B		Cr	
20.9				20.9					
Oct	31	Total Receipts	CRJ	14 800	Oct	1	Balance	b/d	1 700
		Balance	c/d	420		31	Total Payments	CPJ	13 520
				15 220					15 220
					Nov	1	Balance	b/d	420

3.18.3 BANK RECONCILIATION STATEMENT AT 31 OCTOBER 20.9

	Debit	Credit +
Debit Balance as per bank statement	1 620	
Credit Outstanding deposit		4 600
Debit Outstanding cheques: No. 34	1 870	
No. 45	300	
No. 51	1 230	
Credit Balance as per bank account		420
	5 020	5 020

TASK 3.19  **Ciara Stores: Bank Reconciliation**

3.19.1	Refer to no. 1. Is this balance required for reconciliation purposes? Explain why.
No. This is the opening balance for March brought forward from the previous month's (February) bank statement. This balance would have been used for reconciliation in February.	
3.19.2	Refer to no. 5. Who made this error? Explain how this error is corrected.
The error was made by the bank. The error is corrected in the Bank Reconciliation Statement. The bank would have credited Ciara Stores with the deposit IN ERROR. entry is, therefore, needed to correct the error. In B REC DR INCORRECT CREDIT ENTRY	
3.19.3	Why is it necessary to process an entry for no. 5? Why can one not just keep quiet about it? Discuss.
Firstly you would not have a credit entry or account for this amount – unless a fictitious one was made. This is unethical . Allow the learners to discuss this answer – guide them on the ethics and the right and wrong in this situation.	

3.19.4 Refer to no's. 6, 7 and 8. Suggest a system which Ciara Stores can implement to prevent a recurrence (repetition) of such errors.

No. 6 and 7:

Cheque stubs should be filled in correctly and completely.

A check with the invoice/statement/order can be made to verify the payment.

Before casting the journal a check should be made of all payments, preferably by another person in the business.

No. 8:

Details on cheques should be carefully scrutinised.

The cashier or the person responsible for collections should check the following:

- The cheque must be completely filled.
- Amounts in words and figures agree.
- No alterations appear.
- The date is correctly filled in – a post-dated cheque should be kept away in a safe place and only deposited on the date stipulated on the cheque.
- Post-dated cheque payments need to be pre-authorised by the owner or a senior person in the business.
- Any other suitable answer.

3.19.5 Errors 6, 7 and 8

No.	Journal	No entry	Account debit	Account credit	Amount	Effect on bank balance		
						+	-	0
6.	CPJ		Trading stock	Bank	R99		-	
7.	CRJ		Bank	Consumables	R900	+		
8.		X						

Note to Teacher:

Error no. 8:

The error was discovered immediately by the teller. He/she did not process the deposit. The deposit has however been recorded in the CRJ. This deposit will have to be deleted and the figures adjusted accordingly.

3.19.6 BANK RECONCILIATION STATEMENT ON 31 MARCH 20.2

	Debit	Credit
Balance as per bank statement		18 992
Outstanding deposit		5 598
Outstanding cheques	4 561	
Amount wrongly credited	1 996	
Balance as per bank account	18 033	
	24 590	24 590

3.19.7 Show how the bank balance of R18 033 was arrived at.

Opening bank balance	17 232
Amount understated	[99]
Amount overstated	900
Bank balance	<u>18 033</u>

TASK 3.20 Amelia Retailers: Bank Reconciliation

3.20.1 CASH RECEIPTS JOURNAL OF AMELIA RETAILERS FOR AUGUST 20.3 CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	14 110	14 110		
337		LifeLine Centre (stale)		500	500		Donation
B/S		Khumalo Development		1 500	1 500		Rent income
921		Avery Stats (overstated)		540	540		Stationery
				16 650	16 650		

B

CASH PAYMENTS JOURNAL FOR AUGUST 20.3 CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	13 610	13 610		
930		LifeLine Centre		1 000	1 000		Donation
B/S		Fedbank		550	370		Bank charges
					180		Interest on o/d
B/S		SureFed Brokers		1 780	1 780		Insurance
B/S		Upton CC (r/d)		340	340		Debtors control
B/S		Mr Suttler (r/d)		3 190	3 190		Debtors control
925		Ayanda's Bazaar (understated)		270	270		Trading stock
				20 740	20 740		

B

3.20.2 GENERAL LEDGER OF AMELIA RETAILERS BALANCE SHEET ACCOUNTS SECTION

Dr				BANK				B				Cr			
20.3						20.3									
Aug	1	Balance	b/d	8 910		Aug	31	Sundry accounts	CPJ					20 740	
	31	Sundry accounts	CRJ	16 650				Balance	c/d					4 820	
				25 560									25 560		
Sep	1	Balance	b/d	4 820											

3.20.3 BANK RECONCILIATION STATEMENT AT 31 AUGUST 20.3

	Debit	Credit
Balance as per bank statement		3 920
Outstanding deposit		4 120
Outstanding cheques: No. 930	1 000	
No. 935	2 220	
Balance as per bank account	4 820	
	8 040	8 040

3.20.4 Explain the significance of a bank reconciliation statement.

- It confirms the accuracy of all transactions recorded in the cash journals and the balance in the bank account.
- It also keeps track of outstanding cheques, deposits, r/d cheques, bank charges.
- The reconciliation procedure also enables the trader to identify errors/omissions in the cash journals and errors/omissions in the bank statement.

3.20.5 Refer to No. 6 below. How would you treat cheque no. 935 at the end of the financial year? Supply reason(s).

The amount has not yet been deducted from Amelia's current banking account.
 This means that the account has not yet been paid.
 On the Balance Sheet date, all post-dated cheques are reversed:
 Add to Bank; Add to Creditors control.

TASK 3.21 ☹️🔥 Cosmos Stores: Bank Reconciliation

3.21.1

CRJ
54 210
529
2 900
2 500
500
60 639

3.21.2

CPJ
49 210
254
788
4 562
327
1 344
3 500
59 985

3.21.3

GENERAL LEDGER OF COSMOS STORES BALANCE SHEET ACCOUNTS SECTION

Dr				BANK				B		Cr	
20.8					20.8						
Oct	31	Sundry accounts	CRJ	60 639	Oct	1	Balance ^[1]	b/d			8 924
		Balance	c/d	8 270		31	Sundry accounts	CPJ			59 985
				68 909							68 909
					Nov	1	Balance	b/d			8 270

[1] 14 320 + 500 + 1 548 + 996 – 8 440

3.21.4 BANK RECONCILIATION STATEMENT AT 31 OCTOBER 20.8

	Debit	Credit
Balance as per bank statement	4 011	
Outstanding deposit		2 561
Outstanding cheques: No. 223	1 321	
No. 236	1 999	
No. 248	3 500	
Balance as per bank account		8 270
	10 831	10 831

TASK 3.22 ☹️🔥 Tyron Traders: Bank Reconciliation

3.22.1 TYRON TRADERS

CASH RECEIPTS JOURNAL FOR SEPTEMBER 20.4

CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	30	Totals	b/f	33 220	33 220		
512		TT Tennis Club (cancelled)		150	150		Donation
767		Arrow Adverts (overstated)		270	270		Advertising
B/S		EBSE Bank		10 200	10 000		Fixed deposit
					200		Interest income
				43 840	43 840		

B

CASH PAYMENTS JOURNAL FOR SEPTEMBER 20.4

CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	30	Totals	b/f	40 921	40 921		
B/S		ConBank		608	175		Interest on o/d
					433		Bank charges
781		Mike Motors (understated)		18	18		Repairs
B/S		Z. Shezi (r/d cheque)		310	310		Debtors control
B/S		D. Side (r/d cheque)		545	545		Debtors control
B/S		ID Insurance Brokers		755	510		Insurance
					245		Drawings
				43 157	43 157		

B

3.22.2

**GENERAL LEDGER OF TYRON TRADERS
BALANCE SHEET ACCOUNTS SECTION**

Dr				BANK		B		Cr	
20.4				20.4					
Sep	30	Sundry accounts	CRJ	43 840	Sep	1	Balance ^[1]	b/d	1 178
		Balance	c/d	495		30	Sundry accounts	CPJ	43 157
				44 335					44 335
					Oct	1	Balance	b/d	495

^[1] 150 + 2 700 + 630 – 962 – 1 340

3.22.3 BANK RECONCILIATION STATEMENT AT 30 SEPTEMBER 20.4

	Debit	Credit
Credit Balance as per bank statement		5 465
Credit Outstanding deposit		900
Debit Outstanding cheques: No. 766	2 700	
No. 786	1 360	
No. 802	2 800	
Credit Balance as per bank account		495
	6 860	6 860

TASK 3.23 ☼💧 True or False

No.	True/False	Reason
1.	True	
2.	False	Negative bank balance is on the Dr side of the bank statement.
3.	False	Concept of materiality stipulates that interest on overdraft must be kept separate from bank charges.
4.	False	Bank only transfers money as and when it is needed.
5.	False	A cheque is only cancelled when it is 6 months old.
6.	True	
7.	False	The entry must be made on the Dr side to reduce the bank balance.
8.	False	The bank will not hold post-dated cheques. These will be dishonoured and returned to the accountholder.
9.	True	
10.	True	

TASK 3.24 Sokhela Enterprises: Bank Reconciliation; Analysis

3.24.1

No.	Bank account		Bank Reconciliation Statement		No entry
	Debit	Credit	Debit	Credit	
E.g. (a)		1 000			
E.g. (b)	1 240				
1.			3 579		
2.		345			
3.		196			
4.				1 190	
5.	219				
6.		29			
7.	323				
8.					X
9.		3 422			
10.	830	1 660	1 660		
11.		9			

3.24.2	Calculate the bank balance on 31 May 20.8.
$[1\ 240 + 219 + 323 + 830] - [1\ 000 + 345 + 196 + 29 + 3\ 422 + 1\ 660 + 9]$ $2\ 612 - 6\ 661 = (R4\ 049)$ (credit – unfavourable)	
Alternate:	
$3\ 579 + 1\ 660 - 1\ 190 = (R4\ 049)$ (credit – unfavourable)	

3.24.3 BANK RECONCILIATION STATEMENT AT 31 MAY 20.8

	Debit	Credit
Balance as per bank statement	3 579	
Outstanding deposit		1 190
Outstanding cheque (No. 154)	1 660	
Balance as per bank account		4 049
	5 239	5 239

TASK 3.25 Article on FICA

3.25.1	What do you understand by the term 'money laundering'?
Money generated by criminal activities.	
3.25.2	Why do you think it was necessary to introduce these regulations?
To prevent criminal activities such as money laundering.	
3.25.3	What evidence do the banks require their clients to produce when opening an account or confirming their identity on existing accounts?
Personal particulars: identity document; utility bill to serve as proof of residence.	
3.25.4	Why is this a problem to people living in informal settlements?
They cannot easily be contacted telephonically or by mail.	

3.25.5	What implications have these regulations had for the banking world in order to comply with the regulations?
FICA aims to bring international standards for combating money laundering and other unlawful activities.	
3.25.6	What is going to happen to the bank accounts of clients who have not been verified?
Banks may freeze accounts.	

TASK 3.26 ☼💧💧 Ethics and Internal control

3.26.1	The balance on the bank statement at the end of each month is always greater than R50 000.
Problem: The bank balance should not be so high on a consistent basis – this means that the business is losing out on the potential earning of interest.	
Solution: Arrange with the bank for, say, R40 000 to be invested in a daily call account which can be utilised at one day's notice in the event of an emergency. This will generate further interest income.	
3.26.2	The bookkeeper, I.M. Idle, has not prepared a Bank Reconciliation Statement for the past two months. She says she has been too busy.
Problem: The preparation of a bank reconciliation statement is an important part of the work of a bookkeeper as it ensures that the figures in the books are correct, and it aids internal control.	
Solution: Speak to the bookkeeper and get her to acknowledge how important this Task is. Warn her that she faces dismissal if she does not carry out this duty.	
3.26.3	You notice that the bank statement reflects a dishonoured cheque of R5 500. This is in respect of a cash customer who paid by cheque for goods bought on a sale. This customer cannot be contacted. He has provided a false phone number on the back of the cheque.
Problem: The sales assistant should not have accepted a cheque for a large amount such as this. Cheques should not be accepted from unknown customers.	
Solution: Institute a policy in the business which precludes sales assistants from accepting cheques. Get assistance from the bank in tracing this customer, and refer it to the police if necessary (this is a fraud case).	
3.26.4	The bank statement reflects a deposit of R10 000 made into the account of Bestbuy Stationers. You have no knowledge of the person who has deposited this amount.
Problem: This money might not belong to Bestbuy Stationers. This money must not be used until the source is checked as it will have to be repaid if an error is detected in future.	
Solution: Contact the bank – ask them to check the source and report back to Bestbuy Stationers.	
3.26.5	A cheque was made out to a creditor, R. Dummer, for R5 000 six months ago. This cheque has never been recorded in any bank statement for the past six months.
Problem: It appears that R. Dummer has never received this cheque or he has lost it and has forgotten about the amount Bestbuy Stationers owed him.	
Solution: Contact R. Dummer – offer to cancel the cheque and issue him with a new one as the old cheque is stale.	

3.26.6	The cashier, I. Steele, is responsible for filling out the deposit slips every month. At the end of each month, you notice that there are always large outstanding deposits exceeding R15 000 appearing in the Bank Reconciliation Statement, even though some of these amounts were received a few days before date on the bank statement.
<p>Problem: It appears that I. Steele is deliberately understating the deposits each month. It appears that she has taken a large amount of money for her own use and replaces this each month with new funds received near the end of each month (this is called 'rolling' of cash – this is fraud).</p> <p>Solution: Near the end of the month, allocate a senior person or the auditor to check I. Steele's process of depositing cash. It will probably be noticed that she will be short of cash to account for all receipts issued to date. Disciplinary action should follow – she has the right to a fair hearing. If fraud has occurred, a criminal charge should be laid at the police station. She could face dismissal.</p>	
3.26.7	The bank statement reflects a direct transfer to TV Supplies for R12 000. On further investigation, you find that these were for assets ordered by a senior manager, B.A. Crooke.
<p>Problem: This could be an unauthorised payment.</p> <p>Solution: Check who authorised the payment, check that the asset is recorded in the fixed assets register, and check that the asset is physically on the property. If fraud is detected, B.A. Crooke should be placed through a disciplinary hearing and he should be charged with fraud. He could face dismissal.</p>	
3.26.8	A customer, Ivor Kwerry, asks why his payment last week for R1 000 was not deducted from the balance on his latest account. He produces receipt number 10245 to prove his payment. You investigate and you find that all the receipt numbers for the past month have been numbered in the sequence 367 to 488.
<p>Problem: It appears that I. Kwerry has been issued with a false receipt, and that someone in the business has pocketed the cash.</p> <p>Solution: Ask I. Kwerry to identify the person to whom he paid the cash. If fraud is suspected, the employee should be placed through a disciplinary hearing and charged with fraud. The employee faces dismissal. As a gesture of goodwill, Kwerry's account should be adjusted so that he is not disadvantaged.</p>	
3.26.9	A stop-order for R6 000 in favour of Nastee Rentals appears in the bank statements 13 times over the last 12 months. The business rents its property from Nastee Rentals.
<p>Problem: It appears Nastee Rentals has processed an additional stop-order incorrectly.</p> <p>Solution: Ask them for a refund. If they fail to do this, then instruct the bank not to honour the next payment to Nastee Rentals.</p>	
3.26.10	The bank charges on the bank statements for 20.5 were R4 100. For 20.6 the total was R8 400.
<p>Problem: It appears that bank charges might be increasing unreasonably.</p> <p>Solution: Make an appointment to see the bank manager. Query the calculation of the charges with the bank. If the rates have been increased by the bank, the business has the right to choose another bank.</p>	

CREDITORS RECONCILIATION

Note to the Teacher:

Learners will have been exposed to completing Creditors Control accounts in Grade 10, as well as, posting to the Creditors Ledger. Similar to Bank Reconciliations, as part of internal control, it is essential that businesses control these accounts to ensure that they pay the correct amounts to the correct creditors. It is customary for the creditors to send out statements once a month. The onus is then on the business to check their records against those on the statement. If there are differences, these will have to be investigated and the appropriate corrections made.

Therefore the principle of the Creditors Reconciliation is very similar to that of the Bank, and this is one of the reasons why this section has now been included into Grade 11 (it was in Grade 12 under the NCS). However, you are urged to discuss internal control at each step with the learners as you work through these Tasks.

TASK 3.27 ☹️ Mary Dealers: Revision on Creditors control

3.27.1

GENERAL LEDGER OF MARY DEALERS BALANCE SHEET ACCOUNTS SECTION

Dr					CREDITORS CONTROL					B	Cr
20.4					20.4						
Sep	30	Bank	CPJ	70 992	Sep	1	Balance	b/d		82 345	
		Discount received	CPJ	3 214		30	Bank (R/D)	CRJ		2 450	
		Sundry accounts	CAJ	5 766			Sundry accounts	CJ		35 479	
		Balance	c/d	41 270			Sundry accounts	GJ		968	
							[920 + 18 + 30]				
				121 242						121 242	
					Oct	1	Balance	b/d		41 270	

3.27.2	Answer the following questions:
	(a) What type of account is Creditors Control? Why?
	Liability. We (the business) owe them money.
	(b) Discuss two methods that the bookkeeper could use to check the accuracy of the information.
	1. Check that the balance on the Creditors Control account agrees with the total on the Creditors List. 2. Check the business's records with the statements received from the supplier.

TASK 3.28 ☹️ Revision on theory relating to creditors

NO.	LETTER
1.	E
2.	A
3.	C
4.	B
5.	F
6.	D

CREDITORS RECONCILIATION STATEMENT

Note to the Teacher:

It is important for the learners to understand the concept that while I buy from my creditor and therefore owe him money, he also keeps records of what I owe him. However, in his books I am a debtor.

It will be a good idea, at this stage to role-play this concept. Have 2 learners, one the buyer and one the seller and let them make the respective entries for transactions that take place. In this way you can demonstrate the role of one being the Debtor and the other the Creditor.

TASK 3.29 Berg Traders: Creditors Reconciliation

Note:

Before undertaking this Task, the Teacher should ask learners to identify and describe the entries that are on the statement and in the ledger account. The Teacher should ensure that learners understand the 'mirror image' of the one in relation to the other.

3.29.1 GENERAL JOURNAL OF BERG TRADERS FOR JUNE 20.8

No.	D	Details	Fol	Debit	Credit	GJ			
						Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	30	Trading stock		1 800					
		Acme Manufacturers			1 800				1 800
		Correction of invoice no. 2460							
		Trading stock		250					
		Acme Manufacturers			250				250
		Correction of debit note no. 35							

CORRECT BALANCE IN THE CREDITORS LEDGER ON 30 JUNE 20.8

Balance as per Creditors Ledger	R9 225
Invoice no. 2 460 [5 300 – 3 500]	1 800
Credit note no. 126 [750 – 500]	250
Correct balance as per ledger account	R11 275

3.29.2 CREDITORS RECONCILIATION AS AT 30 JUNE 20.8

Balance as per Acme statement	R17 075
Discount not reflected on 7 June	(300)
Payment not reflected on 27 June	(5 000)
Discount not reflected on 27 June	(500)
Balance as per ledger account	R11 275

TASK 3.30 Village Mall Retailers: Creditors Reconciliation

Note:

Before undertaking this Task, the Teacher should ask learners to identify and describe the entries that are on the statement and in the ledger account. The Teacher should ensure that learners understand the 'mirror image' of the one in relation to the other.

3.30.1 GENERAL JOURNAL OF VILLAGE MALL RETAILERS FOR AUGUST 20.9
GJ

No.	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	31	Umgeni Shoes		500				500	
		Discount received			500				
		Discount not entered on 31 July							
		Discount received		1 100					
		Umgeni Stores			1 100				1 100
		Correction of discount on 12 Aug.							
		Umgeni Shoes		1 800				1 800	
		Trading stock			1 800				
		Correction of Invoice no. 458							
		Trading stock		410					
		Umgeni Shoes			410				410
		Delivery charges not entered							
		Umgeni Shoes		9 800				9 800	
		Tugela Manufacturers			9 800				9 800
		Correction of Invoice no. 24338							

CORRECT BALANCE IN THE CREDITORS LEDGER ON 31 AUGUST 20.9

Balance as per Creditors Ledger	R26 030
Discount on 30 June	(500)
Correction of discount on 12 August	1 100
Invoice no. 458	(1 800)
Delivery charges	410
Invoice no. 24338	(9 800)
Correct balance as per ledger account	R15 440

3.30.2 CREDITORS RECONCILIATION AS AT 31 AUGUST 20.9

Balance as per statement of Umgeni Shoes	R20 540
Correction of C/N no. 432	360
Invoice no.477 wrongly reflected	(2 560)
Invoice no. 562 not on statement	5 900
Cheque no. 34622 not on statement	(8 000)
Discount not on statement	(800)
Balance as per ledger account	R15 440

TASK 3.31  W & D Dealers: Creditors Reconciliation
3.31.2 CREDITORS RECONCILIATION STATEMENT ON 31 MAY 20.2

	Dr	Cr
Dr balance as per statement of account	3 675	
Cr discount not recorded on 4 th May		275
Cr error on Statement (Invoice no. 1182)		500
Dr Invoice no. 1296 not recorded on statement	600	
Cr payment not yet recorded (Cheque no. 1335)		2 900
Cr balance as per Creditors Ledger		600
	4 275	4 275

OR

Dr balance as per statement of account	3 675
Cr discount not recorded on 4 th May	(275)
Cr error on Statement (Invoice No. 1182)	(500)
Dr Invoice no. 1296 not recorded on statement	600
Cr payment not yet recorded (Cheque no. 1335)	(2 900)
Cr balance as per Creditors Ledger	600

TASK 3.32 Noni: Creditors Reconciliation

RECONCILIATION BETWEEN THE CREDITORS LEDGER AND THE STATEMENT OF ACCOUNT

DETAILS	CREDITORS LEDGER	STATEMENT OF ACCOUNT
Balance	30 710	31 440
Trade discount	(1 560)	
Discount allowed		(150)
Debit note no. 56	(2 400)	
Invoice no. 48		(2 600)
Outstanding cheque		(4 400)
Outstanding discount		(440)
Outstanding invoice		2 900
CORRECT BALANCE	26 750	26 750

TASK 3.33 Geoff Hadebe: Scenarios

Scenario 1:

3.33.1	Identify the problem area/s in this business.
<p>His debtors take 30 days to pay him while he is paying cash for his stocks – this may be putting a strain on working capital. It is possible that working capital is not properly managed. Any other appropriate answer.</p>	
3.33.2	Suggest ways in which the liquidity situation can be improved.
<p>Encourage debtors to pay back sooner – offer discounts or any other incentives. Negotiate credit facilities with suppliers. Any other appropriate answer.</p>	

Scenario 2:

3.33.3	What are the implications of the actions of the clerk and cashier? Also indicate why the books will not be in balance.
<p>They are stealing money from the business – this could result in a loss of profits. Payments to creditors are reflected incorrectly in the Creditors Ledger as the discount is not shown. Cheque payments are not matched with total payments in the CPJ.</p>	
3.33.4	What control measures can you put in place to rectify this situation?
<p>Verify cheques with the amounts shown on the statement and the ledger. Get a third person to check entries in the CPJ and posting from the CPJ.</p>	
3.33.5	What action do you intend taking against the clerk and the cashier?
<p>Lay criminal charges against them. Reprimand them. Dismiss them (provided all legal requirements have been met).</p>	

TASK 3.34

Umkhele Uniforms: Ethics & internal control relating to purchases and creditors

- 3.34.1** This is an internal control matter. He should make best use of his cash resources by taking advantage of the credit terms offered. It will take time for the stock to be sold, and his suppliers are aware of that. If he pays them too early he will experience cash flow problems.
- 3.34.2** This is unethical. Harry should be made aware of this. Jennifer will earn the business a poor reputation, which will not be good for his business in the long run.
- 3.34.3** This is unethical. Harry's business relies on the support of the community. He should not cause them to travel far distances to get their uniforms. The primary school children will eventually be in a high school. It makes good business sense for him to encourage their parents to support his business even if it does not make him much profit at this stage.
- 3.34.4** This reflects poor internal control. Harry is being naïve to think that Jennifer is doing this job properly. Although errors can be made in the counting of stock, which could lead to a big shortage in one month and a surplus in the next, it is unlikely that surpluses will occur regularly. Harry should supervise the stock count and he should rotate his staff on this task to ensure that there is no opportunity for fraud.
- 3.34.5** This is unethical of Harry. The supplier is doing the right thing by passing on the saving to the retailer. However, they would expect that this saving be passed on to the customer as well. When information on the cost reductions reaches the public, Harry will get a poor reputation for not placing the interests of his customers first, which will affect the sustainability of his business.
- 3.34.6** This is unethical and may be considered as a bribe. Harry should support the suppliers who have helped him grow his business over the past decade. Harry has no idea at this stage what Bennie's prices will be (they might well be more than 20% higher than the prices of his existing suppliers), and the quality of Bennie's stock is still to be verified. He could stock a limited supply of Bennie's uniforms to assess if the public approves. However, he must realise that he should not discard suppliers who have supported him for a very long time.
- 3.34.7** This reflects poor internal control. There is opportunity for Jennifer to commit fraud without anyone detecting this, as she handles all aspects of the buying, receiving and paying for stock. One obvious example is that she could order stock that is not necessary and take this home. Harry's business would then be paying for stock that was never sold. In view of Jennifer's financial difficulties, it does not make sense to rely on her honesty.

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Updating of cash journals.			
Posting to the Bank account.			
Preparation of a Bank Reconciliation Statement.			
Identify and explain why some entries do not appear in the Bank statement.			
Identify and explain why some entries do not appear in the Cash receipts and cash payments journals.			
Process entries for post-dated cheques received and issued.			
Process a bank reconciliation statement taking last month's bank reconciliation into consideration.			
Process entries for stale cheques.			
Correct errors in the business' books.			
Correct errors made by the bank on the bank statement.			
Appreciate the need for completing a bank reconciliation statement.			
The impact of internet on the banking world.			
Completion of general journal entries to record errors or items left out of the Creditors Control.			
Completion of the Creditors Reconciliation Statement.			
Understand the need for internal control mechanisms in Creditors control and Bank Reconciliation.			
Identify unethical behaviour in relation to Creditors and banking.			

MODULE 4

FIXED ASSETS

Note to the Teacher:

Depreciation was covered in Grade 10. However, as it is very important in Asset disposal we are going to revise some of the concepts at the beginning. You are requested to choose what Tasks and to what degree you think your class needs this revision, before moving to the disposal of the assets.

This Module, therefore, focuses on the sale of fixed assets. Learners are required to process the sale entries, including pro-rata depreciation, making use of alternative methods of depreciation, by completing an Asset disposal account in order to calculate the profit or loss on the sale of the asset. This is generally a section that learners experience difficulties with. We have attempted to explain the method visually as well, in order to help learners to understand the why and how. We suggest you take time working through Asset disposal because, besides getting a question on its own, it often becomes an adjustment in financial statements.

Lastly, the Module will look at the recording of the fixed assets in the Balance Sheet. Again, this was covered in Grade 10 but now learners have to incorporate the sale (disposal) of the asset. Confusion often appears in the learners' minds over the different figures, i.e. cost, book value and selling price. Take time to explain each and reinforce that the disposal of the fixed asset is shown in the note to the Balance Sheet at **book value**. This is because fixed assets are reported in a Balance Sheet at **book value**.

Of great importance in any discussion on Fixed Assets are the following 2 topics:

- Internal control mechanisms put into place to ensure adequate control of your assets.
- Ethical issues relating to fixed assets.

Tasks have been included on these 2 topics. Some are questions on their own, i.e. Task 4.24 and 4.25 but the topics have also been integrated into the other tasks. You are urged to spend time discussing these two very important topics throughout this Module and as far as possible to bring in relevant situations in your particular context.

TASK 4.1 Super Shoes: Ethical considerations

Note to the Teacher:

There is no right or wrong answer to this question. The purpose is to allow the learners' time to consider the implications of motor vehicles on the profits of the business and also to debate the ethical issues that surround management and labour, wages and perks. This is a very topical debate in the country and is apparent in the number of strikes and wage disputes in which the barrier between management and labour is evident.

Suggested topics for discussion:

1. The cost of each vehicle, i.e. the Jeep costs a lot more than the Polo.
2. The maintenance and running costs of each vehicle.
3. The borrowing costs of each vehicle.
4. The status (image) that the business wants to create, e.g. the expensive car creates the impression of a prosperous business.
5. Ethical issues around large amounts of money been spent on senior management versus the wages paid to workers.
6. Any other feasible suggestion.

TASK 4.2 Testing prior knowledge

Note to the Teacher:

Use the following Task to ensure whether the learners have the basic knowledge regarding the double entries for purchasing vehicles. Identify those learners who are experiencing barriers with this work and ensure that they are given the necessary support; otherwise, they will experience even more difficulties with the rest of the Module.

4.2.1	What is the double entry when a vehicle is bought on credit?
	Dr Vehicles; Cr Creditors control
4.2.2	What is the effect on the Accounting equation when the vehicle is bought on credit?
	Asset: +; Liabilities: +; Owners' Equity: 0
4.2.3	What is the double entry when the creditor is paid for the vehicle?
	Dr Creditors control, Cr Bank
4.2.4	What type of asset is vehicle? Why?
	Fixed asset – it has a lifespan of more than one year.
4.2.5	Are the following statements true or false? Give a reason for your decision.
	(a) Servicing of the vehicle is debited to the vehicles account.
	False – Dr Vehicle expenses (expense).
	(b) A CD player installed in the vehicle is debited to the vehicles account.
	True – it is a fixture and adds value to the vehicle.
	(c) Vehicles increase in value over the years.
	False – generally they decrease although some vintage cars might increase.

DIFFERENT METHODS OF DEPRECIATION:

Note to the Teacher:

Take time to explain the impact of the 2 different types of depreciation.

Fixed instalment (Cost) method:

Simple to use and is in line with the SARS regulations. It, therefore, has tax benefits as a larger amount is written off as depreciation, which increases costs and thus decreases profits. However, after a period of time the asset will be written off and, thereafter, there is no more depreciation. Explain to the learners that it is customary to reduce the asset to R1 and not R0.

The fixed cost method, however, is not realistic. Assets generally lose their greatest value at the outset and then it diminishes. You are urged to refer to the SARS wear and tear allowances to indicate how SARS controls the maximum amount that can be written off in a particular year.

Diminishing balance method:

This method results in a more realistic value of the asset. Generally, assets lose the greatest amount in the early years. Under this method, the asset will also never get to a value of R0 – it can however become fractions of a Rand but not R0.

Allow learners to debate which method is more suitable for a business but re-enforce to them the concept of consistency, in that, once they have adopted a particular method they cannot change.

TASK 4.3 Revision: Fixed Instalment/cost method

Year	Cost price	Rate of depreciation	Depreciation	Accumulated depreciation	Carrying (book) value
28:02:20.4	65 000	15% on cost	4 875*	4 875	60 125
28:02:20.5	65 000	15% on cost	9 750	14 625	50 375
28:02:20.6	65 000	15% on cost	9 750	24 375	40 625
28:02:20.7	65 000	15% on cost	9 750	34 125	30 875

*Note: They only had the vehicle for 6 months.

TASK 4.4

Revision: Diminishing Balance method of depreciation

Year	Cost price	Rate of depreciation	Depreciation	Accumulated depreciation	Carrying (book) value
28:02:20.2	220 000	20%	22 000*	22 000	198 000
28:02:20.3	220 000	20%	39 600	61 600	158 400
28:02:20.4	220 000	20%	31 680	93 280	126 720
28:02:20.5	220 000	20%	25 344	118 624	101 376
28:02:20.6	220 000	20%	20 275	138 899	81 101

*Note: The vehicle was only 6 months old.

TASK 4.5

Bumper Super Stores: Revision on recording depreciation

4.5.1

GENERAL LEDGER OF BUMPER SUPER STORES BALANCE SHEET ACCOUNTS SECTION

Dr					ACCUMULATED DEPRECIATION ON VEHICLES					B7	Cr				
20.7					20.6										
Feb	28	Balance	c/d	144 531	Mar	1	Balance	b/d						109 375	
					20.7										
					Feb	28	Depreciation	GJ						35 156	
				144 531										144 531	
					Mar	1	Balance	b/d						144 531	

ACCUMULATED DEPRECIATION ON EQUIPMENT

B8

20.7					20.6									
Feb	28	Balance	c/d	66 000	Mar	1	Balance	b/d						44 000
					20.7									
					Feb	28	Depreciation	GJ						22 000
				66 000										66 000
					Mar	1	Balance	b/d						66 000

NOMINAL ACCOUNTS SECTION DEPRECIATION

N19

20.7														
Feb	28	Accumulated depreciation on vehicles	GJ1	35 156										
		Accumulated depreciation on equipment	GJ1	22 000										

4.5.2 What effect does depreciation have on the Accounting equation?

Assets =	Owner's equity +	Liabilities
-35 156	-35 156	0
-22 000	-22 000	0

TASK 4.6

LCT Logistics: Ledger accounts

4.6.1 Calculate the depreciation on vehicles and equipment.	
Vehicles:	
150 000 – 64 000 x 25%	= R21 500
140 000 x 25% x ² / ₁₂	= R 5 833
21 500 + 5 833	= <u>R27 333</u>
Equipment:	
80 000 x 20%	= R16 000
15 800 x 20% for ¹¹ / ₁₂	= R 2 897
2 000 x 20% for ⁹ / ₁₂	= R 300
16 000 + 2 897 + 300	= <u>R19 197</u>

4.6.2

GENERAL LEDGER OF LCT LOGISTICS BALANCE SHEET ACCOUNTS SECTION

Dr				VEHICLES		B4		Cr	
20.4					20.5				
Mar	1	Balance	b/d	150 000	Feb	28	Balance	c/d	290 000
Dec	31	Creditors control	CJ	140 000					
				290 000					290 000
20.5									
Mar	1	Balance	b/d	290 000					

				EQUIPMENT		B5			
20.4					20.5				
Mar	1	Balance	b/d	80 000	Feb	28	Balance	c/d	97 800
	31	Bank	CPJ	15 800					
June	1	Creditors control	CJ	2 000					
				97 800					97 800
20.5									
Mar	1	Balance	b/d	97 800					

				ACCUMULATED DEPRECIATION ON VEHICLES		B6			
20.5					20.4				
Feb	28	Balance	c/d	91 333	Mar	1	Balance	b/d	64 000
					20.5				
					Feb	28	Depreciation	GJ	27 333
				91 333					91 333
					20.5				
					Mar	1	Balance	b/d	91 333

Dr					ACCUMULATED DEPRECIATION ON EQUIPMENT					B7		Cr	
20.5					20.4								
Feb	28	Balance	c/d	59 297	Mar	1	Balance	b/d				40 100	
					20.5								
					Feb	28	Depreciation	GJ				19 197	
				59 297								59 297	
					20.5								
					Mar	1	Balance	b/d				59 297	

TASK 4.7 Alexis Traders: Ledger accounts

GENERAL LEDGER OF ALEXIS TRADERS BALANCE SHEET ACCOUNTS SECTION

Dr					VEHICLES					B4		Cr	
20.6					20.7								
Mar	1	Bank	CPJ	250 000	Feb	28	Balance	c/d				400 000	
20.7													
Feb	28	Creditors control	CJ	150 000								400 000	
				400 000									
20.7					20.8								
Mar	1	Balance	b/d	400 000	Feb	28	Balance	c/d				540 000	
Aug	31	Bank	CPJ	140 000									
				540 000								540 000	
20.8													
Mar	1	Balance	b/d	540 000									

EQUIPMENT					B5								
20.6					20.7								
Sept	1	Bank	CPJ	110 000	Feb	28	Balance	c/d				110 000	
				110 000								110 000	
20.7					20.8								
Mar	1	Balance	b/d	110 000	Feb	28	Balance	c/d				142 000	
June	30	Bank	CPJ	20 000									
20.8													
Feb	28	Bank	CPJ	12 000								142 000	
				142 000									
20.8													
Mar	1	Balance	b/d	142 000									

ACCUMULATED DEPRECIATION ON VEHICLES					B6								
					20.7								
					Feb	28	Depreciation	GJ				62 500	
					20.8								
					Feb	28	Depreciation (84 375 ^[1] + 17 500 ^[2])	GJ				101 875	
					20.9								
					Feb	28	Depreciation ^[3]	GJ				93 906	

Dr				ACCUMULATED DEPRECIATION ON EQUIPMENT				B7		Cr	
						20.7					
						Feb	28	Depreciation ^[4]	GJ		8 250
						20.8					
						Feb	28	Depreciation (16 500 ^[5] + 2 000 ^[6])	GJ		18 500
						20.9					
						Feb	28	Depreciation^[7]	GJ		21 300

[1] $400\ 000 - 62\ 500 = 337\ 500 \times 25\%$

[2] $140\ 000 \times 25\% \times \frac{6}{12}$

[3] $540\ 000 - (62\ 500 + 101\ 875) \times 25\%$
 $540\ 000 - 164\ 375 = 375\ 625 \times 25\%$

[4] $110\ 000 \times 15\% \times \frac{6}{12}$

[5] $110\ 000 \times 15\%$

[6] $20\ 000 \times 15\% \times \frac{8}{12}$

[7] $142\ 000 \times 15\%$

Dr				NOMINAL ACCOUNTS SECTION				DEPRECIATION		N12		Cr	
20.7													
Feb	28	Acc dep on vehicles	GJ	62 500									
		Acc dep on equip.	GJ	8 250									
20.8													
Feb	28	Acc dep on vehicles	GJ	101 875									
		Acc dep on equipment	GJ	18 500									
20.9													
Feb	28	Acc dep on vehicles	GJ	93 906									
		Acc dep on equip.	GJ	21 300									

Note:


- The depreciation rate was not given so it has to be worked out as follows:
 Vehicle: diminishing balance method is used. But for the first year, it is the same as the cost method:
 $\frac{62\ 500}{250\ 000} \times 100 = 25\% \text{ p.a.}$
- Equipment: on cost. But the equipment was only bought half way through the year, therefore, the depreciation figure given of R8 250 is for half year. Double the depreciation to find what it would have been for the year i.e. $\frac{16\ 500}{110\ 000} \times 100 = 15\% \text{ p.a.}$ An alternative way would have been to calculate R8 250 as a percentage of R110 000 and then double that. Learners must realise that percentages are quoted **per annum**, so there must be a doubling of the 6 months depreciation written off.

TASK 4.8  **Broomsticks: Advice on depreciation**

This Task could be used for peer assessment. Each member of the group assesses each other.

Suggested assessment for this Task (Group/Peer assessment):

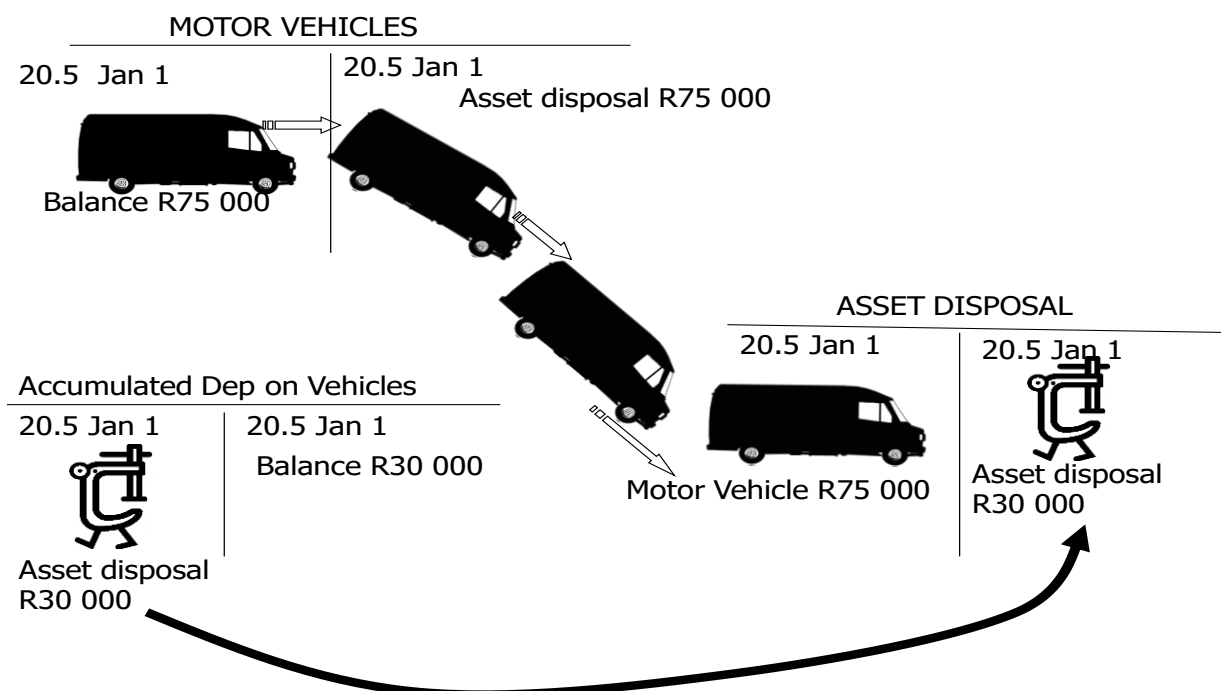
CRITERIA	YES	NO
Understands why vehicles and equipment are depreciated but not land and buildings.		
Understands the difference between the 2 methods of writing off depreciation.		
Can express an opinion on which method to use based on sound reasoning.		
Understands the effect of depreciation on the financial statements.		
Understands the principle of writing off depreciation over a period of time as laid down by SARS.		

TASK 4.9 **Hugo Cash Solutions: Sale of fixed asset**

4.9.1	Explain the entry of R75 000 on the debit side of the Vehicles account.
Cost price of the vehicles – price at which they were bought for.	
4.9.2	Explain the entry of R30 000 on the credit side of the Accumulated depreciation on vehicles account.
Total depreciation written off the vehicle from the time of purchase up to 1 January 20.5.	
4.9.3	What is the book value of the vehicle on the 1 January 20.5?
BV = CP – ACC DEP R45 000 = (R75 000 – R30 000)	
4.9.4	If you were going to sell the vehicle would the original cost or the book value guide you in setting the selling price? Why?
Book value. Vehicles lose value, so you are unlikely to sell at the original cost price. The book value is a guide as to what price you could sell it for.	
4.9.5	Assume that Hugo Cash Solutions decide to sell the vehicle on 1 January 20.5, what entry(ies) would have to be made? (Hint: When you sold trading stock what entry would you have put through the ledger?) Make the necessary entry(ies).
Allow the learners time to debate and discuss. You are hoping they will realise that it is not only the vehicle at cost that needs to be credited but that entries must also be made in the Accumulated depreciation account.	
4.9.6	Hugo sells the vehicle for R50 000 for cash. Make the necessary entries.
There are various options at this stage. Allow them to experiment and not give them the Asset disposal account at this stage – rather let them reason out possible methods and double entries.	
4.9.7	Explain why you think Hugo sold the vehicle for more than the book value.
Various options – good condition, low mileage, extra features, e.g. radio, mag wheels, supply and demand, etc.	
4.9.8	What entries would you need to make to record this?
Let the learners come up with their own suggestions. Hopefully, they will work out entries to record the profit.	

Suggestion:

Photostat the following diagram, enlarging it to A3 size and pin it up on your classroom wall or let a group of learners design their own poster.



TASK 4.10 Asset disposal account

4.10.1	What has happened to the vehicles account? Why?
It has been credited (reduced). ASSET - The vehicle has been sold so the account must reflect this.	
4.10.2	What has happened to the Accumulated depreciation account? Why?
It has been debited (reduced). CONTRA ASSET - The vehicle has been sold so the account must reflect this.	
4.10.3	What is the function of the Asset Disposal account? Why is it better to open this separate account?
It brings together all the entries to do with the vehicle and the sale thereof – matching principle . It is then easier to work out if a profit or loss has been made on the sale. Need CP, ACC DEP, SP in ONE A/C . ☺	
4.10.4	According to your books, do you still own the vehicle?
No.	
4.10.5	If you sell the vehicle for R50 000 cash, what entries are necessary?
Dr Bank and Cr Asset disposal	

TASK 4.11 Asset disposal

4.11.1	What has happened to the Asset disposal account? Why?	
Closed off by calculating the profit on the sale of the asset. CLOSED OFF. "DISPOSED OF!"		Never
has a balance b/d.		
4.11.2	What does the R5 000 mean?	
You made a profit – sold the asset for R5 000 more than the book value. $[R75\ 000 - 30\ 000] = R45\ 000 [CV] < R50\ 000 [SP]$ $SP > CV = \text{PROFIT}$ ☺		
4.11.3	Why do we have to show the R5 000 in the books?	
In order to balance / close off the books and to reflect that you made a profit.		

4.11.4	Why is the R5 000 recorded on the credit side of the Profit on disposal of asset account?
Profit on disposal is an income account – hence it gets reflected on the credit side.	
4.11.5	What entries are in your books after completing the sale entries in connection with the vehicle?
Only the profit on sale has a balance. The vehicle and accumulated depreciation have been closed off.	
4.11.6	What would happen to the Profit on disposal of asset account in the financial statements?
Closed off to the Profit and Loss account at the end of the financial year.	

TASK 4.12 ☼ **Asset disposal**

4.12.1	Why was only R40 000 credited to the Vehicles account?
Only the cost price of the vehicle sold must be credited to the Vehicles account.	
4.12.2	Why was only R24 000 debited to the Accumulated depreciation account?
Only the Accumulated depreciation on the vehicle sold must be debited to the account.	
4.12.3	What was the book value of the Toyota on 1 January 20.5?
R16 000 (R40 000 – R24 000).	
4.12.4	What does the entry for R4 000 mean?
A loss on the sale was made – the asset was sold for R4 000 less than the book value.	
4.12.5	What would happen to the Loss on disposal of asset account?
Closed off to the Profit and Loss account at the financial year end.	
4.12.6	What would happen to the Vehicles and Accumulated depreciation accounts?
Balanced off to show the balance of the vehicles still remaining.	
4.12.7	Why are these two accounts not closed off?
There is still another vehicle in the business.	
4.12.8	Why was the entry for the selling price not recorded in the General Journal?
It was sold for cash; therefore it was recorded in the CRJ.	

TASK 4.13 ☹️🔥 Max (1): Asset disposal

Note to the Teacher:

This Task enables learners to distinguish between the different values. Make sure that they understand the differences.

DETAILS	AMOUNT
Vehicle:	
Cost price of vehicle sold	R30 000
Accumulated depreciation on vehicle sold	21 000
Book value of vehicle sold	9 000
Selling price of vehicle sold	12 000
Profit / Loss on sale of the vehicle sold	3 000 Profit
Equipment:	
Cost price of the equipment sold	8 000
Accumulated depreciation on equipment sold	3 000
Book value of equipment sold	5 000
Selling price of equipment sold	3 500
Profit / Loss on sale of equipment sold	1 500 Loss

TASK 4.14 ☹️🔥 Moses Traders: Asset disposal

GENERAL LEDGER OF MOSES TRADERS BALANCE SHEET ACCOUNTS SECTION

Dr					B					Cr				
VEHICLES														
20.1					20.4									
Mar	1	Bank	CPJ	125 000	Mar	1	"TRANSFER CP"	GJ						125 000

Dr					B				
ACCUMULATED DEPRECIATION ON VEHICLES									
20.4					20.4				
Mar	1	"TRANSFER ACC DEPT"	GJ	61 000	Mar	1	Balance	b/d	61 000

NOMINAL ACCOUNTS SECTION ASSET DISPOSAL

Dr					N				
20.4					20.4				
Mar	1	Vehicles	GJ	125 000	Mar	1	Acc dep on vehicles	GJ	61 000
		Profit on disposal of asset	GJ	10 000			Bank	CRJ	74 000
				135 000					135 000

Dr					N					Cr				
PROFIT ON DISPOSAL OF ASSET														
					20.4									
					Mar	1	Asset disposal	GJ	10 000					

CASH RECEIPTS JOURNAL OF MOSES TRADERS – MARCH 20.4

Doc	D	Details	Bank	Sundry accounts		
				Amount	Fol	Details
X4058	1	P. Mara	74 000	74 000	N	Asset disposal

GENERAL JOURNAL OF MOSES TRADERS – MARCH 20.4

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	1	Asset disposal	N	125 000					
		Vehicles	B		125 000				
		Transfer of cost price of vehicle sold							
		Acc depreciation on vehicles	B	61 000					
		Asset disposal	N		61 000				
		Transfer of accumulated depreciation							
		Asset disposal	N	10 000					
		Profit on sale of asset	N		10 000				
		Profit made on sale of asset							

FIXED ASSET REGISTER

ASSET	Vehicle	DATE OF PURCHASE	1 March 20.1
COST PRICE	R125 000	DEPRECIATION RATE	20% p.a. (diminishing balance method)
RECORD OF DEPRECIATION			
Date	Depreciation	Accumulated depreciation	Book value
28 Feb 20.2	R25 000	R25 000	R100 000
28 Feb 20.3	20 000	45 000	80 000
28 Feb 20.4	16 000	61 000	64 000

TASK 4.15  **Max (2): Asset disposal**

Different answers are possible as learners will be using their own figures depending on the month during the year that they choose to demonstrate their answer. However, if the asset was sold during the year, a portion of the year's depreciation will be added to the accumulated depreciation. As a result, if they still sell the vehicle for R12 000, the loss on the sale of this vehicle will be less.

TASK 4.16  **Mboni Distributors (2): Asset disposal**

Date of sale (20.5)	Amount of depreciation for 20.5	Profit on disposal	Loss on disposal
1 January	Nil		R4 000
1 July	R3 000		R1 000
31 March	R1 500 <i>[40 000 x 15% x ³/12]</i>		R2 500 <i>[40 000 – 25 500 = 14 500 – 12 000]</i>
1 October	R4 500 <i>[40 000 x 15% x ⁹/12]</i>	R500 <i>[40 000 – 28 500 = 11 500]</i> <i>[12 000 – 11 500]</i>	
1 May	R2 000 <i>[40 000 x 15% x ⁴/12]</i>		R2 000 <i>[40 000 – 26 000 = 14 000 – 12 000]</i>
1 November	R5 000 <i>[40 000 x 15% x ¹⁰/12]</i>	R1 000 <i>[40 000 – 29 000 = 11 000]</i> <i>[12 000 – 11 000]</i>	

TASK 4.17 BG Plumbers: Asset disposal

GENERAL LEDGER OF BG PLUMBERS BALANCE SHEET ACCOUNTS SECTION

Dr				VEHICLES				B		Cr			
20.2								20.5		COST PRICE 1			
Mar	1	Bank	CPJ	132 500				Feb	28	Asset disposal	GJ	132 500	

ACCUMULATED DEPRECIATION ON MOTOR VEHICLE B

20.5								20.4					
Feb	28	Asset disposal 3	GJ	64 660				Mar	1	Balance	b/d	47 700	
								20.5					
								Feb	28	Depreciation 2	GJ	16 960	
				64 660								64 660	

NOMINAL ACCOUNTS SECTION

ASSET DISPOSAL N

20.5		COST PRICE 1						20.5		ACC DEP SP			
Feb	28	Vehicles	GJ	132 500				Feb	28	Acc dep on vehicles 3	GJ	64 660	
										Debtors control 4	GJ	65 000	
										Loss on disposal of asset 5	GJ	2 840	
				132 500								132 500	

LOSS ON DISPOSAL OF ASSET N

20.5								20.5					
Feb	28	Asset disposal	GJ	2 840				Feb	28	PROFIT & LOSS	GJ	2 840	

DEPRECIATION N

20.5		2											
Feb	28	Acc dep on vehicle	GJ	16 960						PROFIT & LOSS	GJ	16 960	

GENERAL JOURNAL OF BG PLUMBERS – FEBRUARY 20.5

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Depreciation	N	16 960					
		Acc depreciation on vehicles	B		16 960				
		Depreciation written off for 12 months @ 20% pa at CV							
		Asset disposal	N	132 500					
		Vehicles	B		132 500				
		Transfer of cost price of vehicles							
		Acc depreciation on vehicles	B	64 660					
		Asset disposal	N		64 660				
		Transfer of accumulated depreciation							

GENERAL JOURNAL OF BG PLUMBERS – FEBRUARY 20.5 (Continued)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
		J. Morgan	DL	65 000		65 000			
		Asset disposal	N		65 000				
		Vehicle sold on credit							
		Loss on disposal of asset	N	2 840					
		Asset disposal	N		2 840				
		Loss made on sale of asset							

FIXED ASSET REGISTER

ASSET	Ford NC 4568	DATE OF PURCHASE	1 March 20.2
COST PRICE	R132 500	DEPRECIATION RATE	20% p.a. (diminishing balance method)
RECORD OF DEPRECIATION			
Date	Depreciation	Accumulated depreciation	Book value
28 Feb 20.3	R26 500	R26 500	R106 000
28 Feb 20.4	21 200	47 700	84 800
28 Feb 20.5	16 960	64 660	67 840

TASK 4.18  **SE Traders: Asset disposal**

**GENERAL LEDGER OF SE TRADERS
BALANCE SHEET ACCOUNTS SECTION**

Dr					EQUIPMENT				B		Cr		
20.1					20.2								
Mar	1	Balance	b/d	49 600	Feb	28	Asset disposal	GJ				6 000	
							Balance	c/d				43 600	
				49 600								49 600	
Mar	1	Balance	b/d	43 600									

ACCUMULATED DEPRECIATION ON OFFICE EQUIPMENT B

20.2					20.1								
Feb	28	Asset disposal* (2)	GJ	4 000	Mar	1	Balance	b/d				13 840	
		Balance	c/d	19 760	20.2								
					Feb	28	Depreciation* (1)	GJ				1 200	
							Depreciation* (3)	GJ				8 720	
				23 760								23 760	
					Mar	1	Balance	b/d				19 760	

*Can be combined.

NOMINAL ACCOUNTS SECTION

Dr					ASSET DISPOSAL					N		Cr	
20.2					20.2								
Feb	28	Equipment	GJ	6 000	Feb	28	Acc dep on equip.	GJ	4 000				
							Debtors control	GJ	1 700				
							Loss on disposal of asset	GJ	300				
				6 000								6 000	

LOSS ON DISPOSAL OF ASSET					N			
20.2					20.2			
Feb	28	Asset disposal	GJ	300	Feb	28		
						Profit and Loss a/c	GJ	300

DEPRECIATION					N			
20.2					20.2			
Feb	28	Acc dep on equip.	GJ	1 200	Feb	28		
		Acc dep on equip.	GJ	8 720		Profit and Loss a/c	GJ	9 920
				9 920				9 920

GENERAL JOURNAL OF SE TRADERS – FEBRUARY 20.2

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Depreciation ^[1]	N	1 200					
		Acc dep on equipment	B		1 200				
		Depreciation written off							
		Asset disposal	N	6 000					
		Equipment	B		6 000				
		Transfer of cost price of equipment sold							
		Acc dep on equipment ^[2]	B	4 000					
		Asset disposal	N		4 000				
		Transfer of accumulated depreciation							
		J. Jakili (Debtors control)	DL	1 700		1 700			
		Asset disposal	N		1 700				
		Equipment sold on credit							
		Loss on disposal of asset	N	300					
		Asset disposal	N		300				
		Loss made on sale of asset							
		Depreciation ^[3]	N	8 720					
		Acc dep on equipment	B		8 720				
		Depreciation written off on the balance of the equipment							

^[1] 6 000 x 20%

^[2] 2 800 + 1 200

^[3] 49 600 – 6 000 = 43 600 x 20%

GENERAL JOURNAL OF SE TRADERS – FEBRUARY 20.2 (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Closing Transfer							
		Profit and Loss account		10 220					
		Depreciation	N		9 920				
		Loss on disposal of asset	N		300				
		Transfer entry							

TASK 4.19  **Duncan Stores: Asset disposal**

**GENERAL LEDGER OF DUNCAN STORES
BALANCE SHEET SECTION**

Dr					EQUIPMENT					B		Cr	
20.4					20.4								
Mar	1	Balance	b/d	81 500	Nov	30	Asset disposal	GJ					8 700
					20.5		NO GAP						
					Feb	28	Balance	c/d					72 800
				81 500									81 500
20.5				NO GAP									
Mar	1	Balance	b/d	72 800									

ACCUMULATED DEPRECIATION ON EQUIPMENT

					B				
20.4					20.4				
Nov	30	Asset disposal	GJ	3 263	Mar	1	Balance	b/d	43 810
20.5		NO GAP			Nov	30	Depreciation	GJ	653
Feb	28	Balance	c/d	48 480	20.5				
					Feb	28	Depreciation ^[1]	GJ	7 280
				51 743					51 743
					Mar	1	Balance	b/d	48 480

^[1] 81 500 – 8 700 = 72 800 x 10%

GENERAL JOURNAL OF DUNCAN STORES – NOVEMBER 20.4

						GJ			
No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	30	Depreciation ^[1]		653					
		Acc. dep. on equipment	B		653				
		Depreciation written off							
		Asset disposal		8 700					
		Equipment	N		8 700				
		Transfer of cost price of equipment sold							
		Acc. depreciation on equip. ^[2]	B	3 263					
		Asset disposal			3 263				
		Transfer of accum. depreciation							
		J. Rice (Debtors control)		4 870		4 870			
		Asset disposal			4 870				
		Equipment sold on credit							
		Loss on disposal of asset		567					
		Asset disposal			567				
		Loss made on sale of asset							

^[1] 8 700 x 10% x ⁹/₁₂

^[2] 2 610 + 653

GENERAL JOURNAL OF DUNCAN STORES – FEBRUARY 20.5 (Contd)

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Depreciation		7 280					
		Acc dep on equipment	B		7 280				
		Depreciation written off the balance of the equipment							
		Closing Transfer							
		Profit and Loss account		8 500					
		Depreciation			7 933				
		Loss on disposal of asset			567				
		Transfer entry							

FIXED ASSET REGISTER

Fol 3

ASSET	Cash Register	DATE OF PURCHASE	1 March 20.1
COST PRICE	R8 700	DEPRECIATION RATE	10% on cost
RECORD OF DEPRECIATION			
Date	Depreciation	Accumulated depreciation	Book value
28 Feb 20.2	R870	R 870	R7 830
28 Feb 20.3	870	1 740	6 960
28 Feb 20.4	870	2 610	6 090
30 Nov 20.4	653	3 263	5 437

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.5

3. Fixed/Tangible Assets

	Equipment
Carrying value at beginning of year	37 690
Cost	81 500
Accumulated depreciation	(43 810)
Movements	(13 370)
Additions at cost	-
Disposals at carrying value	(5 437)
Depreciation	(7 933)
Carrying value at end of year	24 320
Cost	72 800
Accumulated depreciation	(48 480)

TASK 4.20 ☼

Shadrack Enterprises: Fixed assets note

SHADRACK ENTERPRISES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 20.5

3. Fixed/Tangible Assets

	Vehicles	Equipment	Total
Carrying value at beginning of year	140 000	50 000	190 000
Cost	220 000	90 000	310 000
Accumulated depreciation	(80 000)	(40 000)	(120 000)
Movements	(56 000)	19 500	(36 500)
Additions at cost	-	30 000	30 000
Disposals at carrying value	(21 000)	-	(21 000)
Depreciation	(35 000)	(10 500)	(45 500)
Carrying value at end of year	84 000	69 500	153 500
Cost	160 000	120 000	280 000
Accumulated depreciation	(76 000)	(50 500)	(126 500)

TASK 4.21 ☼

Babylon Jewellers: Ledger & Fixed assets note

GENERAL LEDGER OF BABYLON JEWELLERS BALANCE SHEET ACCOUNTS SECTION

Dr					VEHICLES					B					Cr				
20.5					20.5					20.5					20.5				
Mar	1	Balance	b/d	130 000	Dec	31	Asset disposal	GJ	30 000	20.6					Feb	28	Balance	c/d	100 000
				130 000															130 000
20.6																			
Mar	1	Balance	b/d	100 000															

ACCUMULATED DEPRECIATION ON VEHICLES

B

20.5					20.5					20.5					20.5				
Dec	31	Asset disposal ^[3]	GJ	17 000	Mar	1	Balance	b/d	36 000	Dec	31	Depreciation ^[1]	GJ	5 000	20.6				
20.6					20.6					20.6					Feb	28	Depreciation ^[2]	GJ	20 000
Feb	28	Balance	c/d	44 000															
				61 000						20.6					Mar	1	Balance	b/d	44 000

^[1] 30 000 x 10% x ¹⁰/₁₂

^[2] 130 000 - 30 000 = 100 000 x 20%

^[3] 12 000 + 5 000

NOMINAL ACCOUNTS SECTION

DEPRECIATION

N

20.5					20.6					20.6					Feb	28	Profit and Loss	GJ	28 450
Dec	31	Acc dep on vehicles	GJ	5 000															
20.6																			
Feb	28	Acc dep on vehicles	GJ	20 000															
		Acc dep on equip.	GJ	3 450															
		(2 400 ^[1] + 1 050 ^[2])																	
				28 450															28 450

^[1] 30 000 - 14 000 = 16 000 x 15%

^[2] 14 000 x 15% x ⁶/₁₂

Dr					ASSET DISPOSAL					N					Cr				
20.5					20.5					20.5					20.5				
Dec	31	Vehicle	GJ	30 000	Dec	31	Acc dep on vehicles	GJ	17 000										
		Profit on sale of asset	GJ	4 250			Debtors control	GJ	17 250										
				34 250															34 250

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

3. Fixed/Tangible Assets

	Land and Buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	360 000	94 000	16 000	470 000
Cost	360 000	130 000	30 000	520 000
Accumulated depreciation	-	(36 000)	(14 000)	(50 000)
Movements	40 000	(38 000)	10 550	12 550
Additions at cost	40 000	-	14 000	54 000
Disposals at carrying value	-	(13 000)	-	(13 000)
Depreciation	-	(25 000)	(3 450)	(28 450)
Carrying value at end of year	400 000	56 000	26 550	482 550
Cost	400 000	100 000	44 000	544 000
Accumulated depreciation	-	(44 000)	(17 450)	(61 450)

TASK 4.22 Commercial Sports Warehouse: Ledger & Fixed assets note

GENERAL LEDGER OF COMMERCIAL SPORTS WAREHOUSE BALANCE SHEET ACCOUNTS SECTION

Dr					ACCUMULATED DEPRECIATION ON EQUIPMENT					B					Cr				
20.5					20.5					20.5					20.5				
Nov	30	Asset disposal ^[2]	GJ	15 375	Mar	1	Balance	b/d	42 000										
20.6					Nov	30	Depreciation ^[1]	GJ	3 375										
Dec	31	Balance	c/d	37 050	20.6					20.6									
					Feb	28	Depreciation [6 000 ^[3] + 1 050 ^[4]	GJ	7 050										
				52 425															52 425
					Mar	1	Balance	b/d	37 050										

NOMINAL ACCOUNTS SECTION DEPRECIATION

Dr					B				
20.5					20.6				
Nov	30	Acc dep on equip.	GJ	3 375	Feb	28	Profit and Loss a/c	GJ	36 558
20.6									
Feb	28	Acc dep on equip.	GJ	7 050					
		Acc dep on vehicles	GJ	26 133					
		[24 800 ^[5] + 1 333 ^[6]							
				36 558					36 558

^[1]30 000 x 15% x $\frac{9}{12}$ = 3 375

^[3]84 000 - 14 000 - 30 000 = 40 000 x 15% = 6 000

^[5]260 000 - 136 000 = 124 000 x 20% = 24 800

^[2]12 000 + 3 375 = 15 375

^[4]14 000 x 15% x $\frac{6}{12}$ = 2 100

^[6]40 000 x 20% x $\frac{2}{12}$ = 1 333

Dr					ASSET DISPOSAL					N		Cr	
20.5					20.5								
Nov	30	Equipment	GJ	30 000	Nov	30	Acc dep on equip.	GJ	15 375				
							Debtors control	GJ	13 500				
							Loss on disposal of asset	GJ	1 125				
				30 000								30 000	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

3. Fixed/Tangible Assets

	Vehicles	Equipment	Total
Carrying value at beginning of year	124 000	28 000	152 000
Cost	260 000	70 000	330 000
Accumulated depreciation	(136 000)	(42 000)	(178 000)
Movements	13 867	(11 050)	2 817
Additions at cost	40 000	14 000	54 000
Disposals at carrying value	-	(14 625)	(14 625)
Depreciation	(26 133)	(10 425)	(36 558)
Carrying value at end of year	137 867	16 950	154 817
Cost	300 000	54 000	354 000
Accumulated depreciation	(162 133)	(37 050)	(199 183)

TASK 4.23 Sharks Dealers: Fixed/Tangible note

4.23.1 Calculate the missing figures for (A) – (O).		
No.	Answer	Working (<i>alternate calculations may apply</i>)
A	90 000	250 000 – 160 00
B	90 000	
C	9 618	30 000 – 20 382
D	41 712	60 000 - 9 618 – 8 670
E	99 512	57 800 + 41 712
F	110 000	80 000 + 60 000 – 30 000
G	10 488	110 000 – 99 512
H	217 800	160 000 + 57 800
I	(22 200)	
J	131 712	90 000 + 41 712
K	150 000	90 000 + 60 000
L	(9 618)	
M	(8 670)	
N	349 512	250 000 + 99 512
O	360 000	250 000 + 110 000
P	(10 488)	

4.23.2 Give a reason why Land and buildings are not depreciated?	
Generally, Land and buildings increase in value and do not decrease. Principal of Prudence “conservative”	

4.23.3 Explain why Depreciation expense is described as a “non-cash item”.	
There is no cash payment associated with it – nobody is being paid the amount of the depreciation.	

4.23.4

Dr					ASSET DISPOSAL					N		Cr	
20.6					20.6								
Feb	28	Vehicle	GJ	30 000	Feb	28	Acc dep on vehicles	GJ				20 382	
		Profit on disposal of asset	GJ	200			Creditors control	GJ				9 818	
				30 200								30 200	

4.23.5 Present an argument in favour of using the diminishing balance method rather than the fixed instalment (cost) method for calculating depreciation.

Various answers possible.

More realistic – assets lose their greatest value in the early years and can never be worth nothing.

TASK 4.24 Thobani Mash: Report on vehicles

Note to the Teacher:

There is no right or wrong answer to this Task. The purpose of the Task is to allow the learners time to debate control measures in a business – why they are necessary, who gets affected and how, what type of control measures and the implications thereof. It is important that the learners identify possible problem areas and then offer solutions to these problems.

Suggested marking grid:

CRITERIA	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Ability to identify possible problem areas.	Some attempt to identify possible problems.	The obvious problem areas are identified.	Obvious problems identified showing some insight of these problem Areas.	Extensive identification of problem areas showing great insight.
Ability to make feasible suggestions.	Some attempt to make appropriate suggestions.	Makes appropriate suggestions based on problem areas identified.	Makes good suggestions based on some in-depth Understanding.	Makes excellent suggestions based on an in-depth Understanding.
Report.	Some aspects Adequate.	Some aspects of the report good.	Good report.	Excellent report.

TASK 4.25 Bestbuy Stationers: Ethical issues

- You need to use the office laptop computer and projector to do a Powerpoint presentation for an important client. After much investigation, you find out that a secretary has been taking this home each weekend. On this occasion, she has forgotten to return it.**

Problem:

It appears that the secretary has taken a business asset for personal use.

Also, security might be a problem – investigate how the secretary was able to remove this asset without being detected.

Insurance cover could also be a problem as the policy will be in the name of the business.

Solution:

Establish a policy in the business to make it clear that employees do not take assets off the property unless authorised to do so by a senior person.

Each employee must sign that they understand this policy and that disciplinary action may be taken against those who fail to comply.

2.	Three new air-conditioners have been bought for some of the offices. The cost is R5 000 each. The following day, you see an advertisement in the newspaper for the same model of air-conditioner for R3 800 each.
<p>Problem: The process of obtaining quotes might be a problem, and the business might not be buying from the best-priced supplier.</p> <p>Solution: Establish a policy in the business for three quotes to be obtained before any large asset is purchased. The final decision should be made by a senior person or preferably by a group of senior persons in the organisation.</p>	
3.	You ask an administrative assistant to use the Fixed Asset Register to compile a list of desks and chairs owned by the business, and their book value. You find that the book value does not agree with the cost and accumulated depreciation in the ledger – the list is understated by R10 000.
<p>Problem: The Fixed assets register forms an important part of the internal control processes in a business. It appears that the person responsible for this register has not been doing his/her job properly.</p> <p>Solution: The employee should be reprimanded and told to update the register immediately. A senior person should check the register to see that the totals for cost, accumulated depreciation and book value agrees with the balances in the general ledger.</p>	
4.	You count the number of office chairs in the business to be 125. The Fixed Asset Register reflects the total number to be 175.
<p>Problem: There appears to be theft. Security appears to be a major problem.</p> <p>Solution: Investigate the possible ways in which the assets could have been removed, and try to identify which chairs have gone missing and from which department. Code each asset clearly to cross-check with the fixed assets register, and mark each item to discourage theft. Consider installing security cameras.</p>	
5.	The owner of the business, Barry Best, has authorised the purchase of ten new computers for the sales office. He asks an admin assistant, M. Bezzle, to get three quotes and buy from the cheapest supplier. On arrival of the computers, you process a cheque in favour of Shifty Computers for R80 000. A week later, you notice that a new laptop computer has been delivered after hours by Shifty Computers for M. Bezzle.
<p>Problem: There is a possibility that M. Bezzle has placed the order with the business of one of his friends or a family member, after giving him information on the price quoted by the competing businesses.</p> <p>Solution: Inspect the quotes obtained from each business, and question them if necessary. Investigate the acquisition of the laptop by M. Bezzle. He should be able to provide proof of payment. He should be informed that, as he was entrusted with an important task involving large funds, he should be seen to be conducting himself in an ethical manner.</p>	

6.	The business owns six cars which are used by the salesmen during the course of their business. The depreciation rate is 20% p.a. on cost. These cars were fully depreciated ten years ago (the book value is now R1.00 each) and some of the salesmen are complaining about the cars. Because the repair costs are so high, Barry Best has issued an instruction to buy cheaper tyres.
<p>Problem: The cars are 10 years old and may be unsafe – the cheaper tyres could create further problems. Also, the old cars might not be good for the marketing image of the business.</p> <p>Solution: Investigate the possibility of selling the cars for the best price possible. If financing of new cars is a problem, the business could investigate leasing their cars.</p>	
7.	Two employees report that the desk-top computers and printers were stolen from each of their offices. There was no forced entry and the insurance company is refusing to process any claim on the insurance policy.
<p>Problem: It appears that the employees are not careful with regard to the securing of the assets entrusted to them. Their offices should be locked when they are not there.</p> <p>Solution: The business must establish a policy whereby each employee agrees to look after the assets entrusted to him/her. If negligence occurs, the employees should be held responsible for the cost in terms of the policy. In this case, an investigation needs to occur in order to determine whether the employees were at fault or not. Without a policy in place, the business will probably not be able to claim compensation from the employees – they should be disciplined and given a written warning.</p>	
8.	The owner of the business, Barry Best, has bought a yacht for himself for R900 000. He bought this out of the profits of the business. Barry wants you to record the yacht in the Fixed Assets Register and to record the depreciation on this asset in the Profit and Loss account.
<p>Problem: Although Barry is entitled to use the profits of the business for his own use, a yacht cannot be regarded as a business asset for a stationery concern. He would be defrauding SARS for income tax purposes if he recorded the depreciation as a business expense.</p> <p>Solution: Barry must not record the yacht in the name of the business. He must record it in his own name. The depreciation should not be regarded as a business expense.</p> <p>Note: It is believed that some businesses might buy a yacht for advertising purposes, e.g. publicity through entry in the Cape to Rio race. However, in such cases, SARS will need to give approval for allowance of the deduction of expenses for tax purposes.</p>	

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Conduct a survey, analyse the results and present a report.			
Calculate depreciation, accumulated depreciation, book value on fixed assets that have been sold during the financial year.			
Draw up a fixed asset register.			
Identify and explain the GAAP concepts relating to depreciation.			
Explain and draw up an Asset disposal account.			
Making the necessary entries in the financial statements.			
Discuss internal control procedures required to effectively control the assets.			
Discuss ethical issues relating to fixed assets and to be able to determine what constitutes unethical practice.			

MODULE 5

PARTNERSHIPS & FINAL ACCOUNTS

Note to the Teacher:

Learners need to have a clear understanding of Grade 10 work relating to sole traders with regard to the Accounting equation, GAAP, year-end procedures, year-end adjustments, closing transfers and different types of trial balances.

TASK 5.1 Types of business enterprises

5.1.1	Identify what is meant by the following types of businesses and forms of ownership and report back to the rest of the class.
Some general guidelines are provided.	
<ul style="list-style-type: none"> • Service business <ul style="list-style-type: none"> - This business provides a service rather than sells merchandise, e.g. laundry, attorneys, secretarial services, DVD/Video rentals, etc. - Income received from services provided is recorded in the 'Fee income' account. 	
<ul style="list-style-type: none"> • Retail business <ul style="list-style-type: none"> - This type of business deals in merchandise, e.g. supermarkets, music stores, stationers, etc. - Stock sales are recorded in the 'Sales' account. 	
<ul style="list-style-type: none"> • Sole proprietor <ul style="list-style-type: none"> - This business is owned by one person. - The capital invested is made by the sole owner. - Profits belong to him. 	
<ul style="list-style-type: none"> • Partnership <ul style="list-style-type: none"> - This business is formed by between 2 – 20 persons. - Each partner invests capital and/or his skills in the business. - Risk is shared amongst the partners. - Profits/losses are shared between partners in an agreed proportion. - Partners are liable for the debts of the partnership. 	
<ul style="list-style-type: none"> • Company <ul style="list-style-type: none"> - This form of ownership has the capacity to raise large capital as shares are offered for sale to the public. - Owners are called shareholders who receive a dividend for their investment in the company. - A company offers limited liability to shareholders. - A company is managed by directors. - In the eyes of the law a company is regarded as a legal person. - A company is regulated by the provisions of the Companies Act. 	
5.1.2	Briefly explain why a person would want to form a partnership rather than a sole proprietorship.
<ul style="list-style-type: none"> • More capital can be raised. • Additional skills/expertise improves profit potential. • Risk is shared • The workload is shared. • Easy to form – no legal formalities are required except for a partnership agreement. • Personal contact with clients/customers can still be maintained. • Etc. 	

TASK 5.2

Starting a partnership, advantages & disadvantages

5.2.1	Advantages of converting his sole trader business into a partnership.
Refer to 5.1.2 above.	
5.2.2	Disadvantages of converting his sole trader business into a partnership.
<ul style="list-style-type: none"> • Profits will have to be shared • Communication breakdowns/conflicts may arise amongst the partners. • Liability for the debts of the partnership is unlimited – personal assets are at risk. • A partner's resignation, death or retirement may affect the continuity of the business. • A partner acts as an agent of a partnership – an incapable or vindictive partner could cause financial loss to the other partner. • Etc. 	
5.2.3	The steps he will have to put in place before admitting a partner into his business.
He will have to draft a Partnership Agreement, he could ask an accountant or lawyer to assist, or he could obtain a basic format of an agreement from a website such as www.formville.com (see template attached at the end of this Module); he must establish the amount of capital required of the new partner, his share in the business and how profits/losses will be shared, and how decisions are to be made in the business.	
5.2.4	The personal characteristics he would look for in a prospective partner.
Honest / trustworthy / reliable / ethical / moral / resilient / responsible / skilful / business knowledge. Someone he can work with. Etc.	

Suggested marking grid for the collage and presentation:

Assessment criteria	Level 1	Level 2	Level 3	Level 4
Advantages of converting the sole trader business to a partnership.	Very little attempt to identify the advantages.	Makes some attempt to identify the advantages.	Can identify the advantages of converting from a sole trader to a partnership.	Advantages are identified and discussed showing great insight.
Disadvantages of converting the sole trader business to a partnership.	Very little attempt to identify the disadvantages.	Makes some attempt to identify the disadvantages.	Can identify the disadvantages of converting from a sole trader to a partnership.	Disadvantages are identified and discussed showing great insight.
Identification of the steps needed to be put in place.	Does not understand the steps necessary to convert to a partnership.	Makes some attempt to identify the steps needed to convert to a partnership.	The steps needed to convert to a partnership are discussed fully.	Discusses the steps needed to convert to a partnership with great insight.
Personal characteristics of the prospective partner.	Makes very little attempt to discuss the personal characteristics.	Makes some attempt to discuss the personal characteristics.	Personal characteristics are identified.	Personal characteristics are identified and discussed fully with reasons as to why they would be important.

TASK 5.3 Dr Brush & Dr Floss: Simulation of a partnership

Different answers and interpretations are possible for this activity. The value of this activity is in getting learners to appreciate that the formation of a partnership relies on negotiation.

TASK 5.4 Advantages & disadvantages of a partnership

5.4.1	Give a short explanation of the following phrases shown in italics in the above passage:																
<p>(a) "the only ship that never sails is a partnership" All ships sail on the ocean. However, a partnership often fails mainly because human emotions are involved. Often tension develops between the partners as one feels they are doing more valuable work than another.</p> <p>(b) Jointly and severally liable for debts All partners are bound by the actions of one partner. In the event of insolvency, the personal assets of a partner may be used to pay the debts of the business. Liability for debts is unlimited.</p> <p>(c) Partnership Agreement A partnership is a legal relationship, therefore it is necessary that there be some form of agreement between the partners. This agreement may be made verbally. However, a written agreement is preferable to avoid any disputes in the future. An attorney may be hired to assist in drawing up the agreement.</p>																	
5.4.2	Using the above scenario, identify at least 4 (four) advantages of Muso and Siphon forming a partnership.																
Refer to Task 5.1, No. 5.1.2																	
5.4.3	Identify at least 4 (four) disadvantages to the proposed partnership.																
Refer to Task 5.2, No. 5.2.2																	
5.4.4	Make a list of the information you think is important to include in a Partnership Agreement.																
<p>Nature and objectives of the business. The amount or nature of capital to be contributed by each partner. The manner in which profits/losses will be shared. Stipulations with regard to the amount of drawings to be made by each partner. Partners' salaries, interest on capital, special bonuses. Provisions relating to the admission of new partners or the withdrawal, death or retirement of existing partners. Restraints of trade which may apply to partners who withdraw from the partnership. Etc.</p>																	
5.4.5	Draw up a table of the essential differences between Muso as a sole proprietor and operating as a partnership.																
<table border="1"> <thead> <tr> <th>Sole Trader</th> <th>Partnership</th> </tr> </thead> <tbody> <tr> <td>One owner.</td> <td>Minimum of 2 and maximum of 20 owners who are called partners.</td> </tr> <tr> <td>The owner provides all the capital.</td> <td>All partners contribute capital; the potential for more capital depends on the number of partners contributing.</td> </tr> <tr> <td>Owner is completely responsible for the decisions in the business and does not have to consult anyone in this regard.</td> <td>All partners need to agree on decisions taken in the business.</td> </tr> <tr> <td>Profit belongs to the owner and is added to personal income before income tax is calculated.</td> <td>All partners share capital in the ratio agreed upon in the Partnership Agreement.</td> </tr> <tr> <td>The owner is responsible for any losses and his personal possessions are at risk.</td> <td>The partners are 'jointly and severally liable' for debts of the business and their personal possessions are also at risk.</td> </tr> <tr> <td>The owner becomes proficient in all aspects of the business.</td> <td>Partners are able to utilise the strengths of each partner in sharing responsibility in the management of the business.</td> </tr> <tr> <td>Etc.</td> <td>Etc.</td> </tr> </tbody> </table>		Sole Trader	Partnership	One owner.	Minimum of 2 and maximum of 20 owners who are called partners.	The owner provides all the capital.	All partners contribute capital; the potential for more capital depends on the number of partners contributing.	Owner is completely responsible for the decisions in the business and does not have to consult anyone in this regard.	All partners need to agree on decisions taken in the business.	Profit belongs to the owner and is added to personal income before income tax is calculated.	All partners share capital in the ratio agreed upon in the Partnership Agreement.	The owner is responsible for any losses and his personal possessions are at risk.	The partners are 'jointly and severally liable' for debts of the business and their personal possessions are also at risk.	The owner becomes proficient in all aspects of the business.	Partners are able to utilise the strengths of each partner in sharing responsibility in the management of the business.	Etc.	Etc.
Sole Trader	Partnership																
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The owner becomes proficient in all aspects of the business.	Partners are able to utilise the strengths of each partner in sharing responsibility in the management of the business.																
Etc.	Etc.																

TASK 5.5 ☹️ JBS Coffee Shop: Joint & several liability for debts

5.5.1	Calculate how this profit will be divided between the partners.
Jean:	$\frac{2}{4} \times 440\,000 = R220\,000$
Ben:	$\frac{1}{4} \times 440\,000 = R110\,000$
Sipho:	$\frac{1}{4} \times 440\,000 = R110\,000$
5.5.2	Calculate how much each partner must contribute from personal funds in order to pay the creditors.
Net amount owing	$= 100\,000 - 10\,000 = R90\,000$
Jean:	$\frac{2}{4} \times 90\,000 = R45\,000$
Ben:	$\frac{1}{4} \times 90\,000 = R22\,500$
Sipho:	$\frac{1}{4} \times 90\,000 = R22\,500$
5.5.3	How will the creditors be paid?
The personal assets of Ben and Sipho may have to be used to settle the debt.	

TASK 5.6 ☹️ Partnership agreement

5.6.1	Why is it vitally necessary for partners to trust and have confidence in each other?
The actions of one partner can bind the other partners, e.g. if one partner enters into an agreement on behalf of the partnership, the other partners automatically become bound to the agreement. Other suitable answers are possible, e.g. where partners work in good faith and in the interests of the business, an improved working relationship is established. This in turn would have a positive impact on productivity and subsequently on profitability.	
5.6.2	In developing the partnership agreement, what points must they include? Make a list.
Refer to Task 5.4, No. 5.4.4.	
5.6.3	Present your list to the rest of the class. Amend your list with responses from other groups in your class.
Various answers are possible. Ensure the learners justify their answers.	
5.6.4	If you know an accountant or a lawyer, ask him/her to assist you in getting a basic format for a Partnership Agreement. Compare this document to the list that you have compiled in 5.6.2 and 5.6.3.
Various answers are possible. Ensure the learners justify their answers.	

TASK 5.7 🍷 Ethics & internal control scenarios

Open-ended – different answers/interpretations are possible.

Note:

The Teacher must ensure that the learners are guided through these different scenarios. The learner's answers will often indicate personal or family experiences with partnerships; the TV programmes they watch and their personal experiences that lead them to the values and ethics that they are formulating for themselves.

Always persuade the learners to see the situation from two different points of view, e.g. the business owners and the customer or employee; each of the different partner's points of view, etc. At all times learners should display an awareness of principles of ethics, internal control and good common sense.

TASK 5.8 GH Traders: Entries in CRJ, CPJ & GJ

GH TRADERS

CASH RECEIPTS JOURNAL FOR MARCH 20.8

CRJ

Doc. no.	D	Details	Fol	Analysis of receipts	Bank	Sundry accounts		
						Amount	Fol	Details
01	1	Greeff		200 000		200 000		Capital: Greeff
02		Harris		100 000	300 000	100 000		Capital: Harris

CASH PAYMENTS JOURNAL FOR MARCH 20.8

CPJ

Doc. No.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
01	12	Harris		505	505		Drawings: Harris
02	28	Greeff		10 000	10 000		Drawings: Greeff
03		Harris		7 500	7 500		Drawings: Harris

GENERAL JOURNAL OF GH TRADERS: MARCH 20.8

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
J1	8	Drawings: Greeff		1 200					
		Trading stock			1 200				
		Stock taken for own use							
J2	19	Drawings: Harris		230					
		Trading stock			230				
		Stock taken for own use							
J3	31	Vehicles		125 000					
		Capital: Harris			125 000				
		Car contributed as additional capital							

TASK 5.9 Simunye Traders: Entries in CRJ, CPJ & GJ

SIMUNYE STORES

Date	Journal	Account debited	Account credited	Amount
5	CRJ	Bank	Capital: Benito	R500 000
8	GJ	Drawings: Khumalo	Trading stock	2 000
12	GJ	Land and buildings	Capital: Khumalo	800 000
17	CPJ	Drawings: Benito	Bank	500
21	GJ	Drawings: Benito	Trading stock	800
24	CPJ	Drawings: Benito	Bank	6 700 ^[1]
	CPJ	Drawings: Khumalo	Bank	6 000 ^[2]

^[1] 8 000 – 500 – 800 = R6 700

^[2] 8 000 – 2 000 = R6 000

TASK 5.10 ₺ PT Traders: Closing transfers & sharing of profit

5.10.1 GENERAL JOURNAL OF PT TRADERS: 28 FEBRUARY 20.4

GJ1

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Profit and loss account	F2	170 000					
		Appropriation account	F3		170 000				
		Net profit transferred to appropriation account							
		Appropriation account	F3	170 000					
		Current a/c: Smit	B3		85 000				
		Current a/c: Raj	B4		85 000				
		Net profit transferred as per profit sharing ratio							
		Current a/c: Smit	B3	54 000					
		Current a/c: Raj	B4	42 000					
		Drawings: Smit	B5		54 000				
		Drawings: Raj	B6		42 000				
		Drawings transferred to current accounts							

5.10.2

GENERAL LEDGER OF PT TRADERS BALANCE SHEET ACCOUNTS SECTION

Dr				CURRENT ACCOUNT: SMIT				B3	Cr	
20.4					20.4					
Feb	28	Drawings: Smit	GJ1	54 000	Feb	28	Appropriation a/c	GJ1	85 000	
		Balance	c/d	31 000						
				85 000					85 000	
					Mar	1	Balance	b/d	31 000	

CURRENT ACCOUNT: RAJ				B4						
20.4					20.4					
Feb	28	Drawings: Raj	GJ1	42 000	Feb	28	Appropriation a/c	GJ1	85 000	
		Balance	c/d	43 000						
				85 000					85 000	
					Mar	1	Balance	b/d	43 000	

DRAWINGS: SMIT				B5						
20.4					20.4					
Feb	28	Balance	b/d	54 000	Feb	28	Current a/c: Smit	GJ1	54 000	

DRAWINGS: RAJ				B6						
20.4					20.4					
Feb	28	Balance	b/d	42 000	Feb	28	Current a/c: Raj	GJ1	42 000	

**FINAL ACCOUNTS SECTION
APPROPRIATION ACCOUNT**

Dr					F3					Cr				
20.4					20.4					20.4				
Feb	28	Current a/c: Smit	GJ1	85 000	Feb	28	Profit and loss a/c	GJ1	170 000					
		Current a/c: Raj	GJ1	85 000										
				170 000										170 000

TASK 5.11 ☼ Delcon Stores: Closing transfers & sharing of profit

5.11.1/5.11.3

**GENERAL LEDGER OF DELCON STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					CAPITAL: DELPORT					B1					Cr				
					20.2					20.2									
					Mar	1	Balance	b/d	120 000										

					CAPITAL: CONNOR					B2				
					20.2					20.2				
					Mar	1	Balance	b/d	80 000					

					CURRENT ACCOUNT: DELPORT					B3				
20.3					20.2					20.2				
Feb	28	Drawings: Delport	GJ2	24 000	Mar	1	Balance	b/d	15 000	20.3				
		Balance	c/d	129 000	Feb	28	Appropriation a/c	GJ2	138 000					
				153 000	Mar	1	Balance	b/d	129 000					153 000

					CURRENT ACCOUNT: CONNOR					B4				
20.3					20.2					20.2				
Feb	28	Drawings: Connor	GJ2	35 700	Mar	1	Balance	b/d	15 000	20.3				
		Balance	c/d	71 300	Feb	28	Appropriation a/c	GJ2	92 000					
				107 000	Mar	1	Balance	b/d	71 300					107 000

Dr					DRAWINGS: DELPORT					B5					Cr				
20.2					20.3					20.3									
Mar	31	Bank		2 100	Feb	28	Current a/c: Delport	GJ2	24 000										
Apr	30	Bank		1 200															
May	31	Bank		2 000															
Jun	30	Bank		1 300															
Jul	31	Bank		2 200															
Aug	31	Bank		3 200															
Sept	30	Bank		1 200															
Oct	31	Bank		1 400															
Nov	30	Bank		1 500															
Dec	31	Bank		4 300															
20.3																			
Jan	31	Bank		1 200															
Feb	28	Bank		2 400															
				24 000										24 000					

Dr					DRAWINGS: CONNOR				B6	Cr	
20.2					20.3						
Mar	31	Bank		2 600	Feb	28	Current a/c: Connor	GJ2		35 700	
Apr	30	Bank		2 200							
May	31	Bank		3 300							
Jun	30	Bank		3 500							
Jul	31	Bank		2 500							
Aug	31	Bank		4 500							
Sept	30	Bank		3 600							
Oct	31	Bank		2 400							
Nov	30	Bank		2 500							
Dec	31	Bank		3 500							
20.3											
Jan	31	Bank		2 500							
Feb	28	Bank		2 600							
				35 700						35 700	

**FINAL ACCOUNTS SECTION
APPROPRIATION ACCOUNT**

F3

20.3					20.3						
Feb	28	Current a/c: Peter	GJ2	138 000	Feb	28	Profit and loss a/c	GJ2		230 000	
		Current a/c: Thompson	GJ2	92 000							
				230 000						230 000	

5.11.2 GENERAL JOURNAL OF DELCON STORES: 28 FEBRUARY 20.2

GJ2

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Profit and loss account	F2	230 000					
		Appropriation account	F3		230 000				
		Net profit transferred to appropriation account							
	28	Appropriation account	F3	230 000					
		Current a/c: Delpport	B3		138 000				
		Current a/c: Connor	B4		92 000				
		Net profit transferred as per profit sharing ratio							
	28	Current a/c: Delpport	B3	24 000					
		Current a/c: Connor	B4	35 700					
		Drawings: Delpport	B5		24 000				
		Drawings: Connor	B6		35 700				
		Drawings transferred to current accounts							

5.11.4 Comment on the current account balances. Do you think that Delpport would be satisfied with the situation? Explain.

Yes.

His capital contribution is higher than Connor's.

He receives 60% of the net profits while Connor gets 40%.

Delpport has limited his drawings to R24 000 which resulted in a larger balance in his current account.

He has only withdrawn 16% of his earnings ($\frac{24\,000}{153\,000} \times 100$).

Connor, on the other hand, has withdrawn 33% of his earnings ($\frac{35\,700}{107\,000} \times 100$).

Alternate answers may apply.

TASK 5.12 ✂ SZ Stores: Primary & Secondary distributions

5.12.1/5.12.2 GENERAL JOURNAL OF SZ STORES: 28 FEBRUARY 20.9

GJ5

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Salary: S. Sishi	N8	120 000					
		Salary: Z. Zinhle	N9	240 000					
		Current a/c: S. Sishi	B3		120 000				
		Current a/c: Z. Zinhle	B4		240 000				
		Annual salary allowance as per partnership agreement							
2	28	Bonus: Z. Zinhle	N10	20 000					
		Current a/c: Z. Zinhle	B4		20 000				
		Bonus granted to Zinhle as per partnership agreement							
3	28	Interest on capital	N11	33 750					
		Current a/c: S. Sishi	B3		22 500				
		Current a/c: Z. Zinhle	B4		11 250				
		Provision for interest on capital at 15% p.a.							
		CLOSING TRANSFERS							
28	28	Profit and loss account	F2	520 000					
		Appropriation account	F3		520 000				
		Transfer of net profit							
28	28	Appropriation account	F3	413 750					
		Salary: S. Sishi	N8		120 000				
		Salary: Z. Zinhle	N9		240 000				
		Bonus: Z. Zinhle	N10		20 000				
		Interest on capital	N11		33 750				
		Closing transfers							
28	28	Appropriation account	F3	106 250					
		Current a/c: S. Sishi	B3		53 125				
		Current a/c: Z. Zinhle	B4		53 125				
		Net profit shared in profit sharing ratio							
28	28	Current a/c: S. Sishi	B3	96 000					
		Current a/c: Z. Zinhle	B4	115 000					
		Drawings: S. Sishi	B5		96 000				
		Drawings: Z. Zinhle	B6		115 000				
		Transfer of drawings to current accounts							

5.12.3

GENERAL LEDGER OF SZ STORES BALANCE SHEET ACCOUNTS SECTION CURRENT ACCOUNT: S. SISHI

Dr				B3				Cr	
20.9				20.9					
Feb	28	Drawings: S. Sishi	GJ5	96 000	Feb	28	Salary: S. Sishi	GJ5	120 000
		Balance	c/d	99 625			Interest on capital	GJ5	22 500
							Appropriation a/c	GJ5	53 125
				195 625					195 625
					Mar	01	Balance	b/d	99 625

Dr					CURRENT ACCOUNT: Z. ZINHLE					B4	Cr				
20.9					20.9										
Feb	28	Drawings: Z. Zinhle	GJ5	115 000	Feb	28	Salary: Z. Zinhle	GJ5	240 000						
		Balance	c/d	209 375			Bonus: Z. Zinhle	GJ5	20 000						
							Interest on capital	GJ5	11 250						
							Appropriation a/c	GJ5	53 125						
				324 375									324 375		
					Mar	01	Balance	b/d	209 375						

DRAWINGS: S. SISHI					B5									
20.9					20.9									
Feb	28	Balance	b/d	96 000	Feb	28	Current a/c: S. Sishi	GJ5	96 000					

DRAWINGS: Z. ZINHLE					B6									
20.9					20.9									
Feb	28	Balance	b/d	115 000	Feb	28	Current a/c: Z. Zinhle	GJ5	115 000					

NOMINAL ACCOUNTS SECTION

SALARY: S. SISHI					N8									
20.9					20.9									
Feb	28	Current a/c: S. Sishi	GJ5	120 000	Feb	28	Appropriation a/c	GJ5	120 000					

SALARY: Z. ZINHLE					N9									
20.9					20.9									
Feb	28	Current a/c: Z. Zinhle	GJ5	240 000	Feb	28	Appropriation a/c	GJ5	240 000					

BONUS: Z. ZINHLE					N10									
20.9					20.9									
Feb	28	Current a/c: Z. Zinhle	GJ5	20 000	Feb	28	Appropriation a/c	GJ5	20 000					

INTEREST ON CAPITAL					N11									
20.9					20.9									
Feb	28	Current a/c: S. Sishi	GJ5	22 500	Feb	28	Appropriation a/c	GJ5	33 750					
		Current a/c: Z. Zinhle	GJ5	11 250										
				33 750									33 750	

FINAL ACCOUNTS SECTION APPROPRIATION ACCOUNT

APPROPRIATION ACCOUNT					F3									
20.9					20.9									
Feb	28	Salary: S. Sishi	GJ5	120 000	Feb	28	Profit and loss a/c	GJ5	520 000					
		Salary: Z. Zinhle	GJ5	240 000										
		Bonus: Z. Zinhle	GJ5	20 000										
		Interest on capitals	GJ5	33 750										
		Current a/c: S. Sishi	GJ5	53 125										
		Current a/c: Z. Zinhle	GJ5	53 125										
				520 000									520 000	

TASK 5.13 Analysis of transactions & Accounting Equation

No.	Account debited	Account credited	Journal	Amount	Effect on Accounting Equation		
					A	O	L
1.	Bank	Capital: J. Jones	CRJ	R50 000	+	+	0
	Vehicle	Capital: J. Jones	GJ	130 000	+	+	0
2.	Drawings: S. Smith	Bank	CPJ	2 000	-	-	0
	Drawings: S. Smith	Trading stock	CPJ	800	-	-	0
3.	Drawings: J. Jones	Bank	CPJ	3 000	-	-	0
4.	Salary: J. Jones	Current a/c: J. Jones	GJ	36 000	0	±	0
5.	Bonus: S. Smith	Current a/c: S. Smith	GJ	10 000	0	±	0
6.	Interest on capital	Current a/c: J. Jones	GJ	9 000	0	±	0
		Current a/c: Sally Smith	GJ	4 500	0	±	0
7.	Appropriation	Current a/c: J. Jones	GJ	49 500	0	±	0
		Current a/c: S. Smith	GJ	16 500	0	±	0

TASK 5.14 Analysis of transactions & Accounting Equation

No.	Account debited	Account credited	Journal	Amount	Effect on Accounting Equation			
					A	O	L	
1.	Drawings: Alma	Stationery	GJ	R100	0	±	0	
2.	Bank	Capital: Bletter	CRJ	100 000	+	+	0	
3.	Bank	Debtors control/M. Marais	CRJ	375	±	0	0	
		Discount allowed	Debtors control/M. Marais	CRJ	25	-	-	0
4.	Drawings: Bletter	Bank	CPJ	302	-	-	0	
5.	Debtors control/V. Visagie	Sales	DJ	630	+	+	0	
		Cost of sales	Trading stock	DJ	420	-	-	0
6.	Wages	SARS – PAYE	WJ	810	0	-	+	
		Medical aid fund	WJ	600	0	-	+	
		UIF	WJ	54	0	-	+	
		Creditors for wages	WJ	3 936	0	-	+	
		Medical aid contribution	Medical aid fund	WJ	600	0	-	+
		Unemploy. Ins. contribution	UIF	WJ	54	0	-	+
7.	Loss due to fire	Trading stock	GJ	12 000	-	-	0	
		Income receivable	Loss due to fire	GJ	10 000	+	+	0
	Salary: Alma (or Partners salary)	Current a/c: Alma	GJ	150 000	0	±	0	
		Current a/c: Bletter	GJ	120 000	0	±	0	
8.	Bonus: Alma	Current a/c: Alma	GJ	15 000	0	±	0	
9.	Interest on capital	Current a/c: Alma	GJ	30 000	0	±	0	
		Current a/c: Bletter	GJ	20 000	0	±	0	
10.	Current a/c: Alma	Appropriation a/c	GJ	11 500	0	±	0	
		Appropriation a/c	GJ	11 500	0	±	0	

TASK 5.15

Highway Gym: Current accounts & Appropriation account

GENERAL LEDGER OF HIGHWAY GYM BALANCE SHEET ACCOUNTS SECTION

5.15.1 Dr					CURRENT ACCOUNT: L. STRONG					B3	Cr
20.3					20.2						
Feb	28	Drawings: L. Strong	GJ	25 000	Mar	1	Balance	b/d		4 500	
		Balance	c/d	81 750	20.3						
					Feb	28	Salary: L. Strong	GJ	70 000		
							Interest on capital	GJ	9 000		
							Appropriation a/c	GJ	23 250		
				106 750						106 750	
					Mar	1	Balance	b/d		81 750	

5.15.2					CURRENT ACCOUNT: B. FITT					B4	
20.2					20.3						
Mar	1	Balance	b/d	3 700	Feb	28	Salary: B. Fitt	GJ	75 000		
20.3							Bonus: B. Fitt	GJ	4 000		
Feb	28	Drawings: B. Fitt	GJ	23 000			Interest on capital	GJ	3 000		
		Balance	c/d	63 050			Appropriation a/c	GJ	7 750		
				89 750						89 750	
					Mar	1	Balance	b/d		60 050	

FINAL ACCOUNTS SECTION APPROPRIATION ACCOUNT

5.15.3					F3						
20.3					20.3						
Feb	28	Salary: L. Strong	GJ	70 000	Feb	28	Profit and loss a/c	GJ	192 000		
		Salary: B. Fitt	GJ	75 000							
		Bonus: B. Fitt	GJ	4 000							
		Interest on capital	GJ	12 000							
		Current a/c: L. Strong	GJ	23 250							
		Current a/c: B. Fitt	GJ	7 750							
				192 000						192 000	

TASK 5.16

Beswil Travel Agency: Current & Appropriation accounts

GENERAL LEDGER OF BESWIL TRAVEL AGENCY BALANCE SHEET ACCOUNTS SECTION

5.16.1 Dr					CURRENT ACCOUNT: BESTER					B3	Cr
20.5					20.6						
Mar	1	Balance	b/d	20 000	Feb	28	Salary: Bester	GJ	192 000		
20.6							Bonus: Bester	GJ	9 000		
Feb	28	Drawings: Bester		180 000			Interest on capital	GJ	90 000		
		Appropriation a/c		122 000			Balance	c/d	31 000		
				322 000						322 000	
Mar	1	Balance	b/d	31 000							

5.16.2 Dr

CURRENT ACCOUNT: WILLIAMS

B4

Cr

20.6					20.5				
Feb	28	Drawings: Williams	GJ	144 000	Mar	1	Balance	b/d	25 000
		Appropriation a/c	GJ	61 000	20.6				
		Balance	c/d	160 000	Feb	28	Salary: Williams	GJ	280 000
							Interest on capital	GJ	60 000
				365 000					365 000
					Mar	1	Balance	b/d	160 000

**FINAL ACCOUNTS SECTION
APPROPRIATION ACCOUNT**

5.16.3

F3

20.6					20.6				
Feb	28	Salary: Bester	GJ	192 000	Feb	28	Profit and loss a/c	GJ	448 000
		Salary: Williams	GJ	280 000			Current a/c: Bester	GJ	122 000
		Bonus: Bester	GJ	9 000			Current a/c: Williams	GJ	61 000
		Interest on capital	GJ	150 000					
				631 000					631 000

TASK 5.17 Revision of Adjustments & Accounting Equation covered in Grade 10

5.17.1

No.	Description	GAAP concept applicable	Account debited		Account credited		Amount
			Name of account	Section in ledger	Name of account	Section in ledger	
1.	Correction of error	Business entity rule	Drawings	Balance Sheet	Sundry expenses	Nominal	R3 000
2.	Omission	Matching	Bank	Balance Sheet	Fee income	Nominal	2 000
3.	Expenses payable (accrued)	Matching	Legal fees	Nominal	Expenses payable / Accrued expenses	Balance Sheet	50 000
4.	Expenses prepaid	Matching	Expenses prepaid	Balance Sheet	Municipal rates	Nominal	1 300
5.	Income receivable (accrued)	Matching	Income receivable / Accrued income	Balance Sheet	Rent income	Nominal	6 000
6.	Deferred income (received in advance)	Matching	Fee income	Nominal	Deferred income / Income received in advance	Balance Sheet	800
7.	Consumable stores on hand	Matching	Consumable stores on hand	Balance Sheet	Packing material	Nominal	1 500
8.	Trading stock deficit	Matching & Prudence	Trading stock deficit	Nominal	Trading stock	Balance Sheet	7 000
9.	Depreciation	Matching & Prudence	Depreciation	Nominal	Accumulated depreciation on equipment	Balance Sheet	2 200

5.17.2

No.	ASSETS =	OWNERS' EQUITY +	LIABILITIES
1.	0	±R3 000	0
2.	+R2 000	+R2 000	0
3.	0	-R50 000	+R50 000
4.	+R1 300	+R1 300	0
5.	+R6 000	+R6 000	0
6.	0	-R800	+R800
7.	+R1 500	+R1 500	0
8.	-R7 000	-R7 000	0
9.	-R2 200	-R2 200	0

TASK 5.18 Tata Traders: Revision of Adjustments & Accounting Equation covered in Grade 10

5.18.1

GENERAL JOURNAL OF TATA TRADERS – FEBRUARY 20.9

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Drawings: Akona Trading stock		33 000					
		Stock taken by partner for personal use			33 000				
2		Advertising Printing & stationery		12 000					
		Correction of error			12 000				
3		Income receivable / accrued Commission income		3 000					
		Commission owed to the business			3 000				
4		Printing & stationery Expenses payable / accrued		1 400					
		Amount not yet paid			1 400				
5		Expenses prepaid Repairs		9 000					
		Amount paid to PE Handyman in advance			9 000				
6		Rent income Deferred income / received in advance		7 000					
		Rent received in advance for March 20.9			7 000				
7		Consumable stores on hand Cleaning materials		5 500					
		Materials on hand at year-end			5 500				
8		Trading stock deficit ^[1] Trading stock		6 000					
		Shortage identified at year end			6 000				
9		Depreciation ^[2] Accumulated depreciation on vehicles		66 000					
		Depreciation at 20% p.a. on diminishing balance method			66 000				

^[1] 740 000 – 33 000 – 701 000

^[2] [450 000 – 120 000 = 330 000 x 20%

5.18.2 TATA TRADERS

POST-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.9 (Incomplete)

Balance Sheet accounts section	Fol	Debit	Credit
Drawings: Akona (100 000 + 33 000)		133 000	
Vehicles		450 000	
Accumulated depreciation on vehicles (120 000 + 66 000)			186 000
Trading stock (740 000 – 33 000 – 6 000)		701 000	
Income receivable / accrued		3 000	
Expenses payable / accrued			1 400
Expenses prepaid		9 000	
Deferred income / received in advance			7 000
Consumable stores on hand		5 500	
Nominal accounts section			
Advertising (43 000 + 12 000)		55 000	
Cleaning materials (36 000 – 5 500)		30 500	
Commission income (50 000 + 3 000)			53 000
Printing & stationery (76 000 – 12 000 + 1 400)		65 400	
Rent income (91 000 – 7 000)			84 000
Repairs (54 000 – 9 000)		45 000	
Trading stock deficit		6 000	
Depreciation		66 000	

5.18.3

No.	ASSETS =	OWNERS' EQUITY +	LIABILITIES
1.	-R33 000	-R33 000	0
2.	0	±R12 000	0
3.	+R3 000	+R3 000	0
4.	0	-R1 400	+R1 400
5.	+R9 000	+R9 000	0
6.	0	-R7 000	+R7 000
7.	+R5 500	+R5 500	0
8.	-R6 000	-R6 000	0
9.	-R66 000	-R66 000	0

TASK 5.19 Peebo Traders: Provision for bad debts

NOTE TO THE TEACHER:

After completing these ledger accounts, Teachers should ask their classes the following questions:

- What figures should be reflected in the financial statements for Debtors each year? [*i.e. Provision for bad debts should be deducted off Trade debtors in the note to the Balance Sheet for Trade & other receivables to show net trade debtors, 20.5 = R38 000 (40 000 – 2 000); 20.6 = R57 000 (60 000 – 3 000); 20.7 = R42 750 (45 000 – 2 250); 20.8 = R62 700 (70 000 – 4 000 – 3 300)].*]
- What figures will affect the Income Statement each year? (*i.e. Provision for bad debts adjustment, 20.5 = R2 000 (expense); 20.6 = R1 000 (expense); 20.7 = R750 (income); 20.8 = R1 050 (expense).*)
- What will the entries look like in the General Journal at the end of each financial year? *i.e.*

For 20.5, 20.6 & 20.8:

Provision for bad debts adjustment – Debit XXX
 Provision for bad debts – Credit XXX
Increase in provision.

For 20.7:

Provision for bad debts – Debit XXX
 Provision for bad debts adjustment – Credit XXX
Decrease in provision.

5.19.1

**GENERAL LEDGER OF PEEBO TRADERS
BALANCE SHEET ACCOUNTS SECTION**

(a) Dr					PROVISION FOR BAD DEBTS					B10	Cr
20.5					20.5						
Feb	28	Balance	c/d	2 000	Feb	28	Provision for bad debts adjustment	GJ		2 000	
				2 000						2 000	
20.6					20.5						
Feb	28	Balance	c/d	3 000	Mar	1	Balance	b/d		2 000	
				3 000	20.6						
					Feb	28	Provision for bad debts adjustment	GJ		1 000	
										3 000	
20.7					20.6						
Feb	28	Provision for bad debts adjustment	GJ	750	Mar	1	Balance	b/d		3 000	
		Balance	c/d	2 250							
				3 000						3 000	
20.8					20.7						
Feb	28	Balance	c/d	3 300	Mar	1	Balance	b/d		2 250	
				3 300	20.8						
					Feb	28	Provision for bad debts adjustment	GJ		1 050	
										3 300	
					20.8						
					Mar	1	Balance	b/d		3 300	

NOMINAL ACCOUNTS SECTION

(b) Dr					PROVISION FOR BAD DEBTS ADJUSTMENT					N7	Cr
20.5					20.5						
Feb	28	Provision for bad debts	GJ	2 000	Feb	28	Profit & loss a/c	GJ		2 000	
20.6					20.6						
Feb	28	Provision for bad debts	GJ	1 000	Feb	28	Profit & loss a/c	GJ		1 000	
20.7					20.7						
Feb	28	Profit & loss a/c	GJ	750	Feb	28	Provision for bad debts	GJ		750	
20.8					20.8						
Feb	28	Provision for bad debts	GJ	1 050	Feb	28	Profit & loss a/c	GJ		1 050	

5.19.2

Year ending	ASSETS =	OWNERS' EQUITY +	LIABILITIES
28 Feb 20.5	-R2 000	-R2 000	0
28 Feb 20.6	-R1 000	-R1 000	0
28 Feb 20.7	+R750	+R750	0
28 Feb 20.8	-R4 000	-R4 000	0
	-R1 050	-R1 050	0

TASK 5.20 Loco Dealers: Provision for bad debts

NOTE TO THE TEACHER:

After completing these ledger accounts, Teachers should ask their classes the following questions:

- What figures should be reflected in the financial statements for Debtors each year? [*i.e. Provision for bad debts should be deducted off Trade debtors in the note to the Balance Sheet for Trade & other receivables to show net trade debtors, 20.5 = R96 000 (100 000 – 4 000); 20.6 = R124 800 (130 000 - 5 200); 20.7 = R86 400 (90 000 – 3 600); 20.8 = R71 040 (86 000 – 12 000 – 2 960)*].
- What figures will affect the Income Statement each year? (*i.e. Provision for bad debts adjustment, 20.5 = R4 000 (expense); 20.6 = R1 200 (expense); 20.7 = R1 600 (income); 20.8 = R640 (income)*).
- What will the entries look like in the General Journal at the end of each financial year? *i.e.*

For 20.5 & 20.6:

Provision for bad debts adjustment – Debit XXX
 Provision for bad debts – Credit XXX
Increase in provision.

For 20.7 & 20.8:

Provision for bad debts – Debit XXX
 Provision for bad debts adjustment – Credit XXX
Decrease in provision.

5.20.1

LEDGER OF LOCO TRADERS BALANCE SHEET ACCOUNTS SECTION PROVISION FOR BAD DEBTS

(a) Dr				B10	Cr				
20.5				20.5					
Feb	28	Balance	c/d	4 000	Feb	28	Provision for bad debts adjustment	GJ	4 000
				4 000					4 000
20.6				20.5					
Feb	28	Balance	c/d	5 200	Mar	1	Balance	b/d	4 000
				5 200	20.6				
					Feb	28	Provision for bad debts adjustment	GJ	1 200
									5 200
20.7				20.6					
Feb	28	Provision for bad debts adjustment	GJ	1 600	Feb	28	Balance	b/d	5 200
		Balance	c/d	3 600					
				5 200					5 200
20.8				20.7					
Feb	28	Provision for bad debts adjustment	GJ	640	Mar	1	Balance	b/d	3 600
		Balance	c/d	2 960					
				3 600					3 600
					20.8				
					Mar	1	Balance	b/d	2 960

NOMINAL ACCOUNTS SECTION

(b) Dr				PROVISION FOR BAD DEBTS ADJUSTMENT				N7	Cr
20.5					20.5				
Feb	28	Provision for bad debts	GJ	4 000	Feb	28	Profit & loss a/c	GJ	4 000
20.6					20.6				
Feb	28	Provision for bad debts	GJ	1 200	Feb	28	Profit & loss a/c	GJ	1 200
20.7					20.7				
Feb	28	Profit & loss a/c	GJ	1 600	Feb	28	Provision for bad debts	GJ	1 600
20.8					20.8				
Feb	28	Profit & loss a/c	GJ	640	Feb	28	Provision for bad debts	GJ	640

5.20.2

Year ending	ASSETS =	OWNERS' EQUITY +	LIABILITIES
28 Feb 20.5	-R 4 000	-R4 000	0
28 Feb 20.6	-R1 200	-R1 200	0
28 Feb 20.7	+R1 600	+R1 600	0
28 Feb 20.8	-R12 000 +R640	-R12 000 +R640	0

TASK 5.21  **Tonga Stores: Disposal of one fixed asset**

5.21.1

GENERAL JOURNAL OF TONGA TRADERS – FEBRUARY 20.8

GJ2

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Depreciation		3 750					
		Accumulated depreciation on equipment			3 750				
		Update of depreciation on computer sold							
		Asset disposal		18 000					
		Equipment			18 000				
		Cost price of computer sold on 31 Dec 20.7							
		Accumulated depreciation on equipment		15 750					
		Asset disposal			15 750				
		Accumulated depreciation on computer sold							
		Debtors control		1 600					
		Asset disposal			1 600				
		Selling price of computer sold on 31 Dec 20.7							
		Loss on disposal of asset		650					
		Asset disposal			650				
		Transfer of loss on disposal of computer.							
2		Depreciation ^[1]		80 500					
		Accumulated depreciation on equipment			80 500				
		Depreciation on remaining equipment at 25% p.a. on cost							

^[1] 340 000 – 18 000 = 322 000 x 25%

5.21.2

TONGA TRADERS

POST-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.8

Balance Sheet accounts section	Fol	Debit	Credit
Equipment (340 000 – 18 000)		322 000	
Accumulated depreciation on equipment (180 000 + 3 750 – 15 750 + 80 500)			248 500
Nominal accounts section			
Depreciation (3 750 + 80 500)		84 250	
Loss on disposal of equipment		650	

5.21.3

	ASSETS =	OWNERS' EQUITY +	LIABILITIES
Update depreciation	-3 750	-R3 750	0
Cost price	-18 000	-18 000	0
Accumulated depreciation	+15 750	+15 750	0
Selling price	+1 600	+1 600	0
= Profit / loss on disposal	-650	-650	0
Depreciation on remaining assets	-80 500	-80 500	0

TASK 5.22  **Migro Brothers: Disposal of two fixed assets**

5.22.1

No.	Debit	Credit	Amount	A =	O +	L
1.	Depreciation	Accumulated depreciation on vehicles	R23 100	-	-	0
	Asset disposal	Vehicles	126 000	-	-	0
	Acc. depreciation on vehicles	Asset disposal	93 100	+	+	0
	Creditors control	Asset disposal	30 000	0	+	-
	Loss on disposal of fixed asset	Asset disposal	2 900	0	0	0
2.	Vehicles	Creditors control	150 000	+	0	+
3.	Depreciation ^[1]	Accumulated depreciation on vehicles	147 300	-	-	0
4.	Asset disposal	Land & buildings	110 000	-	-	0
	Debtors control	Asset disposal	200 000	+	+	0
	Asset disposal	Profit on disposal of fixed asset	90 000	0	0	0

^[1] 850 000 – 126 000 = 724 000

(724 000 x 20%) + (150 000 x 20% x 1/12] = 144 800 + 2 500 = 147 300

5.22.2

**GENERAL LEDGER OF MIGRO BROTHERS
NOMINAL ACCOUNTS SECTION**

Dr					ASSET DISPOSAL					N		Cr	
20.5					20.5								
Feb	1	Vehicles	GJ	126 000	Feb	1	Acc dep on vehicles	GJ	93 100				
							Creditors control	GJ	30 000				
							Loss on disposal of as- set	GJ	2 900				
				126 000								126 000	
20.5					20.5								
Feb	28	Land & buildings	GJ	110 000	Feb	28	Debtors control	GJ	200 000				
		Profit on disposal of asset	GJ	90 000									
				200 000								200 000	

Dr					PROFIT / LOSS ON DISPOSAL OF ASSETS					N					Cr				
20.5					20.5					20.5					20.5				
Feb	28	Asset disposal	GJ	2 900	Feb	28	Asset disposal	GJ	90 000										
		Profit & loss (closing transfer)	GJ	87 100															
				90 000															90 000

5.22.3 MIGRO BROTHERS

POST-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.5

Balance Sheet accounts section	Fol	Debit	Credit
Land & buildings (1 500 000 – 110 000)		1 390 000	
Vehicles (850 000 – 126 000 + 150 000)		874 000	
Accumulated depreciation on vehicles (210 000 + 23 100 – 93 100 + 147 300)			287 300
Debtors control (72 000 + 200 000)		272 000	
Creditors control (85 000 + 150 000 – 30 000)			205 000
Nominal accounts section			
Depreciation (23 100 + 147 300)		170 400	
Profit / loss on disposal of fixed assets			87 100

CAPITALISED INTEREST ON LOANS AND INVESTMENTS

Note to Teacher:

Teachers are advised not to make capitalised interest calculations too complicated. If interest-on-interest calculations are required, limit these to no more than a few months only. In order to expose learners to capitalised interest in practice, Teachers are advised to obtain examples of loan statements or fixed deposit statements from their nearest financial institutions.

TASK 5.23 Phosa Stores: Treatment of interest

5.23.1	Assume that interest is <u>not capitalised</u> on the loan and the fixed deposit. Use the following table to indicate the year-end adjustments that you would make on 28 February 20.7.									
	<table border="1"> <thead> <tr> <th>Account debited</th> <th>Account credited</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Interest on loan</td> <td>Expenses payable (accrued)</td> <td>R3 500</td> </tr> <tr> <td>Income receivable (accrued)</td> <td>Interest income</td> <td>R250</td> </tr> </tbody> </table>	Account debited	Account credited	Amount	Interest on loan	Expenses payable (accrued)	R3 500	Income receivable (accrued)	Interest income	R250
Account debited	Account credited	Amount								
Interest on loan	Expenses payable (accrued)	R3 500								
Income receivable (accrued)	Interest income	R250								
5.23.2	Assume that interest <u>is capitalised</u> on the loan and the fixed deposit. Use the following table to indicate the year-end adjustments that you would make on 28 February 20.7.									
	<table border="1"> <thead> <tr> <th>Account debited</th> <th>Account credited</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Interest on loan</td> <td>Loan from Uno Lenders</td> <td>R3 500</td> </tr> <tr> <td>Fixed deposit</td> <td>Interest income</td> <td>R250</td> </tr> </tbody> </table>	Account debited	Account credited	Amount	Interest on loan	Loan from Uno Lenders	R3 500	Fixed deposit	Interest income	R250
Account debited	Account credited	Amount								
Interest on loan	Loan from Uno Lenders	R3 500								
Fixed deposit	Interest income	R250								

TASK 5.24

Makho Traders: Treatment of interest

5.24.1	Assume that interest is <u>not capitalised</u> on the loan and the fixed deposit. Use the following table to indicate the year-end adjustments that you would make on 28 February 20.7.									
	<table border="1"> <thead> <tr> <th>Account debited</th> <th>Account credited</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Interest on loan</td> <td>Expenses payable (accrued)</td> <td>R4 000</td> </tr> <tr> <td>Income receivable (accrued)</td> <td>Interest income</td> <td>R500</td> </tr> </tbody> </table>	Account debited	Account credited	Amount	Interest on loan	Expenses payable (accrued)	R4 000	Income receivable (accrued)	Interest income	R500
Account debited	Account credited	Amount								
Interest on loan	Expenses payable (accrued)	R4 000								
Income receivable (accrued)	Interest income	R500								
5.24.2	Assume that interest is <u>capitalised</u> on the loan and the fixed deposit. Use the following table to indicate the year-end adjustments that you would make on 28 February 20.7.									
	<table border="1"> <thead> <tr> <th>Account debited</th> <th>Account credited</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Interest on loan</td> <td>Loan from Uno Lenders</td> <td>R4 000</td> </tr> <tr> <td>Fixed deposit</td> <td>Interest income</td> <td>R500</td> </tr> </tbody> </table>	Account debited	Account credited	Amount	Interest on loan	Loan from Uno Lenders	R4 000	Fixed deposit	Interest income	R500
Account debited	Account credited	Amount								
Interest on loan	Loan from Uno Lenders	R4 000								
Fixed deposit	Interest income	R500								

TASK 5.25 Fairytale Toy Shop: Composite Task

5.25.1; 3 GENERAL JOURNAL OF FAIRYTALE TOY SHOP: 28 FEBRUARY 20.8

GJ5

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Interest on loan	N5	800					
		Accrued expenses	B15		800				
		Interest owing brought into account							
2		Rent expense	N4	1 800					
		Accrued expenses	B15		1 800				
		Rent owing for one month							
3		Prepaid expenses	B16	1 600					
		Salaries and wages	N6		1 600				
		Amount paid in advance							
4		Depreciation	N9	5 500					
		Acc dep on equipment	B9		5 500				
		Depreciation at 10% p.a. on cost							
5		Trading stock deficit	N10	300					
		Trading stock	B10		300				
		Stock deficit as per physical count							
6		Cons. stores on hand	B17	240					
		Sundry expenses	N6		240				
		Consumables on hand as per physical count							
7		Salary: Peter	N13	120 000					
		Salary: Pann	N14	84 000					
		Current a/c: Peter	B3		120 000				
		Current a/c: Pann	B4		84 000				
		Salary allowance as per partnership agreement							

GENERAL JOURNAL OF FAIRYTALE TOY SHOP: 28 FEBRUARY 20.8 (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
8	28	Bonus: Peter	N15	12 000					
		Current a/c: Peter	B3		12 000				
		Bonus allowance as per partnership agreement							
9		Interest on capital	N16	23 100					
		Current a/c: Peter	B3		12 500				
		Current a/c: Pann	B4		10 600				
		interest on capital at 10% p.a.							
		CLOSING TRANSFERS							
		Sales	N1	5 000					
		Debtors allowances	N2		5 000				
		Debtors allowances transferred to sales a/c							
		Sales	N1	340 000					
		Trading account	F1		340 000				
		Closing entry							
		Trading account	F1	204 000					
		Cost of sales	N3		204 000				
		Closing entry							
		Trading account	F1	136 000					
		Profit and loss account	F2		136 000				
		Transfer of gross profit							
		Discount received	N9	1 620					
		Profit and loss account	F2		1 620				
		Closing entry							
		Profit and loss account	F2	222 560					
		Rent expense	N4		21 600				
		Depreciation	N5		6 100				
		Loss on disposal of equipment	N6		1 000				
		Interest on loan	N7		4 000				
		Salaries and wages	N8		163 400				
		Prov. for bad debts adjustment	N10		400				
		Sundry expenses	N11		25 760				
		Trading stock deficit	N12		300				
		Closing entries							
		Appropriation	F3	84 940					
		Profit and loss account	F2		84 940				
		Transfer of net loss							
		Appropriation account	F3	239 100					
		Salary: Peter	N13		120 000				
		Salary: Pann	N14		84 000				
		Bonus: Peter	N15		12 000				
		Interest on capital	N15		23 100				
		Closing transfers							
		Current a/c: Peter	B2	162 020					
		Current a/c: Pann	B3	162 020					
		Appropriation account	F3		324 040				
		Remaining loss shared equally							

GENERAL JOURNAL OF FAIRYTALE TOY SHOP: 28 FEBRUARY 20.8 (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
		Current a/c: Peter	B3	44 000					
		Current a/c: Pann	B4	38 000					
		Drawings: Peter	B5		44 000				
		Drawings: Pann	B6		38 000				
		Transfer of drawings to current accounts							

5.25.1; 3; 4

**GENERAL LEDGER OF FAIRYTALE TOY SHOP
BALANCE SHEET ACCOUNTS SECTION**

Dr					CURRENT ACCOUNT: PETER					B3	Cr		
20.8					20.7								
Feb	28	Drawings: Peter	GJ5	44 000	Mar	1	Balance		b/d			3 400	
		Appropriation a/c	GJ5	162 020	20.8								
					Feb	28	Salary: Peter		GJ5		120 000		
							Bonus: Peter		GJ5		12 000		
							Interest on capital		GJ5		12 500		
							Balance		c/d		58 120		
				206 020							206 020		
Mar	1	Balance	b/d	58 120									

CURRENT ACCOUNT: PANN					B4							
20.8					20.7							
Feb	28	Drawings: Pann	GJ5	38 000	Mar	1	Balance		b/d			5 300
		Appropriation a/c	GJ5	162 020	20.8							
					Feb	28	Salary: Pann		GJ5		84 000	
							Interest on capital		GJ5		10 600	
							Balance		c/d		100 120	
				200 020							200 020	
Mar	1	Balance	b/d	100 120								

**FINAL ACCOUNTS SECTION
TRADING ACCOUNT**

F1												
20.8					20.8							
Feb	28	Cost of sales	GJ5	204 000	Feb	28	Sales		GJ5		340 000	
		Profit and loss a/c	GJ5	136 000								
				340 000							340 000	

PROFIT AND LOSS ACCOUNT

F2												
20.8					20.8							
Feb	28	Rent expense	GJ5	21 600	Feb	28	Trading account		GJ5		136 000	
		Interest on loan	GJ5	4 000			Discount received		GJ5		1 620	
		Salaries and wages	GJ5	163 400			Appropriation a/c		GJ5		84 940	
		Sundry expenses	GJ5	27 760								
		Depreciation	GJ5	5 500								
		Loss on disposal of equipment	GJ5	25 760								
		Provision for bad debts adjustment	GJ5	6 100								
		Trading stock deficit	GJ5	300								
				222 560							222 560	

Dr					APPROPRIATION ACCOUNT					F3		Cr	
20.8					20.8								
Feb	28	Profit and loss a/c	GJ5	84 940	Feb	28	Current a/c: Peter	GJ5	162 020				
		Salary: Peter	GJ5	120 000			Current a/c: Pann	GJ5	162 020				
		Salary: Pann	GJ5	84 000									
		Bonus: Peter	GJ5	12 000									
		Interest on capitals	GJ5	23 100									
				324 040									324 040

5.25.2 POST-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.8

Balance Sheet accounts section	Fol	Debit	Credit
Capital: Peter	B1		125 000
Capital: Pann	B2		112 000
Current account: Peter [3 400 + 120 000 + 12 000 + 12 500]	B3		147 900
Current account: Pann [5 300 + 84 000 + 10 600]	B4		99 900
Drawings: Peter	B5	44 000	
Drawings: Pann	B6	38 000	
Loan: SBDC	B7		20 000
Equipment	B8	55 000	
Accumulated depreciation on equipment [8 400 + 5 500]	B9		13 900
Trading stock [47 000 – 300]	B10	46 700	
Debtors control	B11	13 200	
Provision for bad debts	B12		700
Creditors control	B13		13 700
Bank	B14	12 920	
Expenses payable [800 + 1 800]	B15		2 600
Prepaid expenses	B16	1 600	
Consumable stores on hand	B17	240	
Nominal accounts section			
Sales	N1		345 000
Debtors allowances	N2	5 000	
Cost of sales	N3	204 000	
Rent expense [19 800 + 1 800]	N4	21 600	
Depreciation [600 + 5 500]	N5	6 100	
Loss on disposal of equipment	N6	1 000	
Interest on loan [3 200 + 800]	N7	4 000	
Salaries and wages [165 000 – 1 600]	N8	163 400	
Discount received	N9		1 620
Provision for bad debts adjustment	N10	400	
Sundry expenses [26 000 – 240]	N11	25 760	
Trading stock deficit	N12	300	
Salary: Peter	N13	120 000	
Salary: Pann	N14	84 000	
Bonus: Peter	N15	12 000	
Interest on capital [12 500 + 10 600]	N16	23 100	
		882 320	882 320

5.25.4 POST-CLOSING TRIAL BALANCE ON 28 FEBRUARY 20.8

Balance Sheet accounts section		Fol	Debit	Credit
Capital: Peter		B1		125 000
Capital: Pann		B2		112 000
Current account: Peter [3 400 + 120 000 + 12 000 + 12 500 – 44 000 – 162 020]		B3	58 120	
Current account: Pann [5 300 + 84 000 + 10 600 – 38 000 – 162 020]		B4	100 120	
Drawings: Peter [44 000 – 44 000]		B5	0	
Drawings: Pann [38 000 – 38 000]		B6	0	
Loan: SBDC		B7		20 000
Equipment		B8	55 000	
Accumulated depreciation on equipment		B9		13 900
Trading stock		B10	46 700	
Debtors control		B11	13 200	
Provision for bad debts		B12		700
Creditors control		B13		13 700
Bank		B14	12 920	
Expenses payable		B15		2 600
Prepaid expenses		B16	1 600	
Consumable stores on hand		B17	240	
			287 900	287 900

NOTE TO THE TEACHER:

In wrapping up this Task, get learners to consider the big debit balances on the partners' current accounts – what these mean and how they came about.

5.25.5 GENERAL JOURNAL OF FAIRYTALE TOY SHOP: 01 MARCH 20.8

GJ6

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1		Accrued expenses	B15	800					
		Interest on loan	N5		800				
		Reversal entry							
		Accrued expenses	B15	1 800					
		Rent expense	N4		1 800				
		Reversal entry							
		Salaries and wages	N6	1 600					
		Prepaid expenses	B16		1 600				
		Reversal entry							
		Sundry expenses	N6	240					
		Cons. stores on hand	B17		240				
		Reversal entry							

5.25.6 Explain how the following figures would arise in the Pre-adjustment Trial Balance:

Provision for bad debts adjustment R400

The provision for bad debts was increased from R300 to R700.

Loss on disposal of equipment R1 000

A fixed asset was sold at a loss of R1 000. Entries were made for the cost, accumulated depreciation and selling price.

Depreciation R600

Depreciation on the fixed asset that was sold during the year amounted to R600. This was entered on the date of sale.

TASK 5.26 Singh-A-Long Music Store: Composite Task

5.26.1 GENERAL JOURNAL OF SINGH-A-LONG MUSIC STORE: 28 FEBRUARY 20.2 GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
1	28	Drawings: Singh Trading stock Stock taken for own use		5 800	5 800				
2		Sundry expenses ^[1] Trading stock Stock donated to SPCA		2 400	2 400				
3		Packing materials Expenses payable Amount owed at year-end		5 300	5 300				
4		Income receivable ^[2] Interest on investments Amount receivable for interest on fixed deposit		300	300				
5		Commission income Deferred income Amount received in advance		1 400	1 400				
6		Rent income Deferred income ^[3] Amount received in advance		1 600	1 600				
7		Prepaid expenses ^[4] Sundry expenses Amount paid in advance		380	380				
8		Interest on loan Mortgage loan Amount owing in respect of interest on loan		4 200	4 200				
9		Debtors control/D. Davis Bad debts recovered Correction of error in posting		200	200				
10		Bad debts Debtors control Additional bad debts written off Provision for bad debts adjustment ^[6] Provision for bad debts Increase in provision for bad debts		500	500				
11		Trading stock deficit ^[7] Trading stock Stock deficit identified as per physical stock-take Consumable stores on hand Packing materials Packing material on hand as per stock-take		12 000	12 000				
12		Income receivable Asset disposal Selling price of equipment		1 400	1 400				

5.26.1 GENERAL JOURNAL OF SINGH-A-LONG MUSIC STORE (Continued)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Loss on disposal of equip. Asset disposal		600					
		Transfer of loss on sale of equipment			600				
13		Depreciation ^[8] Acc dep on equipment		2 340	2 340				
		Depreciation calculated at 10% p.a. on diminishing balance							
14		Salary: Singh		90 000					
		Salary: Song		60 000					
		Current a/c: Singh			90 000				
		Current a/c: Long			60 000				
		Salary allowances as per partnership agreement							
15		Bonus: Singh		8 000					
		Current a/c: Singh			8 000				
		Bonus allowance agreed as per partnership agreement							
16		Interest on capital		30 000					
		Current a/c: Singh			20 000				
		Current a/c: Long			10 000				
		Interest on capital as per partnership agreement							

[1] This could also be charged to Donations or Advertising.

$$\begin{aligned}
 [2] (75\,000 - 20\,000) \times 6\% \times \frac{2}{12} &= 550 \\
 75\,000 \times 6\% \times \frac{10}{12} &= 3\,750 \\
 &= \underline{4\,300}
 \end{aligned}$$

$$\text{Accrued amount} = 4\,300 - 4\,000 = \text{R}300$$

$$\begin{aligned}
 [3] 6 \times 8\,000 &= 48\,000 \\
 \text{Deferred amount} &= 49\,600 - 48\,000 \\
 &= \text{R}1\,600
 \end{aligned}$$

$$[4] 1\,140 \div 12 \times 4 = \text{R}380$$

$$\begin{aligned}
 [5] \text{Debtors} &= 23\,300 + 200 - 500 \\
 &= \text{R}23\,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Adjusted provision} &= 23\,000 \times 5\% \\
 &= \text{R}1\,150 \\
 \text{Increase} &= 1\,150 - 900 \\
 &= \text{R}250
 \end{aligned}$$

$$\begin{aligned}
 [7] \text{Stock figure} &= 122\,500 - 5\,800 - 2\,400 \\
 &= \text{R}114\,300 \\
 \text{Deficit} &= 114\,300 - 102\,300 \\
 &= \text{R}12\,000
 \end{aligned}$$

$$\begin{aligned}
 [8] 162\,000 - 30\,000 - 123\,600 \times 10\% &= 840 \\
 30\,000 \times 10\% \times \frac{6}{12} &= \underline{1\,500} \\
 &= \underline{2\,340}
 \end{aligned}$$

5.26.2 POST-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.2

Balance Sheet accounts section	Fol	Debit	Credit
Capital: Singh	B		400 000
Capital: Long	B		200 000
Current account: Singh [-44 000 + 90 000 + 8 000 + 20 000]	B		74 000
Current account: Long [67 000 + 60 000 + 10 000]	B		137 000
Drawings: Singh [68 000 + 5 800]	B	73 800	
Drawings: Long	B	60 000	
Mortgage loan ABC Bank [360 000 + 4 200]	B		364 200
Land and buildings	B	910 000	
Equipment	B	162 000	
Accumulated depreciation on equipment [123 600 + 840 + 1 500]	B		125 940
Trading stock [122 500 – 5 800 – 2 400 – 12 000]	B	102 300	
Debtors control [23 300 + 200 – 500]	B	23 000	
Provision for bad debts [900 + 250]	B		1 150
Creditors control	B		36 600
Fixed deposit	B	75 000	
Bank	B	20 300	
Cash float	B	1 000	
Expenses payable/accrued	B		5 300
Income receivable/accrued [300 + 1 400]	B	1 700	
Deferred income/Income received in advance [1 400 + 1 600]	B		3 000
Prepaid expenses	B	380	
Consumable stores on hand	B	440	
Nominal accounts section			
Sales	N		1 440 000
Debtors allowances	N	20 000	
Cost of sales	N	800 000	
Rent income [49 600 – 1 600]	N		48 000
Interest on loan [46 200 + 4 200]	N	50 400	
Packing materials [22 000 + 5 300 – 440]	N	26 860	
Salaries and wages	N	270 000	
Commission income [17 000 – 1 400]	N		15 600
Interest on investments [4 000 + 300]	N		4 300
Bad debts [9 700 + 500]	N	10 200	
Trading stock deficit [12 500 + 12 000]	N	24 500	
Depreciation [500 + (840 + 1 500)]	N	2 840	
Loss on disposal of fixed asset [2 000 -1 400]	N	600	
Sundry expenses [29 700 + 2 400 – 380]	N	31 720	
Bad debts recovered	N		200
Provision for bad debts adjustment	N	250	
Salary: Singh	N	90 000	
Salary: Long	N	60 000	
Bonus: Singh	N	8 000	
Interest on capital [20 000 + 10 000]	N	30 000	
		2 855 290	2 855 290

5.26.3

GENERAL LEDGER OF SINGH-A-SONG MUSIC STORE
BALANCE SHEET ACCOUNTS SECTION

Dr		CURRENT ACCOUNT: SINGH				B3		Cr	
20.1					20.2				
Mar	1	Balance	b/d	44 000	Feb	28	Salary: Singh	GJ	90 000
20.2							Bonus: Singh	GJ	8 000
Feb	28	Drawings: Singh	GJ	73 800			Interest on capital	GJ	20 000
		Balance	c/d	49 838			Appropriation a/c	GJ	49 638
				167 638					167 638
					Mar	1	Balance	b/d	49 838

Dr		CURRENT ACCOUNT: LONG				B4		Cr	
20.2					20.1				
Feb	28	Drawings: Long	GJ	60 000	Mar	1	Balance	b/d	67 000
		Balance	c/d	110 092	20.2				
					Feb	28	Salary: Long	GJ	60 000
							Interest on capital	GJ	10 000
							Appropriation a/c	GJ	33 092
				170 092					170 092
					Mar	01	Balance	b/d	110 092

FINAL ACCOUNTS SECTION
TRADING ACCOUNT

Dr		F1				Cr			
20.2					20.2				
Feb	28	Cost of sales	GJ	800 000	Feb	28	Sales	GJ	1 420 000
		Profit and loss a/c	GJ	620 000					
				1 420 000					1 420 000

PROFIT AND LOSS ACCOUNT

Dr		F2				Cr			
20.2					20.2				
Feb	28	Interest on loan	GJ	50 400	Feb	28	Trading account	GJ	620 000
		Packing materials	GJ	26 860			Rent income	GJ	48 000
		Salaries and wages	GJ	270 000			Commission income	GJ	15 600
		Bad debts	GJ	10 200			Int. on investments	GJ	4 300
		Trading stock deficit	GJ	24 500			Bad debts recovered	GJ	200
		Depreciation	GJ	2 840					
		Loss on disposal of equipment	GJ	600					
		Sundry expenses	GJ	31 720					
		Provision for bad debts adjustment	GJ	250					
		Appropriation	GJ	270 730					
				688 100					688 100

Dr					APPROPRIATION ACCOUNT					F3		Cr	
20.2					20.2								
Feb	28	Interest on capital	GJ	30 000	Feb	28	Profit and loss a/c	GJ				270 730	
		Salary: Singh	GJ	90 000									
		Salary: Long	GJ	60 000									
		Bonus: Singh	GJ	8 000									
		Current a/c: Singh [³ / ₅]	GJ	49 638									
		Current a/c: Long [² / ₅]	GJ	33 092									
				270 730								270 730	

5.26.4 POST-CLOSING TRIAL BALANCE ON 28 FEBRUARY 20.2

Balance Sheet accounts section	Fol	Debit	Credit
Capital: Singh	B		400 000
Capital: Long	B		200 000
Current account: Singh	B		49 838
Current account: Long	B		110 092
Mortgage loan ABC Bank (19% p.a.)	B		364 200
Land and buildings	B	910 000	
Equipment	B	162 000	
Accumulated depreciation on equipment	B		125 940
Trading stock	B	102 300	
Debtors control	B	23 000	
Provision for bad debts	B		1 150
Creditors control	B		36 600
Fixed deposit (12% p.a.)	B	75 000	
Bank	B	20 300	
Cash float	B	1 000	
Expenses payable/Accrued expenses	B		5 300
Income receivable/Accrued income	B	1 700	
Deferred income/Income received in advance	B		3 000
Prepaid expenses	B	380	
Consumable stores on hand	B	440	
		1 296 120	1 296 120

TASK 5.27 Welkom Stores: Ethical & internal control scenarios relating to year-end procedures

Alternative valid responses acceptable. Examples of valid responses below:

SCENARIOS RELATING TO INTERNAL CONTROL

1.	Dea Dilley clearly does not understand the bookkeeping process and the need for internal control at each stage of the process. Whilst it is important for the totals of the Pre-Adjustment Trial Balance to agree, this merely indicates that debits = credits. It is still possible that errors have crept into the books. That is why adjustments are required, in order to ensure that the figures are accurate and comply with GAAP. There might well be many year-end adjustments, and the financial statements will be prepared from these figures. It is essential that the Post-Adjustment Trial Balance balances, otherwise the financial statements will not balance and will lead readers to assume that some figures are missing. The Post-Closing Trial Balance is prepared after the closing transfers have been completed, and the figures in this Trial Balance will be reflected in the Balance Sheet. These figures will also be used to start off the new financial year, hence it is essential that the totals in the Post-Closing Trial Balance agree.
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2.	The totals from the Debtors List and Fixed Assets Register must agree to the main accounts (i.e. Debtors control and the relevant fixed assets). This is a basic requirement of ensuring good internal control because duties will be divided amongst the employees in the Accounting department so that the work of one person serves as a check on the other. One employee will be responsible for the General Ledger, while others will be responsible for the Debtors Ledger and Fixed Assets Register, which contain details of individual debtors and fixed assets respectively. If the totals do not agree, then someone has made a mistake, or possibly fraud has occurred.
3.	The trading stock deficit in this case is R170 000. This amounts to more than one-third of the stock on hand according to the ledger. It is very significant (material) if the deficit is so large. There is obviously a serious error in the books or in the physical count, or there is major fraud in the business. In either case, this must be investigated thoroughly. Bearing in mind all the threats to internal control in this business, it is clear that they need to employ an internal auditor to monitor these problems on a daily basis.

SCENARIOS RELATING TO BUSINESS ETHICS	
1.	The amount should remain debited to Drawings: Steele as it relates to a personal expense (business entity rule). It is unethical of Steele to expect the business to pay for this, and it will also lead to criminal charges for tax evasion if this is portrayed as a business expense. Steele must either pay in the amount or it must be debited to Drawings: Steele. This incident also indicates another problem. Journal vouchers for adjustments should be authorised and signed by two senior persons in the business to prevent this sort of financial abuse from occurring.
2.	The circumstances of this incident are very questionable. It appears that partner Deale has paid a bribe to a decision-maker in the municipality. There can be no valid reason for a cash withdrawal of this amount especially without a valid voucher. The partners must portray a positive ethical stance at all times. If they become known for 'wheeling & dealing' then this will rub off on the employees who might at some stage be tempted to make similar unethical decisions in future. The business will then become known as disreputable and this would lead to a loss of customer goodwill. Furthermore, the R100 000 is clearly not a salary, so it should not be shown under the Salaries account. If it is not a valid expense, the partners can be charged with tax evasion. Criminal charges can also be laid against persons offering and receiving the bribe. You should refuse to put the entry through, otherwise you would be implicated as an accessory to the crime.
3.	To keep quiet about this matter would not be ethical. It appears that the tenant has made a genuine error in making the over-payment of R1 000 per month and he probably has not noticed this because of the debit order being processed automatically each month. The correct and ethical thing to do is to inform the tenant of the over-payment and offer to off-set the R12 000 over-payment against the rent for the next two months. An entry should be made for deferred income / received in advance.

ADDITIONAL RESOURCE:

EXAMPLE OF A FREE PARTNERSHIP AGREEMENT DOWNLOADABLE FROM www.formville.com.

Note that the sections of a Partnership Agreement may be mutually decided upon by the partners and need not specifically adhere to this draft agreement.

AGREEMENT OF PARTNERSHIP

A. **Parties to the Agreement:** This Agreement is made between the following parties:

Name: _____ ID number: _____

Residential address: _____

and

Name: _____ ID number: _____

Residential address: _____

B. **Purpose:** All parties to this agreement agree to begin, and carry on, a Partnership for the following purposes:

2.1 _____

2.2 _____

2.3 _____

C. All parties agree to the following terms and conditions:

1. **Commencement:** The Partnership will commence on _____ (date) and will continue indefinitely until terminated.

2. **Name:** The name of the Partnership will be: _____.

3. **Start-up capital:** The start-up capital of the Partnership will be R_____ (in words: _____).

4. **Capital contributions:** Each partner of the Partnership will contribute the following property, services, or cash to help complete this total amount:

The Capital contribution of _____ (name of partner) will comprise:

_____.

The Capital contribution of _____ (name of partner) will comprise:

_____.

5. **Additional capital:** These contributions must be made by _____ (date). At any time the partners may decide, upon a complete and unanimous vote, to contribute additional capital to the Partnership.

6. **Decisions:** Each and every partner will have an equal right to manage and control this Partnership. All Partnership decisions will have to be made by unanimous vote. The partners can select one member of the Partnership to carry on the day-to-day operations of the Partnership.

7. **Bank account:** The Partnership will maintain a bank account, on which cheques may be signed by either all of the partners, or by the partner selected to carry on the day-to-day operations of the Partnership.

8. **Accounting records:** The Partnership will maintain records for accounting purposes, which will be open to any partner for inspection. Such records will include separate accounting sections for both income and capital for each of the partners. The financial year-end of the Partnership will be _____ of each year. The capital account for each partner will consist of no less than the value of the services, property, or cash that was contributed and listed under section three of this agreement. The partners may withdraw money from their current (income) accounts on the following basis: _____.
9. **Audit:** The books of the Partnership will / will not be (delete whichever is not applicable) subject to an annual audit. The appointment of auditors is to be unanimously agreed by all partners.
10. **Sharing of profits and losses:** The profits and losses of the Partnership will be shared by all of the partners as follows:

11. **Withdrawal:** If any member withdraws from the Partnership for any reason, including death, then the Partnership may continue and be operated by the remaining partners. The withdrawing partner, or their representative, will be obligated to sell their interest in the Partnership to the remaining partners or their representatives, while the remaining partners or their representatives will be obligated to buy that interest. The value of the withdrawing partner's interest will be their share proportionate to the total value of the Partnership. The total value of the Partnership will be determined by an independent appraisal that must be made within ninety days of the partner's withdrawal. All members of the Partnership, including the member who withdraws, will share the cost of this appraisal equally.
12. **Transfer of Partner's interest:** No member of the Partnership may transfer or sell any or all of their interest in the Partnership to any other party without the prior, written, approval of the remaining partners.
13. **Termination:** The Partnership may be terminated at any time upon the unanimous agreement among the members. Upon the termination, the members will agree to apply the assets and money of the Partnership in the following order:
a. Pay all debts owed by the Partnership.
b. Distribute the partners' income accounts to them in the proper, proportionate amount.
c. Distribute the partners' capital accounts to the partners in the proper, proportionate amount.
d. Distribute any assets that remain in accordance with the profit-sharing ratio.
14. **Resolution of disputes between partners:** If there is any dispute between the partners related to this written agreement will be settled by mediation. If any mediation is unsuccessful, then the dispute will be settled according by binding arbitration.
15. **Additional items:**

16. **Modification:** No modification of this agreement will be considered effective unless it is in writing, and is signed by all members of the Partnership. This agreement will bind and benefit all the partners and any successors. This document, and any attachments, will constitute the entire agreement between the partners. This agreement will be governed and enforced according to the laws of South Africa.

SIGNED BY ALL PARTIES TO THIS AGREEMENT:

Name of Partner:	Signature:	Date:	Place:	Witness:

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Define a partnership.			
Identify the difference between a sole proprietor and a partnership as a form of business ownership.			
Explain the accounting cycle relating to a partnership.			
Explain the term joint and several liability for debts as it applies to partners.			
Identify essential parts of a partnership agreement.			
Draw up partners' capital, current and drawings accounts in the ledger.			
Draw up an Appropriation account in the ledger.			
Explain the difference between primary and secondary distributions to partners.			
Explain how partner's salaries, interest on capital, division of remaining profit/loss and drawings are recorded in the ledger and journals.			
Define and explain GAAP concepts and how they relate to year-end adjustments.			
Record year-end adjustments in the general journal and ledger.			
Record closing transfers in the general journal and ledger.			
Explain and prepare the three types of trial balances applicable to a financial year-end.			
Analyse entries relating to partnerships under the Accounting Equation.			
Prepare a set of partnership final accounts.			
Comment on and evaluate internal control in a partnership context.			
Comment on and evaluate ethical behaviour in a partnership context.			

MODULE 6

PREPARING FINANCIAL STATEMENTS OF PARTNERSHIPS

TASK 6.1 ☼💧 Stakeholders

No.	Answer
1.	E
2.	D
3.	A
4.	F
5.	B
6.	G
7.	C

TASK 6.2 💧 Characteristics of financial statements

No.	Answer
1.	D
2.	E
3.	B
4.	A
5.	C

TASK 6.3 ☼💧 The need for rules or GAAP

6.3.1	Investigate what is meant by GAAP.
Refer to the Learner's Book.	
6.3.2	In groups, list the ways in which the users of the financial statements and the economy would be affected if accountants did not 'follow the rules' of GAAP at all times.
Various answers are possible, e.g. if figures are unreliable, investors will not entrust their money to businesses – this would affect employment offered and consequently standard of living.	
6.3.3	In your group, decide how the professional institutes should act should one of their members be guilty of not following GAAP or the professional procedures laid down.
Various answers are possible, e.g. the guilty members should face a disciplinary inquiry to explain their actions and, if necessary, the guilty members should have their membership of the institute removed, depending on the severity of the offence and whether or not this is a repeated offence.	

TASK 6.4 ☼💧 Application of GAAP

No.	Description	Example of application
1.	C	U
2.	E	X
3.	A	W
4.	F	V
5.	B	Z
6.	D	Y

TASK 6.5 **Operating, financing & investing activities**

No.	Activity	No.	Activity
(a)	Operating	(i)	Financing
(b)	Operating	(j)	Financing
(c)	Operating	(k)	Operating
(d)	Operating	(l)	Financing
(e)	Investing	(m)	Financing and investing
(f)	Investing	(n)	Financing
(g)	Investing	(o)	Operating
(h)	Financing	(p)	Operating

TASK 6.6 **Sequence of year-end procedures**

1.	Preparing a Pre-Adjustment Trial Balance.
2.	Entering adjustments in the General Journal and posting to the ledger.
3.	Preparing a Post-Adjustment Trial Balance.
4.	Entering closing transfers in the General Journal and posting to the ledger.
5.	Preparing a Post-Closing Trial Balance.
6.	Preparing financial statements.
7.	Interpreting financial statements and making decisions.
8.	Entering reversals in the General Journal and posting to the ledger.



Suggestion: Photostat the following examples of financial statements, enlarge them to A3 size and pin them up on your classroom wall.



Suggestion: Learners must be able to identify and use the correct format for drawing up financial statements. You may wish to cut pieces of paper with the different sections and let them put them together (similar to doing a puzzle) and have a competition between the groups to see if they can better their own time.

Names of partners:

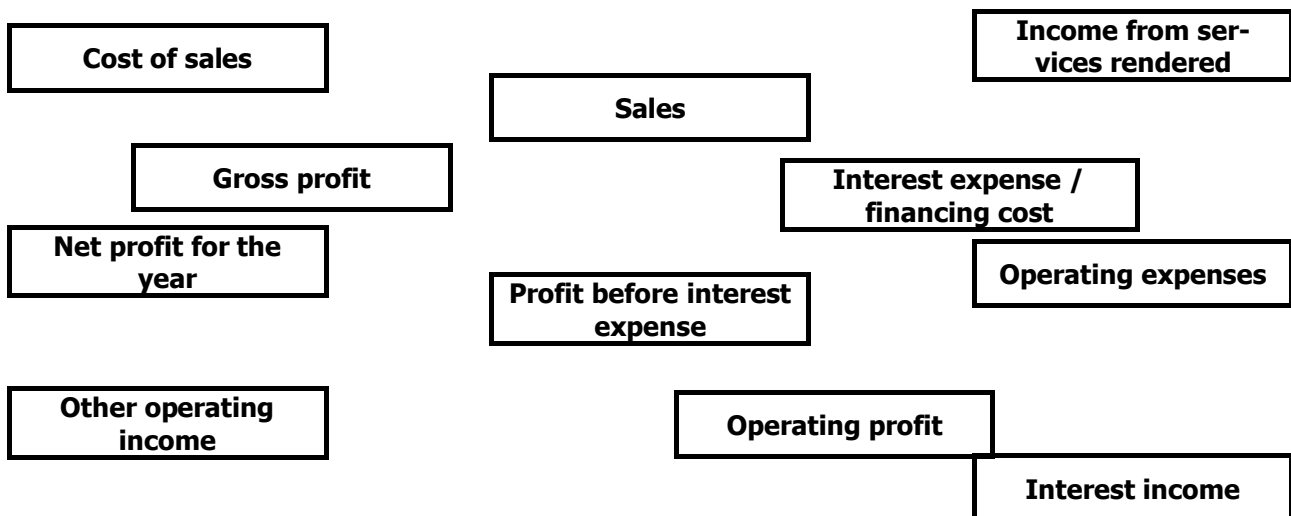
Trading as:

**INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED**

	Note	20.2	20.1
Sales		xxx	xxx
Cost of sales		(xxx)	(xxx)
Gross profit		xxx	xxx
Income from services rendered		xxx	xxx
Fee income		xxx	xxx
Commission income*		xxx	xxx
Other operating income		xxx	xxx
Rent income		xxx	xxx
Profit on sale of fixed assets		xxx	xxx
		xxx	xxx
Gross operating income		xxx	xxx
Operating expenses		(xxx)	(xxx)
Salaries & wages		xxx	xxx
Maintenance		xxx	xxx
Stationery & printing		xxx	xxx
Water & electricity		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
		xxx	xxx
Operating profit		xxx	xxx
Interest income	1	xxx	xxx
Profit before interest expense		xxx	xxx
Interest expense / Financing cost	2	(xxx)	(xxx)
Net profit for the year	8	xxx	xxx

*Note that commission income may be shown under other operating income. Abide by the guidelines of your examining body.

Samples of suggested word blocks for the Income Statement:



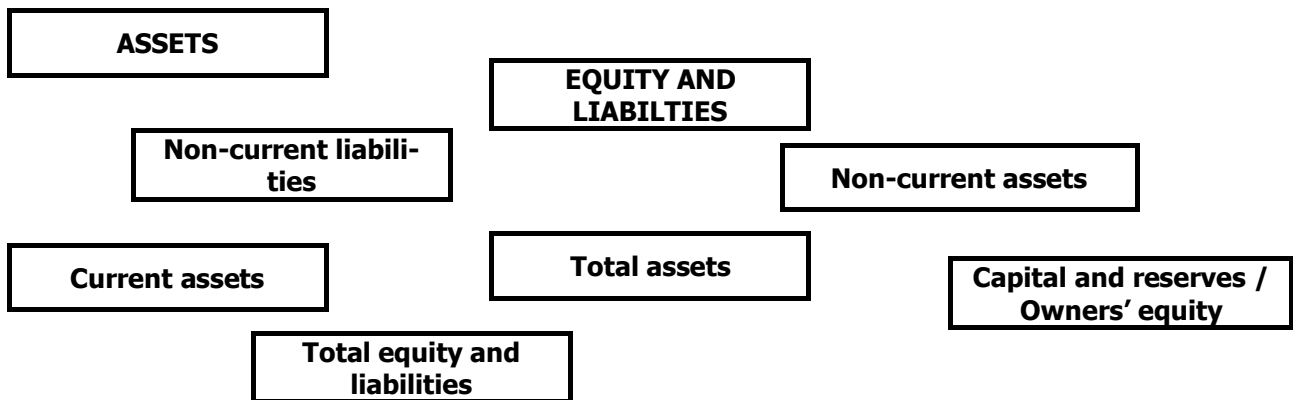
Names of partners:

Trading as:

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON

ASSETS	Note	20.2	20.1
Non-current assets		xxx	xxx
Tangible / Fixed assets	3	xxx	xxx
Financial assets – Fixed deposit		xxx	xxx
Current assets		xxx	xxx
Inventories	4	xxx	xxx
Trade and other receivables	5	xxx	xxx
Cash and cash equivalents	6	xxx	xxx
Total assets		xxx	xxx
EQUITY AND LIABILITIES			
Capital and reserves / Owners' equity		xxx	xxx
Capital	7	xxx	xxx
Current accounts	8	xxx	xxx
Non-current liabilities		xxx	xxx
Mortgage loan		xxx	xxx
Current liabilities		xxx	xxx
Trade and other payables	9	xxx	xxx
Bank overdraft (if applicable)		xxx	xxx
Total equity and liabilities		xxx	xxx

Samples of suggested word blocks for the Balance Sheet:



Above we have only used the headings for the Balance Sheet. You could also add the accounts that fall under these headings.

Names of partners:

Trading as:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

		20.2	20.1
1.. INTEREST INCOME	From investments	xxx	xxx
	From overdue debtors	xxx	xxx
	From cheque account	xxx	xxx
		xxx	xxx
2. INTEREST EXPENSE	On mortgage loan	xxx	xxx
	On bank overdraft	xxx	xxx
		xxx	xxx
		xxx	xxx

3. FIXED ASSETS	Land & buildings	Vehicles	Equip-ment	20.2	20.1
	Carrying value at beginning	xxx	xxx	xxx	xxx
Cost	xxx	xxx	xxx	xxx	xxx
Accumulated depreciation	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Movements	xxx	xxx	xxx	xxx	xxx
Additions at cost	xxx	xxx	xxx	xxx	xxx
Disposals at carrying value	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Depreciation	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Carrying value at end	xxx	xxx	xxx	xxx	xxx
Cost	xxx	xxx	xxx	xxx	xxx
Accumulated depreciation	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)

4. INVENTORIES	Trading stock	xxx	xxx
	Consumable stores on hand	xxx	xxx
		xxx	xxx
		xxx	xxx
5. TRADE AND OTHER RECEIVABLES	Net trade debtors	xxx	xxx
	Trade debtors	xxx	xxx
	Provision for bad debts	(xxx)	(xxx)
	Income receivable / accrued	xxx	xxx
	Expenses prepaid	xxx	xxx
		xxx	xxx
6. CASH AND CASH EQUIVALENTS	Fixed deposits (maturing within 12 months)	xxx	xxx
	Savings account	xxx	xxx
	Bank	xxx	xxx
	Cash float	xxx	xxx
	Petty cash	xxx	xxx
		xxx	xxx
		xxx	xxx

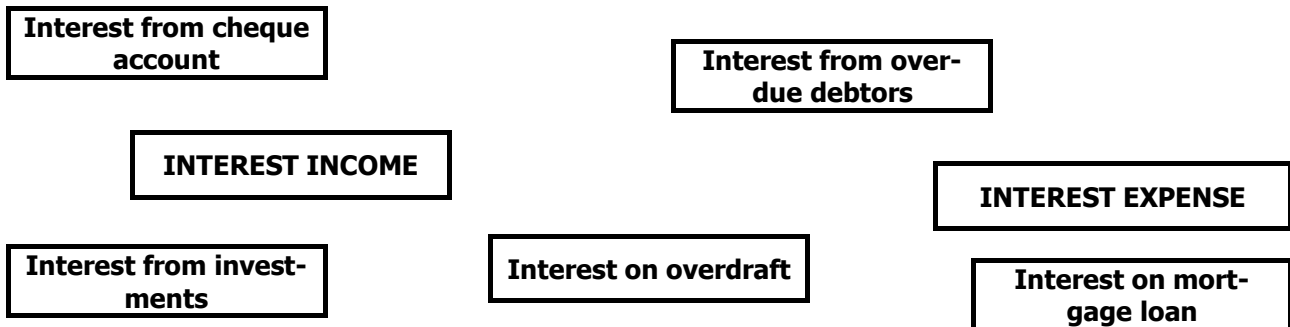
7. CAPITAL	Partner A	Partner B	20.2	20.1
	Balance at the beginning of the year	xxx	xxx	xxx
Contribution of capital during the year	xxx	xxx	xxx	xxx
Withdrawal of capital during the year	(xxx)	(xxx)	(xxx)	(xxx)
Balance at the end of the year	xxx	xxx	xxx	xxx

8.	CURRENT ACCOUNTS	Partner A	Partner B	20.2	20.1
	Profit per Income Statement	xxx	xxx	xxx	xxx
	Partners' salaries	xxx	xxx	xxx	xxx
	Interest on capital	xxx	xxx	xxx	xxx
	Partners' bonus	xxx		xxx	xxx
	Primary distribution of profits	xxx	xxx	xxx	xxx
	Final distribution of profits	xxx	xxx	xxx	xxx
	Drawings during the year	(xxx)	(xxx)	(xxx)	(xxx)
	*Retained income for the year	xxx	xxx	xxx	xxx
	*Retained income at beginning of year	xxx	xxx	xxx	xxx
	*Retained income at end of year	xxx	xxx	xxx	xxx

*Or Balance

9.	TRADE AND OTHER PAYABLES	20.2	20.1
	Trade creditors	xxx	xxx
	Expenses payable / accrued	xxx	xxx
	Income received in advance / deferred	xxx	xxx
	Creditors for salaries	xxx	xxx
	SA Revenue Services (PAYE)	xxx	xxx
	Pension fund	xxx	xxx
	Medical aid fund	xxx	xxx
	UIF	xxx	xxx
	Current portion of loan/Short-term loan	xxx	xxx
		xxx	xxx

Sample of suggested word blocks on notes to the balance sheet for puzzle game:



TASK 6.7

PL Traders: Preparing financial statements and assessment of current accounts & stock

6.7.1 PARTNERS PENN AND LUKHAN TRADING AS PL TRADERS INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.5

	Note	
Sales [975 000 – 15 000]		960 000
Cost of sales		[560 000]
Gross profit		400 000
Income from services rendered		93 360
Commission income		40 360
Fee income		53 000
Other operating income		80 900
Rent income		72 000
Profit on disposal of vehicle		8 900
Gross operating income		574 260
Operating expenses		(299 690)
Advertising		7 000
Consumable stores		18 000
Salaries and wages		204 000
Trading stock deficit		13 200
Provision for bad debts adjustment		310
Depreciation [32 500 + 10 500]		43 000
Sundry expenses		14 180
Operating profit		274 570
Interest income	1	3 900
Profit before interest expense		278 470
Interest expense / Financing cost	2	[58 100]
Net profit for the year	8	220 370

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.5

	Note	
ASSETS		
Non-current assets		945 000
Tangible / Fixed assets	3	880 000
Financial assets: Fixed deposit		65 000
Current assets		288 070
Inventories	4	219 000
Trade and other receivables	5	46 070
Cash and cash equivalents	6	23 000
Total assets		1 233 070
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		922 070
Capital	7	870 000
Current accounts	8	52 070
Non-current liabilities		229 950
Mortgage loan: XBS		229 950
Current liabilities		81 050
Trade and other payables	9	73 510
Bank overdraft		7 540
Total equity and liabilities		1 233 070

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.5

1. INTEREST INCOME	
From investments	3 900
2. INTEREST EXPENSE	
On mortgage loan	57 400
On overdraft	700
	58 100

3. FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning	775 000	104 500	43 500	923 000
Cost	775 000	180 000	70 000	1 025 000
Accumulated depreciation	-	[75 500]	[26 500]	[102 000]
Movements				
	-	[32 500]	[10 500]	[43 000]
Additions at cost	-	-	-	-
Disposals at carrying value	-	-	-	-
Depreciation	-	[32 500]	[10 500]	[43 000]
Carrying value at end	775 000	72 000	33 000	880 000
Cost	775 000	180 000	70 000	1 025 000
Accumulated depreciation	-	[108 000]	[37 000]	[145 000]

4. INVENTORIES	
Trading stock	217 600
Consumable stores on hand	1 400
	219 000
5. TRADE AND OTHER RECEIVABLES	
Net trade debtors	40 280
Trade debtors	42 400
Provision for bad debts	[2 120]
Income receivable / accrued	3 130
Expenses prepaid	2 660
	46 070
6. CASH AND CASH EQUIVALENTS	
Savings account	20 000
Petty cash	2 000
Cash float	1 000
	23 000

7. CAPITAL	Penn	Lukhan	Total
Balance at the beginning of the year	580 000	290 000	870 000
Contribution of capital during the year	-	-	-
Withdrawal of capital during the year	-	-	-
Balance at the end of the year	580 000	290 000	870 000

8. CURRENT ACCOUNTS	Penn	Lukhan	Total
Profit per Income Statement	143 580	76 790	220 370
Partners' salaries	90 000	50 000	140 000
Interest on capital	40 600	20 300	60 900
Primary distribution of profits	130 600	70 300	200 900
Final distribution of profits	12 980	6 490	19 470
Drawings during the year	[84 000]	[76 000]	[160 000]
Retained income for the year	59 580	790	60 370
Retained income at beginning of year	9 000	[17 300]	[8 300]
Retained income at end of year	68 580	[16 510]	52 070

9. TRADE AND OTHER PAYABLES	
Trade creditors	51 000
Income received in advance / Deferred income	1 370
Accrued expenses / Expenses payable	4 140
Creditors for wages	13 940
SA Revenue Services (PAYE)	3 060
	73 510

6.7.2	Penn is worried about the balances on the current accounts. Do you agree? Explain.
	<p>Yes. Lukhan is withdrawing more than his earnings while Penn is retaining a large amount in the business. A positive balance increases the net worth of the partners. A negative balance decreases partner's equity. The partners need to discuss this – a review of the partnership agreement may be necessary where limits could be set on withdrawals by partner. Any other suitable answer.</p>
6.7.3	Lukhan is worried that the business is not carrying enough stock to satisfy its customers. Do you agree? Explain.
	<p>Open-ended question. Ideally a business selling household appliances should carry a large variety of stocks. Learners may also comment on the trading stock deficit amount of R13 200. Note also that carrying large stocks ties up working capital and also exposes merchandise to damage, mishandling, obsolescence and theft. If many customers are being turned away because of the lack of stock then the situation needs to be dealt with. Any other suitable answer.</p>

TASK 6.8

Hariclaire Supplies: Identifying errors in financial statements

Note to the Teacher:

There is no right or wrong answer to this Task. The purpose is to allow the learners an opportunity to discuss the following issues:

- The need for accurate financial statements.
- The implications of financial statements not being correctly completed.
- The errors made and why – what principles did she contravene? This will ensure that the learners have an understanding of the principles and can apply them instead of just being a theory topic that they learn.
- How to correct the financial statements based on their findings.

6.8.1	In your opinion, have Harry and Claire made the right decision in employing Miss I. Trye? Explain. If not, how do they solve the problem regarding the accuracy of the financial statements?
Use discretion – learners must justify their answer.	
6.8.2	List the errors that Miss I. Trye has made. What are the main principles that she does not understand?
Errors made by Miss I. Trye, e.g.: <ul style="list-style-type: none">• Audit fees have been omitted from the Income Statement.• Stock purchases have not been recorded.• The calculation of gross profit is incorrect – she included the sale of packing materials and income from services rendered in the calculation.• The fixed deposit matured has been entered in the Income Statement.• Interest income and interest expense have not been shown separately at the bottom of the Income Statement.• Drawings of partners have been recorded in the Income Statement as operating expenses.• The purchase of equipment has been recorded in the Income Statement.• Trading stock has been reflected as a non-current asset in the Balance Sheet.• Consumable stores on hand have not been included under Inventory• Bank overdraft has been entered as a non-current liability.• The long-term loan has been reflected as a current liability – no mention has been made that the loan is repayable within 12 months.• The drawings of partners have not been considered in the calculation of current account balance.• Interest on capitals calculated wrongly.	

6.8.3 HARICLAIRE SUPPLIES
INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.9

	Note	
Sales		870 000
Cost of sales		[490 000]
Gross profit		380 000
Income from services rendered		93 000
Other operating income		30 000
Sale of packing materials		13 000
Bad debts recovered		17 000
Gross operating income		503 000
Operating expenses		[287 460]
Wages		105 000
Rent expense		40 000
Bank charges		7 800
Telephone & electricity		9 200
Depreciation		38 000
Stationery & printing		4 300
Packing materials cost		12 400
Catering consumable costs		35 000
Sundry expenses		11 260
Trading stock deficit		4 500
Audit fees		20 000
Operating profit		215 540
Interest income	1	3 000
Profit before interest expense		218 540
Interest expense / Financing cost	2	[15 000]
Net profit for the year	8	203 540

HARICLAIRE SUPPLIES
BALANCE SHEET / STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9

	Note	
ASSETS		
Non-current assets		361 800
Tangible assets /Fixed assets [334 000 + 4 800]	3	338 800
Financial assets: Fixed deposit [43 000 – 20 000]		23 000
Current assets		208 540
Inventories [122 000 – 4 500 + 24 000]	4	141 500
Trade and other receivables	5	65 040
Cash and cash equivalents	6	2 000
Total assets		570 340
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		364 540
Capital	7	230 000
Current accounts	8	134 540
Non-current liabilities		125 000
Long-term loan from Friendly Lenders		125 000
Current liabilities		80 800
Trade and other payables [36 000 + 20 000]	9	56 000
Bank overdraft		24 800
Total equity and liabilities		570 340

HARICLAIRE SUPPLIES

NOTES TO THE FINANCIAL STATEMENTS AS AT 28 FEBRUARY 20.9

7. CAPITAL	Haripersad	Cele	Total
Balance at the beginning of the year	150 000	75 000	225 000
Contribution of capital on 31:08:20.8	-	25 000	25 000
Withdrawal of capital on 28:02:20.9	[20 000]	-	[20 000]
Balance at the end of the year	130 000	100 000	230 000

8. CURRENT ACCOUNTS	Haripersad	Cele	Total
Profit per Income Statement	81 943	121 597	203 540
Partners' salaries	0	80 000	80 000
Interest on capital	^[1] 7 500	4 375	11 875
Primary distribution of profits	7 500	84 375	91 875
Final distribution of profits	74 443	37 222	111 665
Drawings during the year	[56 000]	[28 000]	[84 000]
Retained income for the year	25 943	93 597	119 540
Retained income at beginning of year	6 000	9 000	15 000
Retained income at end of year	31 943	102 597	134 540

[1] $150\,000 \times 5\% = 7\,500$

[2] $[75\,000 \times 5\% \times \frac{6}{12} = 1\,875] + [100\,000 \times 5\% \times \frac{6}{12} = 2\,500] = 4\,375$

TASK 6.9 Donduck Stores: Preparing financial statements

6.9.1 PARTNERS DONALD AND DUCK TRADING AS DONDUCK STORES INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.7

	Note	
Sales [438 000 - 4 000]		434 000
Cost of sales		[200 000]
Gross profit		234 000
Income from services rendered		89 400
Commission income		13 400
Fee income		76 000
Other operating income		340
Profit on disposal of equipment		240
Provision for bad debts adjustment		100
Gross operating income		323 740
Operating expenses		[173 010]
Consumable stores		13 770
Depreciation		13 400
Pension contributions		4 800
Rent expense		36 800
Salaries and wages		94 300
Sundry expenses		9 430
Trading stock deficit		510
Operating profit		150 730
Interest income	1	1 480
Profit before interest expense		152 210
Interest expense / Financing cost	2	[18 000]
Net profit for the year	8	134 210

DONDUCK STORES

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.7

ASSETS	Note	
Non-current assets		259 200
Tangible / Fixed assets	3	244 200
Financial assets – Fixed deposit		15 000
Current assets		84 230
Inventories	4	53 740
Trade and other receivables	5	21 715
Cash and cash equivalents	6	8 775
Total assets		343 430
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		194 210
Capital	7	150 000
Current accounts	8	44 210
Non-current liabilities		110 000
Loan from Mickey Mouse Lenders		50 000
Mortgage loan: HBS		60 000
Current liabilities		39 220
Trade and other payables	9	39 220
Total equity and liabilities		343 430

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.7

1.	INTEREST INCOME	
	on current account	600
	from investments	880
		1 480
2.	INTEREST EXPENSE	
	On loans	18 000
		18 000

3.	FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
	Carrying value at beginning	130 000	103 000	25 100	258 100
	Cost	130 000	125 000	27 700	282 700
	Accumulated depreciation	-	[22 000]	[2 600]	[24 600]
	Movements	-	[11 000]	[2 900]	[13 900]
	Additions at cost	-	-	-	-
	Disposals at carrying value	-	-	[500]	[500]
	Depreciation	-	[11 000]	[2 400]	[13 400]
	Carrying value at end	130 000	92 000	22 200	244 200
	Cost	130 000	125 000	27 000	282 000
	Accumulated depreciation	-	[33 000]	[4 800]	[37 800]

4.	INVENTORIES	
	Trading stock	53 000
	Consumable stores on hand	740
		53 740

5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	18 525
	Trade debtors	19 500
	Provision for bad debts	[975]
	Income receivable / accrued	990
	Prepaid expenses	2 200
		21 715
6.	CASH AND CASH EQUIVALENTS	
	Savings account	1 000
	Bank	6 875
	Petty cash	400
	Cash float	500
		8 775

7.	CAPITAL	Donald	Duck	Total
	Balance at the beginning of the year	70 000	40 000	110 000
	Contribution of capital during year	20 000	20 000	40 000
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	90 000	60 000	150 000

8.	CURRENT ACCOUNTS	Donald	Duck	Total
	Profit per Income Statement	74 355	59 855	134 210
	Partners' salaries	40 000	30 000	70 000
	Interest on capital	13 500	9 000	22 500
	Primary distribution of profits	53 500	39 000	92 500
	Final distribution of profits	20 855	20 855	41 710
	Drawings during the year	[42 000]	[42 000]	[84 000]
	Retained income for the year	32 355	17 855	50 210
	Retained income at beginning of year	[10 000]	4 000	[6 000]
	Retained income at end of year	22 355	21 855	44 210

9.	TRADE AND OTHER PAYABLES	
	Trade creditors	27 000
	Income received in advance / Deferred income	880
	Accrued expenses / Expenses payable	1 980
	Creditors for wages	7 200
	SA Revenue Services (PAYE)	2 160
		39 220

6.9.2	Which figure/s indicates that this business started many years ago? Explain.
Land and buildings is stated at R130 000 while the current value is estimated at R1.4m. Historical cost concept and Prudence concept is applicable. Rather understate values than overstate.	
6.9.3	If you were Debbie or David, would you consider going into this business full-time?
Use discretion. Learners must justify or give reasons why they have made their decision. (At this stage it is not absolutely essential that they calculate percentage or ratios to comment but it would help – depends on their prior knowledge). <ul style="list-style-type: none"> • Profit is good. • In comparison to the capital invested the partners are earning a good return. • Loans are low – low risk. • Solvent business. • No liquidity problems – can pay off the current liabilities with the current assets. • Etc. 	

Note to the Teacher:

The Tasks will be bringing in some theory and problem solving questions. It is vital that learners are exposed to these skills on an on-going basis and not just in certain lessons. At this stage we have not covered ratio analysis and some learners might not have covered it in Grade 10. However, what is important is that they start 'reading' the figures, see the inter-relationship and start using them to make decisions. Using percentages or ratios makes comparisons easier so this would be a natural progression from the activities now. Learners need to understand the 'why' and are able to comment on these rather than them just learning a list of formulae.

TASK 6.10 ☼ UV Stores: Appropriation Statement & Statement of Equity

6.10.1 UV STORES

APPROPRIATION STATEMENT ON 28 FEBRUARY 20.8

	Usha	Victor	TOTAL
Profit per the Income Statement	142 000	202 000	344 000
Partners' salaries	74 000	80 000	154 000
Bonus: Victor	-	20 000	20 000
Interest on capital	16 000	24 000	40 000
Primary division of profits	90 000	124 000	214 000
Final division of profits	52 000	78 000	130 000

STATEMENT OF OWNER'S EQUITY ON 28 FEBRUARY 20.8

CAPITAL	Usha	Victor	Total
Balance at the beginning of the year	200 000	300 000	500 000
Contribution of capital during the year	-	-	-
Withdrawal of capital during the year	-	-	-
Balance at the end of the year	200 000	300 000	500 000

CURRENT ACCOUNTS	Usha	Victor	Total
Profit per Income Statement	142 000	202 000	344 000
Partners' salaries	74 000	80 000	154 000
Bonus: Victor	-	20 000	20 000
Interest on capital	16 000	24 000	40 000
Primary distribution of profits	90 000	124 000	214 000
Final distribution of profits	52 000	78 000	130 000
Drawings during the year	[120 000]	[143 000]	[263 000]
Retained income for the year	22 000	59 000	81 000
Retained income at beginning of year	[4 567]	7 810	3 243
Retained income at end of year	17 433	66 810	84 243

6.10.2 The bookkeeper feels that the partners are taking too much in the form of drawings. She feels this is placing a strain on the cash resources of the business. Do you agree? Explain.

Use discretion. Learners must justify their answer.

Possible answers:

- Usha has withdrawn R120 000 of a profit of R142 000 (84.5%) while Victor withdrew R143 000 of a profit of R202 000 (70.8%).
- No – they are entitled to withdraw the profits.
- Yes, as the percentage is high and will have impact on the cash flow and expansion.

TASK 6.11 **Jacklynn Traders: Appropriation Statement & Statement of Equity**

6.11.1

JACKLYNN TRADERS

APPROPRIATION STATEMENT ON 28 FEBRUARY 20.7

	Jack	Lynn	TOTAL
Profit per the Income Statement	117 000	99 000	216 000
Partners' salaries	100 800	72 000	172 800
Bonus: Lynn	45 000	15 000	60 000
Interest on capital	-	21 600	21 600
Primary division of profits	145 800	108 600	254 400
Final division of profits	[28 800]	[9 600]	[38 400]

STATEMENT OF OWNER'S EQUITY ON 28 FEBRUARY 20.7

CAPITAL	Jack	Lynn	Total
Balance at the beginning of the year	300 000	100 000	400 000
Contribution of capital during the year	-	50 000	50 000
Withdrawal of capital during the year	[50 000]	-	[50 000]
Balance at the end of the year	250 000	150 000	400 000

CURRENT ACCOUNTS	Jack	Lynn	Total
Profit per Income Statement	117 000	99 000	216 000
Partners' salaries	100 800	72 000	172 800
Interest on capital	45 000	15 000	60 000
Bonus	-	21 600	21 600
Primary distribution of profits	145 800	108 600	254 400
Final distribution of profits	[28 800]	[9 600]	[38 400]
Drawings during the year	[89 000]	[78 000]	[167 000]
Retained income for the year	28 000	21 000	49 000
Retained income at beginning of year	45 000	[7 000]	38 000
Retained income at end of year	73 000	14 000	87 000

6.11.2 In your opinion, should the partners be satisfied with the amount they are each earning from the business? Explain.

Use discretion as there is no right or wrong answer. However, learners must justify their answers.

Possible answers:

- Jack earned R117 000 on an investment of R300 000 (39%). Lynn earned R99 000 on an investment of R100 000 (99%).
- Yes, these returns are very good – far more than they would receive in a bank.
- No, they would expect more. Jack might not be happy that Lynn is earning more than he is.

Note:

The capital balances changed at the end of the year; hence the average capital was not used in this calculation. The accuracy is not essential at this stage, but rather that the learners realise the importance of comparing the return to what they earn in a financial institution.

TASK 6.12
KK Stores: Financial Statements & reflection on results
KAY-KAY STORES
**INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.2**

	Note	
Sales [945 000 – 5 000]		940 000
Cost of sales		[560 000]
Gross profit		380 000
Income from services rendered		129 900
Fee income		92 000
Commission income [36 300 + 1 600]		37 900
Other operating income		350
Provision for bad debts adjustment		350
Gross operating income		510 250
Operating expenses		[269 900]
Salaries and wages [220 000 – 550]		219 450
Advertising [13 000 + 200]		13 200
Insurance [6 600 – 400]		6 200
Bad debts		3 000
Consumable stores [5 000 – 600]		4 400
Sundry expenses [12 600 + 250]		12 850
Trading stock deficit		2 800
Depreciation		8 000
Operating profit		240 350
Interest income	1	4 300
Profit before interest expense		244 650
Interest expense / Financing cost	2	[28 800]
Net profit for the year	8	215 850

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.2

	Note	
ASSETS		
Non-current assets		942 800
Tangible / fixed assets	3	902 000
Financial assets – Fixed deposit		40 800
Current assets		247 900
Inventories	4	207 800
Trade and other receivables	5	22 500
Cash and cash equivalents	6	17 600
Total assets		1 190 700
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		924 850
Capital	7	900 000
Current accounts	8	24 850
Non-current liabilities		240 000
Loan from Business Partners Ltd		240 000
Current liabilities		25 850
Trade and other payables	9	25 850
Total equity and liabilities		1 190 700

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.2

1.	INTEREST INCOME	
	from investments [4 100 – 300]	3 800
	on current account	500
		4 300
2.	INTEREST EXPENSE	
	on loans	28 800
		28 800

3.	FIXED ASSETS	Land & buildings	Equipment	Total
	Carrying value at beginning	860 000	50 000	910 000
	Cost	860 000	80 000	940 000
	Accumulated depreciation	-	[30 000]	[30 000]
	Movements	-	[8 000]	[8 000]
	Additions at cost	-	-	-
	Disposals at carrying value	-	-	-
	Depreciation	-	[8 000]	[8 000]
	Carrying value at end	860 000	42 000	902 000
	Cost	860 000	80 000	940 000
	Accumulated depreciation	-	[38 000]	[38 000]

4.	INVENTORIES	
	Trading stock [210 000 – 2 800]	207 200
	Consumable stores on hand	600
		207 800
5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	19 950
	Trade debtors	21 000
	Provision for bad debts	[1 050]
	Income receivable / Accrued income	1 600
	Prepaid expenses	950
		22 500
6.	CASH AND CASH EQUIVALENTS	
	Savings account	12 000
	Bank	4 600
	Cash float	1 000
		17 600

7.	CAPITAL	Kelo	Kisten	Total
	Balance at the beginning of the year	590 000	290 000	880 000
	Contribution of capital during the year	10 000	10 000	20 000
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	600 000	300 000	900 000

8. CURRENT ACCOUNTS	Kelo	Kisten	Total
Profit per Income Statement	114 233	101 617	215 850
Partners' salaries	50 000	50 000	100 000
Bonus: Kisten	0	20 000	20 000
Interest on capital	59 000	29 000	88 000
Primary distribution of profits	109 000	99 000	208 000
Final distribution of profits	5 233	2 617	7 850
Drawings during the year	[90 000]	[110 000]	[200 000]
Retained income for the year	24 233	[8 383]	15 850
Retained income at beginning of year	[25 000]	34 000	9 000
Retained income at end of year	[767]	25 617	24 850

9. TRADE AND OTHER PAYABLES	
Trade creditors	25 100
Income received in advance / Deferred income	300
Accrued expenses / Expenses payable [200 + 250]	450
	25 850

6.12.1 Work in pairs: Inspect the figures in the financial statements. Make a list of the main points that should interest the partners. Share your list with the rest of the class.

Various answers are possible. Allow the learners time to engage with the documents and their discussions are more important than a right or wrong answer. Encourage them to justify their comments.

Possible answers (Alternative valid responses acceptable):

- Gross profit is R380 000 on sales of R940 000 (40%) – learners could regard this as good or bad – we are not given the type of products that this business deals in.
- Net profit is R215 850 on sales of R940 000 (23%).
- Expenses are R269 900 on sales of R940 000 (29%) – good or bad. They need previous figures to do a comparison but let them engage with these figures – it is not important now whether they say they are too high or not.
- Salaries constitute a high percentage of the total expenses (81,3%) – as we do not know what type of business this is, it is difficult to comment but they must be aware of this.
- The owners have invested far more than has been borrowed – risk factor reduced.
- Company is solvent – can pay off their debts.
- No liquidity problems – current assets more than current liabilities. If the learners have studied the liquidity ratios you could bring in that perhaps the current assets are too high.
- Kelo has earned R124 233 on a capital of R590 000 / R600 000 (21%). Kisten has earned R91 617 on a capital of R290 000 / R300 000 (30%).
- Returns are good in comparison to financial institutions.

TASK 6.13 ☹️

Gold Reef Surf Shop: Correction of financial statements & reflection on results

6.13.1 GOLD REEF SURF SHOP

INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.6

	Note	
Sales [705 000 - 400]		704 600
Cost of sales		[374 000]
Gross profit		330 600
Income from services rendered [116 000 + 1 200]		117 200
Other operating income		16 620
Commission income		12 300
Provision for bad debts adjustment		420
Discount received		3 900
Gross operating income		464 420
Operating expenses		[232 426]
Rent expense [39 000 – 3 000]		36 000
Advertising		5 000
Consumable stores		27 700
Salary of part-time shop assistant		45 600
Wages of workshop assistant		62 000
Telephone & electricity		8 500
Insurance		4 200
Depreciation ^[1]		17 776
Stationery & printing		3 300
Bank charges [4 800 + 520]		5 320
Packing materials		5 700
Bad debts [900 + 230]		1 130
Sundry expenses		10 200
Operating profit		231 994
Interest income	1	6 750
Profit before interest expense		238 744
Interest expense / Financing cost [10 010 + 910 ^[2] + 170]	2	[11 090]
Net profit for the year	8	227 654

^[1] 265 000 – 95 000 + 7 660 = R177 660

177 660 x 10% = R17 776

^[2] 10 010 ÷ 11 = R910

GOLD REEF SURF SHOP
BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.6

ASSETS	Note	
Non-current assets		336 634
Fixed assets – Equipment (265 000 + 7 660 – 17 776)	3	254 884
Financial assets – Fixed deposit (75 000 + 6 750)		81 750
Current assets		121 060
Inventories (105 300 – 610)	4	104 690
Trade & other receivables (17 950 – 400 + 1 200 + 3 000 – 6 750 - 230)	5	14 770
Cash & cash equivalents	6	1 600
Total assets		457 694
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		318 044
Capital	7	300 000
Current accounts	8	18 044
Non-current liabilities		73 510
Loan from Breakers Bank (54 600 + 910 – 12 000)		43 510
Loan from G Gold		30 000
Current liabilities		66 140
Trade & other payables (27 600 + 12 000)	9	39 600
Bank overdraft (25 850 + 170 + 520)		26 540
Total equity and liabilities		457 694

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

8. CURRENT ACCOUNTS	G. GOLD	R. REEF	Total
Profit per Income Statement	163 991	63 663	227 654
Partners' salaries	130 000	51 000	181 000
Partner's bonus	20 000	0	20 000
Interest on capital	12 000	12 000	24 000
Primary distribution of profits	162 000	63 000	225 000
Final distribution of profits	1 991	663	2 654
Drawings during year (150 000 + 610)	(150 610)	(70 000)	(220 610)
Retained income for the year	13 381	(6 337)	7 044
Retained income at beginning of year	5 000	6 000	11 000
Retained income at end of year	18 381	(337)	18 044

6.13.2 In your opinion, should the partners be satisfied with their earnings? Explain.

Learners own opinions.

Possible answers:

In total, the partners have earned a profit of R227 654 on a capital of R300 000 (76%) – this is a good return in comparison with the financial institutions.

The partners each earned R12 000 interest on capital. This means that their partners' capital must have been equal.

Learners can assess the individual returns as well.

TASK 6.14 ☼

Zumzum Furnishers: Correction of financial statements, reflection & Accounting equation

6.14.1 ZUMZUM FURNISHERS

INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.7

	Note	
Sales [810 000 + 18 000]		828 000
Cost of sales [450 000 + 10 000]		[460 000]
Gross profit		368 000
Income from services rendered [154 000 + 5 000]		159 000
Other operating income		149 000
Rent income [60 000 + 12 000]		72 000
Bad debts recovered		17 000
Commission income [63 000 – 3 000]		60 000
Gross operating income		676 000
Operating expenses		[361 580]
Salaries & wages [234 000 + 5 000]		239 000
Telephone & electricity [18 500 + 900]		19 400
Repairs & maintenance [25 500 – 20 000]		5 500
Advertising		8 000
Bad debts		4 700
Depreciation [38 000 – 19 000]		19 000
Stationery & printing		4 300
Packing materials [16 400 – 8 000]		8 400
Insurance [18 720 – 1 440]		17 280
Bank charges [12 400 + 600]		13 000
Sundry expenses [51 200 – 30 000]		21 200
Trading stock deficit		1 800
Operating profit		314 420
Interest income	1	4 810
Profit before interest expense		319 230
Interest expense / Financing cost	2	[28 600]
Net profit for the year	8	290 630

ZUMZUM FURNISHERS

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 20.7

ASSETS	Note	
Non-current assets		1 015 000
Fixed assets [920 000 + 20 000 + 19 000]	3	959 000
Financial assets – Investments [60 000 – 4 000]		56 000
Current assets		202 040
Inventory [102 000 – 10 000 – 1 800 + 8 000]	4	98 200
Trade and other receivables [62 000 + 18 000 + 12 000 + 1 440]	5	93 440
Cash and cash equivalents [2 000 + 5 000 – 600 + 4 000]	6	10 400
Total assets		1 217 040
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		866 140
Capital	7	800 000
Current accounts	8	66 140
Non-current liabilities		300 000
Mortgage loan: Sun Bank		220 000
Loan from B. Zuma		80 000
Current liabilities		50 900
Trade and other payables [42 000 + 5 000 + 3 000 + 900]	9	50 900
Total equity and liabilities		1 217 040

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.7

8. CURRENT ACCOUNTS	A. Zuma	B. Zuma	Total
Profit per Income Statement	162 578	128 052	290 630
Partners' salaries	65 000	65 000	130 000
Partner's bonus	15 000	-	15 000
Interest on capital	24 000	24 000	48 000
Primary distribution of profits	104 000	89 000	193 000
Final distribution of profits	58 578	39 052	97 630
Drawings during year*	[107 000]	[119 990]	[226 990]
Retained income for the year	55 578	8 062	63 640
Retained income at beginning of year	1 000	1 500	2 500
Retained income at end of year	56 578	9 562	66 140

*B. Zuma: 89 990 + 30 000

6.14.2	Write a brief explanation to the partners on how much they could each withdraw from the business.
<p>Various answers are possible.</p> <ul style="list-style-type: none"> The learners could say that they could just increase their salaries and interest and withdraw more during the year. However, they need to note that the cash balance is only R10 400 and if they are going to withdraw more, it will result in a bank overdraft. Therefore if they need to earn more, they should aim to improve the profitability of the business by any of the following: <ul style="list-style-type: none"> Increase sales. Decrease cost of sales (obtain another supplier). Increase the mark-up percentage. Decrease expenses. Etc. 	

6.14.3 GAAP principles that were violated:

GAAP principle	Adjustment No.
Prudence	3
Business entity	9
Matching	1, 2, 3, 4, 5, 6, 8, 11, 12
Historical cost	7

Note: Some adjustments can be classified in more than one principle.

6.14.4 Effect of adjustments on the Accounting equation:

No.	A =	O +	L
1.	+18 000	+18 000	0
	-10 000	-10 000	
2.	0	-5 000	+5 000
3.	-1 800	-1 800	0
4.	+5 000	+5 000	0
	-600	-600	
5.	0	-3 000	+3 000
6.	0	-900	+900
7.	+20 000	+20 000	0
8.	+8 000	+8 000	0
9.	0	±30 000	0
10.	+19 000	+19 000	0
11.	+12 000	+12 000	0
12.	+1 440	+1 440	0
13.	±4 000	0	0
14.	0	±97 630	0

TASK 6.15
Cobra Traders: Accounting equation for adjustments

No.	Adjustment at the financial year-end, 28 February 20.3	Account debit	Account credit	Effect on Accounting equation		
				A =	O +	L
1.	Rent of R10 000 for February is owed to the business.	Income receivable	Rent income	+10 000	+10 000	0
2.	Fee income of R2 000 has been received in advance.	Fee income	Deferred income	0	-2 000	+2 000
3.	The February telephone account of R500 has not been paid.	Telephone	Expenses payable	0	-500	+500
4.	Insurance premium of R800 has been paid in advance.	Expenses prepaid	Insurance	+800	+800	0
5.	Trading stock deficit of R6 000 is to be written off.	Trading stock deficit	Trading stock	-6 000	-6 000	0
6.	Packing materials of R700 were physically counted at the year-end.	Consumable stores on hand	Packing materials	+700	+700	0
7.	Depreciation of R9 000 is to be written off.	Depreciation	Accumulated depreciation on equipment	-9 000	-9 000	0
8.	Bad debts of R3 000 are to be written off.	Bad debts	Debtors control	-3 000	-3 000	0
9.	Provision for bad debts is to be increased by R300.	Provision for bad debts adjustment	Provision for bad debts	-300	-300	0
10.	Fixed asset disposal:					
	Transfer the cost price of R11 000 to the asset disposal account.	Asset disposal	Equipment	-11 000	-11 000	0
	Transfer the accumulated depreciation of R4 000 to the asset disposal account.	Accumulated depreciation on equipment	Asset disposal	+4 000	+4 000	0
	Enter the selling price of the fixed asset of R8 500 (sold on credit).	Debtors control	Asset disposal	+8 500	+8 500	0
11.	Appropriation of profits:					
	Provide for a salary due to Partner: Jones of R50 000.	Salary: Jones	Current a/c: Jones	0	±50 000	0
	Provide for interest on capital of R7 700 to Partner: Smith	Interest on capital	Current a/c: Smith	0	±7 700	0
	Remaining profits of R45 000 are shared between Jones and Smith in the ratio 2 : 1.	Appropriation a/c	Current a/c: Jones	0	±30 000	0
		Appropriation a/c	Current a/c: Smith	0	±15 000	0

TASK 6.16

RM Stationers: Financial statements, Accounting equation & reflection

6.16.1 RM STATIONERS – YEAR-END WORKSHEET: 28 FEBRUARY 20.3

Balance Sheet section	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
Capital: Radebe		170 000						170 000
Capital: Miller		170 000						170 000
Current account: Radebe		25 400		54 000				55 957
				12 000				
				17 000				
Current account: Miller		28 200		54 000				59 757
				17 000				
Drawings: Radebe	96 400						0	
Drawings: Miller	83 400						0	
Mortgage loan: XY Bank		173 200						173 200
Land and buildings	420 000						420 000	
Vehicles (at cost)	148 000						148 000	
Accum. dep on vehicles		93 800		10 840				104 640
Equipment (at cost)	68 000						68 000	
Accum. depr on equip.		44 500		6 800				51 300
Fixed deposit: Umlazi Bank	45 230		905				46 135	
Savings: Umlazi Bank	8 320						8 320	
Trading stock	122 800			560			119 000	
				3 240				
Debtors control	21 200			180			21 020	
Provision for bad debts		780		481				1 261
Bank	3 310						3 310	
Petty cash	500						500	
Cash float	750						750	
Creditors control		47 060						47 060
SARS (PAYE)		2 560						2 560
Consumables on hand			1 900				1 900	
Prepaid expenses			600				975	
			375					
Deferred income				3 200				3 200
Accrued income			1 400				1 400	
Accrued expenses				375				375
Nominal a/c's section								
Sales		800 500				800 500		
Cost of sales	418 500				418 500			
Debtors allowances	9 200				9 200			
Salaries and wages	147 000				147 000			
Advertising	5 150			600	4 550			
Rent income		41 600	3 200			38 400		
Commission income		39 600		1 400		41 000		
Discount received		12 860				12 860		
Discount allowed	1 500				1 500			
Motor expenses	7 450				7 450			
Bad debts	1 220		180		1 400			
Interest on investments		4 070		905		4 975		
Interest on bank a/c		380				380		
Interest on loan	19 200				19 200			
TOTALS	1 627 130	1 654 510	8 560	182 581	608 800	898 115	839 310	839 310

RM STATIONERS – YEAR-END WORKSHEET: 28 FEBRUARY 20.3 (Continued)

	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
TOTALS b/f	1 627 130	1 654 510	8 560	182 581	608 800	898 115	839 310	839 310
Postage & stationery	2 460		560		3 020			
Packing materials	8 740			1 900	6 840			
Insurance	8 640			375	8 265			
Sundry expenses	7 540		375		7 915			
Trading stock deficit			3 240		3 240			
Provision for b/debts adj.			481		481			
Depreciation			6 800		17 640			
			10 840					
Partners' salaries			108 000		108 000			
Partner's bonus			12 000		12 000			
Interest on capitals			34 000		34 000			
Remaining profit					87 914			
TOTALS	1 654 510	1 654 510	184 856	184 856	898 115	898 115	839 310	839 310
Share of remaining profit: Radebe					43 957			
Share of remaining profit: Miller					43 957			

6.16.1 RM STATIONERS

**INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.3**

	Note	
Sales [800 500 – 9 200]		791 300
Cost of sales		[418 500]
Gross profit		372 800
Income from services rendered		41 000
Commission income [39 600 + 1 400]		41 000
Other operating income		51 260
Rent income [41 600 – 3 200]		38 400
Discount received		12 860
Gross operating income		465 060
Operating expenses		[209 301]
Salaries and wages		147 000
Advertising [5 150 – 600]		4 550
Discount allowed		1 500
Motor expenses		7 450
Bad debts [1 220 + 180]		1 400
Postage and office stationery [2 460 + 560]		3 020
Packing materials [8 740 – 1 900]		6 840
Insurance [8 640 – 375]		8 265
Sundry expenses [7 540 + 375]		7 915
Trading stock deficit		3 240
Provision for bad debts adjustment		481
Depreciation		17 640
Operating profit		255 759
Interest income	1	5 355
Profit before interest expense		261 114
Interest expense / Financing cost	2	[19 200]
Net profit for the year	8	241 914

RM STATIONERS

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.3

ASSETS	Note	
Non-current assets		526 195
Fixed/Tangible assets	3	480 060
Financial assets:		
Fixed deposit: Umlazi Bank [45 230 + 905]		46 135
Current assets		155 914
Inventory	4	120 900
Trade and other receivables	5	22 134
Cash and cash equivalents	6	12 880
Total assets		682 109
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		455 714
Capital	7	340 000
Current accounts	8	115 714
Non-current liabilities		173 200
Mortgage loan: XY Bank		173 200
Current liabilities		53 195
Trade and other payables	9	53 195
Total equity and liabilities		682 109

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.3

1. INTEREST INCOME		
from investments [4 070 + 905]		4 975
on current account		380
		5 355
2. INTEREST EXPENSE		
on loan		19 200
		19 200

3. FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning	420 000	54 200	23 500	497 700
Cost	420 000	148 000	68 000	636 000
Accumulated depreciation	-	[93 800]	[44 500]	[138 300]
Movements				
Additions at cost	-	-	-	-
Disposals at carrying value	-	-	-	-
Depreciation	-	[10 840]	[6 800]	[17 640]
Carrying value at end	420 000	43 360	16 700	480 060
Cost	420 000	148 000	68 000	636 000
Accumulated depreciation	-	[104 640]	[51 300]	[155 940]

4. INVENTORIES		
Trading stock [122 800 – 560 – 3 240]		119 000
Consumable stores on hand		1 900
		120 900

5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	19 759
	Trade debtors [21 200 – 180]	21 020
	Provision for bad debts [780 + 481]	[1 261]
	Accrued income/Income receivable	1 400
	Prepaid expenses [600 + 375]	975
		22 134
6.	CASH AND CASH EQUIVALENTS	
	Savings account: Umlazi Bank	8 320
	Bank	3 310
	Petty cash	500
	Cash float	750
		12 880

7.	CAPITAL	Radebe	Miller	Total
	Balance at the beginning of the year	170 000	170 000	340 000
	Contribution of capital during the year	-	-	-
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	170 000	170 000	340 000

8.	CURRENT ACCOUNTS	Radebe	Miller	Total
	Profit per Income Statement	126 957	114 957	241 914
	Partners' salaries	54 000	54 000	108 000
	Partner's bonus	12 000	0	12 000
	Interest on capital	17 000	17 000	34 000
	Primary distribution of profits	83 000	71 000	154 000
	Final distribution of profits	43 957	43 957	87 914
	Drawings during the year	[96 400]	[83 400]	[179 800]
	Retained income for the year	30 557	31 557	62 114
	Retained income at beginning of year	25 400	28 200	53 600
	Retained income at end of year	55 957	59 757	115 714

9.	TRADE AND OTHER PAYABLES	
	Trade creditors	47 060
	SA Revenue Services (PAYE)	2 560
	Income received in advance / Deferred income	3 200
	Accrued expenses / Expenses payable	375
		53 195

6.16.2 Effect of adjustments on the Accounting equation:

No.	A	O	L
1.	-560	-560	0
2.	-3 240 +1 900	-3 240 +1 900	0
3.	+600	+600	0
4.	+375	+375	0
5.	0	-3 200	+3 200
6.	+905	+905	0
7.	+1 400	+1 400	0
8.	0	-375	+375
9.	-180 -481	-180 -481	0
10.	-17 640	-17 640	0
11.	0	±108 000 ±12 000 ±34 000 ±87 914	0

6.16.3	The partners are worried that they will not be able to settle the immediate debts. Do you agree? If so, what solution can you provide to solve the problem?
<p>The immediate debts amount to R53 195 and the business has R155 914 in current assets. However, a large portion of the current assets is tied up in inventory. Without the inventory the business has R35 014 to pay the R53 195. Therefore, if they do not sell the stock, they will experience problems paying the debts. Possible solutions:</p> <ul style="list-style-type: none"> • Take out an overdraft. • Increase the loan. • Reduce the stock by having a sale. • Cash in the fixed deposit – if possible. • Etc. 	

TASK 6.17 ☼💧💧 Types of Balance Sheet adjustments

6.17.1	Financial assets:
<ul style="list-style-type: none"> • Explain where these are placed in the financial statements. <p>Under Non-current assets.</p>	
<ul style="list-style-type: none"> • Define what is meant by 'financial asset'. <p>Investments which mature after 12 months.</p>	
6.17.2	<ul style="list-style-type: none"> • Consider your answer in 6.17.1 above and explain how the financial statements should be adjusted at this year-end. Provide your reasons. <p>Financial assets in the Balance Sheet will be entered as R80 000 (100 000 – 20 000). R20 000 will be entered under Cash and cash equivalents.</p>
6.17.3	Long-term loans:
<ul style="list-style-type: none"> • Explain where these are placed in the financial statements. <p>Under Non-current liabilities.</p>	
<ul style="list-style-type: none"> • Define what is meant by 'long-term loans'. <p>Loans which are repayable after 12 months.</p>	
6.17.4	<ul style="list-style-type: none"> • Consider your answer in 6.17.3 above and explain how the financial statements should be adjusted at this year-end. Provide your reasons. <p>The loan amount in the Balance Sheet under Non-current liabilities will be entered as R48 000 (60 000 – 12 000). R12 000 will be entered under Trade and other payables as a current portion of loan or short-term loan.</p>

6.17.5	Post-dated cheques:
	<ul style="list-style-type: none"> • Explain which items in financial statements are affected by these, and how they are affected.
	<p>Creditors control will decrease. Bank will decrease if the balance is favourable; if unfavourable bank overdraft will increase.</p>
	<ul style="list-style-type: none"> • Define what is meant by the term 'post-dated cheque'.
	<p>Cheques which are dated for the future. The cheque can only be banked or deposited on the date specified.</p>
	<ul style="list-style-type: none"> • Why would a business issue post-dated cheques?
	<p>The business may not have immediate funds to cover the value of the cheque. It expects to have the available funds on the date specified on the cheque.</p>
6.17.6	<ul style="list-style-type: none"> • Consider your answer in 6.17.5 above and explain how the financial statements should be adjusted at this year-end. Provide your reasons.
	<p>Add to Bank (if favourable) OR subtract from Bank (if unfavourable); Add to Creditors control. The cheque only becomes valid only on 31 May 20.6 but the entry has already been recorded in the CPJ for February 20.6. To represent a true state of affairs (Prudence concept) the entry in the CPJ is reversed as the amount has not yet been deducted from the trader's bank account.</p>

NOTE TO THE TEACHER:

The following Tasks offer opportunities to learners to use the extended columnar worksheet method or the direct method of writing adjustments in brackets on the face of the financial statements.

Teachers are advised to vary the approaches that their learners use, but they should require learners to get practice at using the direct method (with adjustments in brackets) to familiarise them with examination technique.

Due to time constraints, it is not advisable to use the extensive T-accounts or the extended worksheet method during exams.

TASK 6.18 ☹️🌿🌿 **Geekay Clothing: Financial statements, Accounting equation & reflection**

6.18.1 GEEKAY CLOTHING – YEAR-END WORKSHEET: 28 FEBRUARY 20.5

	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
<u>Balance Sheet a/c's section</u>								
Capital: Gee		240 000						240 000
Capital: Kay		160 000						160 000
Current account: Gee		15 050		72 000				74 789
				24 000				
				11 583				
Current account: Kay		33 490		36 000				8 646
				8 000				
Drawings: Gee	56 400						0	
Drawings: Kay	77 400						0	
Land and buildings	495 100						495 100	
Mortgage loan: Nerd Bank		138 050		1 956				140 006
Vehicle	152 580						152 580	
Accum. Dep. on vehicle		142 400		10 179				152 579
Equipment	47 450						47 450	
Accum. dep on equip.		9 000		3 845				12 845
Trading stock	53 460			1 460			52 000	
Debtors control	22 640		70	300			22 410	
Provision for bad debts		787		334				1 121
Bank	6 417						6 417	
Petty cash	150						150	
Cash float	500						500	
Fixed deposit: Nerd Bank	31 982		187				32 169	
Savings a/c: Nerd Bank	6 000		420				6 420	
Creditors control		25 430						25 430
Consumable stores on hand			740				740	
Prepaid expenses			900				1 220	
			320					
Income received in advance				1 170				1 170
Accrued expenses				620				920
				300				
Income accrued			350				350	
<u>Nominal accounts section</u>								
Sales		680 000				680 000		
Cost of sales	270 000				270 000			
Debtors allowances	32 300				32 300			
Rent income		5 850	1 170			4 680		
Fee income		45 575		350		45 925		
Interest on fixed deposit		1 925		187		2 112		
Interest on current bank a/c		150				150		
Rates	9 900				9 900			
Salaries and wages	168 090				168 090			
Stationery	2 554			320	2 234			
Packing materials	5 475			740	4 735			
Interest on loan	17 250		1 956		19 206			
Bank charges	3 585				3 585			
Insurance	9 600			900	8 700			
TOTALS	1 468 833	1 497 707	6 113	174 244	518 750	732 867	817 506	817 506

GEEKAY CLOTHING – YEAR-END WORKSHEET: 28 FEBRUARY 20.5 (Continued)

	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
TOTALS b/f	1 468 833	1 497 707	6 113	174 244	518 750	732 867	817 506	817 506
Advertising	22 600		620		23 220			
Bad debts recovered		520				520		
Interest on overdue a/c's		125		70		195		
Discount allowed	1 240				1 240			
Discount received		1 750				1 750		
Sundry expenses	7 429		300		7 729			
Trading stock deficit			1 460		1 460			
Bad debts			300		300			
Provision for b/debts adj.			334		334			
Interest on savings account				420		420		
Depreciation ^[1]			10 179		14 024			
			3 845					
Partners' salaries			108 000		108 000			
Partner's bonus			24 000		24 000			
Interest on capitals ^[2]			19 583		19 583			
Remaining profit					17 112			
TOTALS	1 500 102	1 500 102	174 734	174 734	735 752	735 752	817 506	817 506
Share of remaining profit: Gee					8 556			
Share of remaining profit: Kay					8 556			

[1] $152\ 580 \times 20\% = R30\ 516$
 Accumulated depreciation = $142\ 400 + 30\ 516 = R172\ 916$
 Carrying/Book value = $152\ 580 - 172\ 916 = -R20\ 336$

Accumulated depreciation cannot be greater than the cost of the vehicles. An asset cannot be reflected as a negative value in the Balance Sheet – its value should be kept to at least R1. The calculation for depreciation (20%) therefore falls away. In order to show a book/carrying value of R1 depreciation amounting to R10 179 has to be written off in the current period. This figure is arrived as follows:

Cost price at beginning of year	=	R152 580
Accumulated depreciation at beginning of year	=	<u>142 400</u>
Carrying/Book value at beginning of year	=	R10 180
Depreciation for the year	=	<u>10 179</u>
Carrying/Book value at end of year	=	<u><u>R 1</u></u>

[2] Gee: $[240\ 000 - 25\ 000] \times 5\% \times \frac{4}{12} = R3\ 583$
 $240\ 000 \times 5\% \times \frac{8}{12} = \underline{8\ 000}$
R11 583
 Kay: $160\ 000 \times 5\% = R8\ 000$

6.18.1 GEEKAY CLOTHING
INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.5

	Note	
Sales [680 000 – 32 300]		647 700
Cost of sales		[270 000]
Gross profit		377 700
Income from services rendered		45 925
Fee income [45 575 + 350]		45 925
Other operating income		6 950
Rent income [5 850 – 1 170]		4 680
Bad debts recovered		520
Discount received		1 750
Gross operating income		430 575
Operating expenses		[245 551]
Rates		9 900
Salaries and wages		168 090
Stationery [2 554 – 320]		2 234
Packing materials [5 475 – 740]		4 735
Bank charges		3 585
Insurance [9 600 – 900]		8 700
Advertising [22 600 + 620]		23 220
Discount allowed		1 240
Sundry expenses [7 429 + 300]		7 729
Trading stock deficit		1 460
Bad debts		300
Provision for bad debts adjustment		334
Depreciation [10 179 + 3 845]		14 024
Operating profit		185 024
Interest income	1	2 877
Profit before interest expense		187 901
Interest expense / Financing cost	2	[19 206]
Net profit for the year	8	168 695

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.5

ASSETS	Note	
Non-current assets		561 875
Fixed/Tangible assets	3	529 706
Financial assets:		
Fixed deposit: Nerd Bank [31 982 + 187]		32 169
Current assets		94 286
Inventory	4	52 740
Trade and other receivables	5	22 859
Cash and cash equivalents	6	18 687
Total assets		656 161
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		483 435
Capital	7	400 000
Current accounts	8	83 435
Non-current liabilities		111 206
Mortgage loan: Nerd Bank [138 050 + 1 956 – 28 800]		111 206
Current liabilities		61 520
Trade and other payables	9	61 520
Total equity and liabilities		656 161

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.5

1. INTEREST INCOME		
from investments [1 925 + 187]		2 112
on current account		150
on overdue accounts [125 + 70]		195
on savings account		420
		2 877
2. INTEREST EXPENSE		
on loan [17 250 + 1 956]		19 206
		19 206

3. FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning	495 100	10 180	38 450	543 730
Cost	495 100	152 580	47 450	695 130
Accumulated depreciation	-	[142 400]	[9 000]	[151 400]
Movements	-	[10 179]	[3 845]	[14 024]
Additions at cost	-	-	-	-
Disposals at carrying value	-	-	-	-
Depreciation	-	[10 179]	[3 845]	[14 024]
Carrying value at end	495 100	1	34 605	529 706
Cost	495 100	152 580	47 450	695 130
Accumulated depreciation	-	[152 579]	[12 845]	[165 424]

4. INVENTORIES		
Trading stock [53 460 – 1 460]		52 000
Consumable stores on hand		740
		52 740

5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	21 289
	Trade debtors [22 640 – 300 + 70]	22 410
	Provision for bad debts [787 + 334]	[1 121]
	Accrued income/Income receivable	350
	Prepaid expenses [900 + 320]	1 220
		22 859
6.	CASH AND CASH EQUIVALENTS	
	Savings account [6 000 + 420]	6 420
	Bank [6 417 + 5 200]	11 617
	Petty cash	150
	Cash float	500
		18 687

7.	CAPITAL	Gee	Kay	Total
	Balance at the beginning of the year	215 000	160 000	375 000
	Contribution of capital during the year	25 000	-	25 000
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	240 000	160 000	400 000

8.	CURRENT ACCOUNTS	Gee	Kay	Total
	Profit per Income Statement	116 139	52 556	168 695
	Partners' salaries	72 000	36 000	108 000
	Partner's bonus	24 000	0	24 000
	Interest on capital	11 583	8 000	19 583
	Primary distribution of profits	107 583	44 000	151 583
	Final distribution of profits	8 556	8 556	17 112
	Drawings during the year	[56 400]	[77 400]	[133 800]
	Retained income for the year	59 739	[24 844]	34 895
	Retained income at beginning of year	15 050	33 490	48 540
	Retained income at end of year	74 789	8 646	83 435

9.	TRADE AND OTHER PAYABLES	
	Trade creditors [25 430 + 5 200]	30 630
	Accrued expenses [620 + 300]	920
	Current portion of loan	28 800
	Income received in advance/Deferred income	1 170
		61 520

6.18.2 Inspect the adjustments that you have made to the financial statements. Identify which adjustments (if any) have the following effects on the Accounting equation:

Various answers - possible responses

No.	A =	O +	L	Adjustment number:
1.	-	-	0	No. 1 (for R1 460)
2.	+	+	0	No. 1 (for R740)
3.	0	+	-	
4.	0	-	+	No. 5 (for R1 956)
5.	+	0	+	
6.	-	0	-	

6.18.3 The partners ask you for your impressions on these financial statements. Provide three of your main opinions based on the information provided in these financial statements.

Various answers:

Possible answers:

- Owners' returns (Gee: $R116\ 139$ on an investment of $R215\ 000 \div R240\ 000 = 54\%$). (Kay: $R52\ 556$ on investment of $R160\ 000 = 32.5\%$).
- Profitability of the business – mark up; net profit as a % of sales, expenses as a % of sales – do not need to work out the percentages but can comment on them.
- Risk – loan in comparison to owners' equity.
- Solvency – assets are more than the liabilities.

TASK 6.19

Tantim T-Shirts: Financial statements, reflection & ethics

6.19.1 TANTIM T-SHIRTS – YEAR-END WORKSHEET: 28 FEBRUARY 20.6

Balance Sheet a/c's section	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
Capital: Tando		60 000						60 000
Capital: Timm		40 000		10 000				50 000
Current account: Tando	1 960			40 000				
				10 000				10 176
				6 000				
Current account: Timm		2 200		30 000			10 796	
				4 000				
Drawings: Tando	24 000		370				0	
Drawings: Timm	34 000						0	
Equipment	62 000		10 000	8 000			64 000	
Accum. dep. on equip.		22 500	5 048	3 950				21 402
Trading stock	104 000			260			86 800	
				370				
				16 570				
Debtors control	5 400		800	150			6 050	
Provision for bad debts		210		93				303
Savings a/c: Goodwill Bank	6 000						6 000	
Bank	12 100		2 500				14 600	
Creditors control		7 900		800				8 700
Loan: Goodwill Bank		30 000						30 000
Consumables on hand			560				560	
Expenses accrued			290	800				2 905
				2 000				
				395				
SARS – PAYE				700				700
Medical aid fund				440				880
				440				
UIF				50				100
				50				
Creditors for salaries				3 810				3 810
Prepaid expenses			910				910	
Income received in advance				740				740
Nominal accounts section								
Sales		366 000				366 000		
Cost of sales	205 000				205 000			
Debtors allowances	6 000				6 000			
Advertising	700				700			
Bad debts	400		150		550			
Bad debts recovered		150				150		
Commission income		15 850	740			15 110		
Delivery expenses	1 700				1 700			
Donations	300		260		560			
Insurance	6 300			910	5 390			
Interest on current bank a/c		200				200		
Interest on investments		830				830		
Interest on overdue debtors		100				100		
Interest on loan ^[1]	3 000		2 000		5 000			
Medical aid contributions	4 840		440		5 280			
TOTALS	477 700	545 940	24 068	140 528	230 180	382 390	189 716	189 716

TANTIM T-SHIRTS – YEAR-END WORKSHEET: 28 FEBRUARY 20.6 (Contd)

	PRE-ADJUSTMENT		ADJUSTMENTS		NOMINAL SECTION		BALANCE SHEET SECTION	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
TOTALS B/F	477 700	545 940	24 068	140 528	230 180	382 390	189 716	189 716
Packing material	4 200			560	3 640			
Rent expense	8 800		800		9 600			
Salary to shop assistant	50 000		5 000		55 000			
Sundry expenses	4 410		395	290	4 515			
Trading stock deficit	330		16 570		16 900			
Unemployment insurance cont.	500		50		550			
Provision for b/debts adjust.			93		93			
Asset disposal			8 000	^[2] 5 048	0			
				2 500				
				452				
Loss on disposal of asset			452		452			
Depreciation ^[3]			3 950		3 950			
Partners' salaries			70 000		70 000			
Partner's bonus			10 000		10 000			
Interest on capitals			10 000		10 000			
Remaining loss						32 490		
TOTALS	545 940	545 940	149 378	149 378	414 880	414 880	189 716	189 716
Share of remaining loss: Tando						[19 494]		
Share of remaining loss: Timm						[12 996]		

^[1] $[30\,000 + 10\,000] \times 15\% \times \frac{4}{12} = 2\,000$ + $[30\,000 \times 15\% \times \frac{8}{12} = 3\,000]$

Total interest = 2 000 + 3 000 = 5 000

Accrued amount = 5 000 – 3 000 = R2 000

^[2] $8\,000 - 4\,720 = 3\,280 \times 10\% = 328$

Total accum. dep. = 4 720 + 328 = 5 048

^[3] $62\,000 - 22\,500 = 39\,500 \times 10\% = 3\,950$

6.19.1 TANTIM T-SHIRTS: INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.6

	Note	
Sales [366 000 - 6 000]		360 000
Cost of sales		[205 000]
Gross profit		155 000
Income from services rendered		15 110
Commission income [15 850 – 740]		15 110
Other operating income		150
Bad debts recovered		150
Gross operating income		170 260
Operating expenses		[108 880]
Advertising		700
Bad debts [400 + 150]		550
Delivery expenses		1 700
Donations [300 + 260]		560
Insurance [6 300 – 910]		5 390
Medical aid contributions [4 840 + 440]		5 280
Packing material [4 200 – 560]		3 640
Rent expense [8 800 + 800]		9 600
Sundry expenses [4 410 – 290 + 395]		4 515
Salary to shop assistant [50 000 + 5 000]		55 000
Trading stock deficit [330 + 16 570]		16 900
Unemployment insurance contribution [500 + 50]		550
Provision for bad debts adjustment		93
Loss on disposal of asset		452
Depreciation		3 950
Operating profit		61 380
Interest income	1	1 130
Profit before interest expense		62 510
Interest expense / Financing cost	2	[5 000]
Net profit for the year	8	57 510

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.6

	Note	
ASSETS		
Non-current assets		42 598
Fixed/Tangible assets	3	42 598
Current assets		114 617
Inventory	4	87 360
Trade and other receivables	5	6 657
Cash and cash equivalents	6	20 600
Total assets		157 215
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		109 380
Capital	7	110 000
Current accounts	8	[620]
Non-current liabilities		20 000
Loan: Goodwill Bank (13% p.a.) [30 000 – 10 000]		20 000
Current liabilities		27 835
Trade and other payables	9	27 835
Total equity and liabilities		157 215

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

1.	INTEREST INCOME	
	from investments	830
	on current account	200
	on overdue debtors	100
		1 130
2.	INTEREST EXPENSE	
	on loan [3 000 + 2 000]	5 000
		5 000

3.	FIXED ASSETS	Equipment
	Carrying value at beginning	39 500
	Cost	62 000
	Accumulated depreciation	[22 500]
	Movements	3 098
	Additions at cost	10 000
	Disposals at carrying value [8 000 – 5 048]	[2 952]
	Depreciation	[3 950]
	Carrying value at end	42 598
	Cost	64 000
	Accumulated depreciation	[21 402]

4.	INVENTORIES	
	Trading stock [104 000 – 260 – 370 – 16 570]	86 800
	Consumable stores on hand	560
		87 360
5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	5 747
	Trade debtors [5 400 + 800 – 150]	6 050
	Provision for bad debts [210 + 93]	[303]
	Prepaid expenses	910
		6 657
6.	CASH AND CASH EQUIVALENTS	
	Savings account	6 000
	Bank [12 100 + 2 500]	14 600
		20 600

7.	CAPITAL	TANDO	TIMM	TOTAL
	Balance at the beginning of the year	60 000	40 000	100 000
	Contribution of capital during the year	-	10 000	10 000
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	60 000	50 000	110 000

8.	CURRENT ACCOUNTS	TANDO	TIMM	TOTAL
	Profit per Income Statement	36 506	21 004	57 510
	Partners' salaries	40 000	30 000	70 000
	Partner's bonus	10 000	0	10 000
	Interest on capital	6 000	4 000	10 000
	Primary distribution of profits	56 000	34 000	90 000
	Final distribution of profits	[19 494]	[12 996]	[32 490]
	Drawings during the year	[24 370]	[34 000]	[58 370]
	Retained income for the year	12 136	[12 996]	[860]
	Retained income at beginning of year	[1 960]	2 200	240
	Retained income at end of year	10 176	[10 796]	[620]

9.	TRADE AND OTHER PAYABLES	
	Trade creditors [7 900 + 800]	8 700
	Accrued expenses [800 – 290 + 2 000 + 195]	2 705
	SARS – PAYE	700
	Medical aid fund [440 + 440]	880
	UIF [50 + 50]	100
	Creditors for salaries	3 810
	Current portion of loan	10 000
	Income received in advance	740
		27 835

6.19.2	In your opinion, have Tando and Timm made the right choices with regard to the operation of this business and with regard to their studies at university? Explain.
<p>Various options – learners need to give reasons for their answers. Possible answers:</p> <ul style="list-style-type: none"> • Yes, as they are earning an income and gaining experience. • No, as they need to concentrate on their studies. 	
6.19.3	In your opinion, how can this Tando and Timm use their business to make a positive contribution to their local community? How will this affect their profits?
<p>Making a difference to the community: Various answers are possible, e.g.:</p> <ul style="list-style-type: none"> • They could advertise messages on their T-shirts, e.g. AIDS awareness, SPCA. • They could sponsor prizes in local events, e.g. school competitions. • They could expand their business and employ more people. • They could publicise their efforts to safely dispose of waste materials, or they could devote these to a secondary industry. • The effect on profit could well be positive – although there will be extra expenses, these might well be offset against additional income resulting from increased public awareness in their business. 	

NOTE TO THE TEACHER:

In rounding off this Task, Teachers are advised to question the class (at random) on the effect of the adjustments on the Accounting Equation, similar to that done in Task 6.18.

TASK 6.20 Clinbush Hardware: Financial statements, Accounting Equation, Reflection & Ethics

6.20.1 CLINBUSH HARDWARE**Adjustments in the General Journal: 28 February 20.8**

No	Account debit	Account credit	Amount	A	O	L
1.	Prepaid expenses	Advertisement	R750	+	+	0
2.	Depreciation ^[1]	Accum. depreciation on equipment	50	-	-	0
	Asset disposal	Equipment	600	-	-	0
	Accum. depreciation on equipment	Asset disposal	230	+	+	0
	Drawings: B. Bush	Asset disposal	385	0	±	0
	Asset disposal	Profit on disposal of asset	15	0	±	0
3.	Depreciation ^[2]	Accum. depreciation on equipment	4 340	-	-	0
4.	Salary	SARS – PAYE	960	0	-	+
		UIF	60	0	-	+
		Medical aid fund	330	0	-	+
		Creditors for salaries	4 650	0	-	+
	Medical aid contribution	Medical aid fund	330	0	-	+
	Unemploy. insurance contribution	UIF	60	0	-	+
5.	Debtors allowances	Debtors control	2 880	-	-	0
	Trading stock	Cost of sales	1 800	+	+	0
6.	Drawings: B. Bush	Trading stock	3 200	-	-	0
	Trading stock	Trading stock surplus ^[3]	2 100	+	+	0
	Consumables on hand	Stationery	420	+	+	0
7.	Repairs	Land and buildings	3 710	-	-	0
8.	Prepaid expenses	Insurance	1 680	+	+	0
9.	Debtors control	Creditors control	1 360	+	0	+
10.	Provision for bad debts adjustment	Provision for bad debts	1 590	-	-	0
12.	Fixed deposit ^[4]	Interest on fixed deposit	227	+	+	0
	Interest on mortgage loan ^[5]	Mortgage Bond: USA Bank	26 345	0	-	+
	Savings account	Interest on savings	1 265	+	+	0
	Bank charges	Bank	410	-	-	0
	Bank	Interest on current bank account	164	+	+	0
13.	Commission income	Income received in advance	1 100	0	-	+
14.	Partners' salaries	Current account: Clinton	108 000	0	±	0
	Partners' salaries	Current account: Bush	66 000	0	±	0
	Bonus: Bush	Current account: Bush	6 000	0	±	0
	Interest on capital ^[6]	Current account: Clinton	9 500	0	±	0
	Interest on capital ^[7]	Current account: Bush	6 000	0	±	0
	Appropriation account	Current account: Clinton	12 028	0	±	0
		Current account: Bush	12 028	0	±	0

$$^{[1]} 600 \times 10\% \times \frac{10}{12} = R50 \quad ^{[2]} [44\,000 - 600] \times 10\% = R4\,340$$

$$^{[3]} 75\,300 + 1\,800 - 3\,200 = R73\,900 \quad ^{[4]} 17\,000 \times 8\% \times \frac{1}{12} = 113$$

$$\text{Surplus} = R76\,000 - 73\,900 = R2\,100 \quad [17\,000 + 113] \times 8\% \times \frac{1}{12} = \underline{\underline{114}}$$

$$^{[5]} 189\,145 + 37\,200 - 200\,000 = 26\,345$$

$$^{[6]} [240\,000 - 100\,000 = 140\,000 \times 5\% \times \frac{6}{12} = 3\,500] + [240\,000 \times 5\% \times \frac{6}{12} = 6\,000]; \text{ Total: } 9\,500$$

$$^{[7]} [170\,000 - 100\,000 = 70\,000 \times 5\% \times \frac{6}{12} = 1\,750] + [170\,000 \times 5\% \times \frac{6}{12} = 4\,250]; \text{ Total: } 6\,000$$

Adjustments in the Financial statements: 28 February 20.8

No.	Adjustment in financial statements only	A	O	L
11.	Add to Bank; Add to Creditors control R2 000	+	0	+
12.	Subtract R10 412 from the fixed deposit amount: 17 000 – 10 412 = R6 588; enter R10 412 under Cash and cash equivalents.	±	0	0
12.	Subtract R12 000 from the loan amount; enter the R12 000 as a short-term loan or current portion of loan under Trade and other payables.	0	0	±

6.20.2 CLINBUSH HARDWARE

INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.8

	Note	
Sales [439 400 – 2 880]		436 520
Cost of sales [130 000 – 1 800]		(128 200)
Gross profit		308 320
Income from services rendered		2 200
Other operating income		17 075
Commission income [16 060 – 1 100]		14 960
Profit on sale of asset		15
Trading stock surplus		2 100
Gross operating income		327 595
Operating expenses		(81 900)
Salaries and wages [45 000 + 6 000]		51 000
Stationery [900 – 420]		480
Advertising [1 430 – 750]		680
Sundry expenses		8 000
Medical aid contributions [460 + 330]		790
Insurance [11 670 – 1 680]		9 990
Depreciation [50 + 4 340]		4 390
Unemployment insurance contribution [800 + 60]		860
Repairs		3 710
Provision for bad debts adjustment		1 590
Bank charges		410
Operating profit		245 695
Interest income	1	2 806
Profit before interest expense		248 501
Interest expense / Financing cost	2	(28 945)
Net profit for the year	8	219 556

CLINBUSH HARDWARE

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.8

ASSETS	Note	
Non-current assets		712 855
Tangible/Fixed assets	3	706 040
Financial assets: Fixed deposit at NYC Bank (17 000 – 10 412 + 227)		6 815
Current assets		115 581
Inventory	4	76 420
Trade and other receivables	5	19 810
Cash and cash equivalents	6	19 351
Total assets		828 436
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		591 891
Capital	7	410 000
Current accounts	8	181 891
Non-current liabilities		191 145
Mortgage Loan: USA Bank (162 800 + 26 345 – 12 000)		177 145
Loan: DC Lenders		14 000
Current liabilities		45 400
Trade and other payables	9	45 400
Total equity and liabilities		828 436

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

1. INTEREST INCOME		
from investments [1 000 + 227]		1 227
on current account [150 + 164]		314
on savings		1 265
		2 806
2. INTEREST EXPENSE		
on loan		2 600
on mortgage		26 345
		28 945

3. FIXED ASSETS	Land and buildings	Equipment	Total
Carrying value at beginning	686 800	24 000	710 800
Cost ^[1]	686 800	44 000	730 800
Accumulated depreciation	-	(20 000)	(20 000)
Movements			
Additions at cost	-	-	-
Disposals at carrying value	-	(370)	(370)
Depreciation	-	(4 390)	(4 390)
Carrying value at end	686 800	19 240	706 040
Cost	*686 800	43 400	730 200
Accumulated depreciation	-	(24 160)	(24 160)

^[1]690 510 – 3 710

4. INVENTORIES	Trading stock [75 300 + 1 800 – 3 200 + 2 100]	76 000
	Consumable stores on hand	420
		76 420
5. TRADE AND OTHER RECEIVABLES	Net trade debtors	17 380
	Trade debtors [21 000 – 2 880 + 1 360]	19 480
	Provision for bad debts [510 + 1 590]	(2 100)
	Prepaid expenses [750 + 1 680]	2 430
		19 810
6. CASH AND CASH EQUIVALENTS	Savings account [2 000 + 1 265]	3 265
	Bank [3 920 + 2 000 – 410 + 164]	5 674
	Fixed deposit	10 412
		19 351

7. CAPITAL	C. Clinton	B. Bush	Total
Balance at the beginning of the year	140 000	70 000	210 000
Contribution of capital during the year	100 000	100 000	200 000
Withdrawal of capital during the year			
Balance at the end of the year	240 000	170 000	410 000

8. CURRENT ACCOUNTS	C. Clinton	B. Bush	Total
Profit per Income Statement	129 528	90 028	219 556
Partners' salaries	108 000	66 000	174 000
Partner's bonus	0	6 000	6 000
Interest on capital ^[1]	9 500	6 000	15 500
Primary distribution of profits	117 500	78 000	195 500
Final distribution of profits	12 028	12 028	24 056
Drawings during the year	(25 000)	(3 585)	(28 585)
Retained income for the year	104 528	86 443	190 971
Retained income at beginning of year	(11 350)	2 270	(9 080)
Retained income at end of year	93 178	88 713	181 891

^[1]Bush: 1 750 + 4 250; Clinton: 3 500 + 6 000

^[2]Bush: 385 + 3 200 = 3 585

9. TRADE AND OTHER PAYABLES		
Trade creditors [21 660 + 1 360 + 2 000]		25 020
Accrued expenses		-
SARS – PAYE [830 + 960]		1 790
Medical aid fund [60 + 330 + 330]		720
UIF [60 + 60]		120
Creditors for salaries		4 650
Current portion of loan		12 000
Income received in advance		1 100
		45 400

6.20.3 In your opinion:	
• Has the business been operating efficiently?	
<ul style="list-style-type: none"> - The business has made a net profit of R219 556 on a turnover of R436 520 (50%). - The business has made a gross profit of R308 320 on a turnover of R436 520 (71%). - The expenses as a percentage of sales are R81 900 / R436 520 (19%). - Good or bad depending on reasons. 	
• Should the partners be satisfied with their earnings?	
<ul style="list-style-type: none"> - Clinton earned R129 528 on a capital of R190 000 (average) for the year (68%). - Bush earned R90 028 on a capital of R120 000 (average) for the year (75%). - Above the interest rates offered by financial institutions. - Etc. 	
• Do you have confidence in this business as a 'going concern'?	
<ul style="list-style-type: none"> - Yes, the business has made good profits. - Business is solvent. - Liquidity is reasonable. - Risk is low, etc. 	
• How can Clinton and Bush use their business to make a positive contribution to their local community? How will this affect their profits?	
<ul style="list-style-type: none"> - They could advertise good causes in their shop, e.g. support of housing projects, SPCA. - They could sponsor prizes in local events, e.g. school competitions. - They could expand their business and employ more people. - The effect on profit could well be positive – although there will be extra expenses, these might well be offset against additional income resulting from increased public awareness in their business. 	

TASK 6.21 **Rossdan Tyre Shop: Financial statements & GAAP**

6.21.1 ROSSDAN TYRE SHOP

Adjustments in the General Journal: 28 February 20.7

No.	Account debit	Account credit	Amount
1.	• Subtract R550 from discount allowed; add R550 to discount received.		
	• Subtract R90 from repairs		
	• Stationery	Prepaid expenses	500
	• Advertising	Prepaid expenses	700
2.	Depreciation [8 500 x 20% x ⁹ / ₁₂]	Accum. depreciation on computer	1 275
	Asset disposal	Computer	8 500
	Accum. depreciation on computer	Asset disposal	7 475
	Drawings: Ross	Asset disposal	1 000

Adjustments in the General Journal: 28 February 20.7 (Continued)

No.	Account debit	Account credit	Amount
	Loss on disposal of asset	Asset disposal	25
	Computer	Creditors control	11 000
	Depreciation [$11\ 000 \times 20\% \times \frac{3}{12}$]	Accum. depreciation on computer	550
3.	Depreciation [$262\ 000 - 164\ 000 \times 10\%$]	Accum. depreciation on equipment	9 800
4.	Loss due to theft	Petty cash	50
	Accrued income	Loss due to theft	350
5.	Savings account	Interest on savings	62
6.	• Debtors control (F Foster)	Sundry expenses	260
	• Trading stock	Sundry expenses	590
7.	• Debtors control	Interest on overdue debtors	40
	• Bad debts	Debtors control	234
	• Debtors allowances	Debtors control	2 880
	Trading stock	Cost of sales	2 020
	• Debtors control	Bank	1 230
	Debtors control	Discount allowed	35
	• Debtors control	Bad debts recovered	490
	• Provision for bad debts adjustment	Provision for bad debts	600
8.	Advertising	Trading stock	6 400
9.	Trading stock deficit [$1\ 200 \times \frac{100}{150} \times 5$]	Trading stock	4 000
10.	Interest on loan	Mortgage bond	16 800
11.	Prepaid expenses	Advertising	12 000
12.	Consumables on hand	Consumable stores	7 300
13.	Prepaid expenses	Stationery	1 240
14.	Fee income	Deferred income	410
15.	Interest on fixed deposit	Deferred income	900
16.	No entry		
17.	Drawings: Dan	Sundry expenses	1 460
18.	Partners' salaries	Current account: Ross	60 000
		Current account: Dan	60 000
	Partner's bonus	Current account: Ross	12 000
	Interest on capital	Current account: Ross	28 800
		Current account: Dan	19 200
	Current account: Ross	Appropriation account	67 342
	Current account: Dan	Appropriation account	44 895

Adjustments in the Financial statements: 28 February 20.7

No.	Adjustment in financial statements only
10.	Subtract R24 000 from the mortgage bond; show the R24 000 as a current portion of loan under Trade and other payables.
15.	Subtract R20 000 from the fixed deposit amount and show this under Cash and cash equivalents.

NOTE TO THE TEACHER:

In rounding off this Task, Teachers are advised to question the class (at random) about the effect of adjustments on the Accounting equation, or they may add A O L columns to the first template in this Task.

6.21.2 ROSSDAN TYRE SHOP

**INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.7**

	Note	
Sales [996 000 - 3 200 – 2 880]		989 920
Cost of sales [540 300 – 2 020]		[538 280]
Gross profit		451 640
Other operating income		109 120
Fee income [106 110 – 410]		105 700
Sundry income		1 000
Discount received [1 380 + 550]		1 930
Bad debts recovered		490
Gross operating income		560 760
Operating expenses		[477 939]
Salaries and wages		375 000
Repairs [14 680 – 90]		14 590
Advertising [19 900 + 700 + 6 400 – 12 000]		15 000
Stationery and printing [4 700 + 500 – 1 240]		3 960
Discount allowed [2 150 - 550 – 35]		1 565
Bad debts [6 450 + 234]		6 684
Consumable stores [33 100 – 7 300]		25 800
Sundry expenses [21 250 – 260 – 590 – 1 460]		18 940
Loss due to theft [500 – 350]		150
Depreciation [1 275 + 550 + 9 800]		11 625
Loss on disposal of asset [8 500 – 7 475 – 1 000]		25
Provision for bad debts adjustment		600
Trading stock deficit		4 000
Operating profit		82 821
Interest income	1	5 002
Profit before interest expense		87 823
Interest expense / Financing cost	2	[19 800]
Net profit for the year	8	68 023

ROSSDAN TYRE SHOP

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.7

ASSETS	Note	
Non-current assets		490 650
Tangible/Fixed assets	3	470 650
Financial assets:		
Fixed deposit: QP Bank [40 000 – 20 000]		20 000
Current assets		321 483
Inventory	4	218 510
Trade and other receivables	5	74 011
Cash and cash equivalents	6	28 962
Total assets		812 133
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		620 563
Capital	7	600 000
Current accounts	8	20 563
Non-current liabilities		127 800
Mortgage loan: QP Bank [105 000 + 16 800 – 24 000]		97 800
Loan from Ross		30 000
Current liabilities		63 770
Trade and other payables	9	50 060
Bank overdraft [12 480 + 1 230]		13 710
Total equity and liabilities		812 133

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.7

1. INTEREST INCOME	
on current account	200
on fixed deposit [4 500 – 900]	3 600
on savings account [1 100 + 62]	1 162
on overdue debtors	40
	5 002
2. INTEREST EXPENSE	
on mortgage loan	16 800
on loan (Ross)	3 000
	19 800

3. FIXED ASSETS	Land and buildings	Equipment	Computer	Total
Carrying value at beginning	372 000	98 000	2 300	472 300
Cost	372 000	262 000	8 500	642 500
Accumulated depreciation	-	[164 000]	[6 200]	[170 200]
Movements				
Additions at cost	-	-	11 000	11 000
Disposals at carrying value	-	-	[1 025]	[1 025]
Depreciation	-	[9 800]	[1 825]	[11 625]
Carrying value at end	372 000	88 200	10 450	470 650
Cost	372 000	262 000	11 000	645 000
Accumulated depreciation	-	[173 800]	[550]	[174 350]

4. INVENTORIES	Trading stock	211 210
	[219 000 + 2 020 + 590 – 6 400 – 4 000]	
	Consumable stores on hand	7 300
		218 510
5. TRADE AND OTHER RECEIVABLES	Net trade debtors	60 421
	Trade debtors [67 080 + 40 – 234 – 2 880 + 1 230 + 35 + 490 + 260]	66 021
	Provision for bad debts [5 000 + 600]	[5 600]
	Prepaid expenses [1 200 – 1 200 + 12 000 + 1 240]	13 240
	Accrued income	350
		74 011
6. CASH AND CASH EQUIVALENTS	Fixed deposit	20 000
	Savings account [8 100 + 62]	8 162
	Petty cash [1 300 – 500]	800
		28 962

7. CAPITAL		ROSS	DAN	TOTAL
	Balance at the beginning of the year	360 000	240 000	600 000
	Contribution of capital during the year	-	-	-
	Withdrawal of capital during the year	-	-	-
		360 000	240 000	600 000

8. CURRENT ACCOUNTS		ROSS	DAN	TOTAL
	Profit per Income Statement	33 614	34 409	68 023
	Partners' salaries	60 000	60 000	120 000
	Partner's bonus	12 000	0	12 000
	Interest on capital	28 800	19 200	48 000
	Primary distribution of profits	100 800	79 200	180 000
	Final distribution of profits	[67 186]	[44 791]	[111 977]
	Drawings during the year	[13 000]	[25 460]	[38 460]
	Retained income for the year	20 614	8 949	29 563
	Retained income at beginning of year	2 200	[11 200]	[9 000]
	22 814	[2 251]	20 563	

[1]Ross: 12 000 + 1 000 = 13 000 Dan: 24 000 + 1 460 = 25 460

9. TRADE AND OTHER PAYABLES	Trade creditors [13 750 + 11 000]	24 750
	Deferred income [410 + 900]	1 310
	Current portion of loan	24 000
		50 060

6.21.3	Provide examples of how you have applied the following principles in preparing the financial statements (give one example of each application).
• Historical cost principle	Valuation of land and buildings.
• Rule of prudence	Depreciation written off, debtor being declared insolvent, stock shortage, provision for bad debts.

<ul style="list-style-type: none"> • Matching principle
Burglary, interest on savings, interest on mortgage, advertising prepaid, stationery paid but not yet received, repairs in advance.
<ul style="list-style-type: none"> • Business entity rule
Private account with local caterers.
<ul style="list-style-type: none"> • Going-concern principle
Physical stock taking.
<ul style="list-style-type: none"> • Materiality
Delivery charges.

TASK 6.22 Highway Service Station: Financial statements, Asset Disposal, Reflection & Ethics

6.22.1 HIGHWAY SERVICE STATION

INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 28 FEBRUARY 20.6

	Note	
Sales [812 000 – 1 050]		810 950
Cost of sales [725 000 – 875]		[724 125]
Gross profit		86 825
Income from services rendered		600 750
Fee income [601 600 – 850]		600 750
Other operating income		2 527
Discount received		1 640
Bad debts recovered		810
Provision for bad debts adjustment		77
Gross operating income		690 102
Operating expenses		[538 461]
Salaries and wages [255 000 + 600 + 6]		255 606
Security services		120 000
Cleaning and maintenance		22 800
Insurance [8 640 – 550]		8 090
Stationery and printing [4 300 – 120 – 400]		3 780
Staff development & training		50 000
HIV Aids awareness programme		10 000
Bank charges [5 320 + 430]		5 750
Sundry expenses		4 160
Depreciation [(10 000 ^[1] + 28 400 ^[2]) + 9 200]		47 600
Loss on disposal of asset [60 000 – 34 000 – 22 000]		4 000
Loss due to burglary [12 000 – 7 000]		5 000
Trading stock deficit		1 675
Operating profit		151 641
Interest income	1	4 516
Profit before interest expense		156 157
Interest expense / Financing cost	2	[54 793]
Net profit for the year	8	101 364

^[1] 60 000 x 20% x $\frac{10}{12}$ = R10 000

^[2] [(181 000 – 60 000) x 20%] + [126 000 x 20% x $\frac{2}{12}$] = 24 200 + 4 200 = R28 400

**HIGHWAY SERVICE STATION
BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.6**

ASSETS	Note	
Non-current assets		1 046 962
Tangible/Fixed assets	3	1 014 300
Financial assets:		
Fixed deposit: West Bank [43 906 + 296 – 11 540]		32 662
Current assets		137 337
Inventory	4	81 900
Trade and other receivables	5	43 897
Cash and cash equivalents	6	11 540
Total assets		1 184 299
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		564 904
Capital	7	520 000
Current accounts	8	44 904
Non-current liabilities		394 648
Mortgage loan: Northern Bank [422 060 + 4 748 – 32 160]		394 648
Current liabilities		224 747
Trade and other payables	9	209 521
Bank overdraft [41 751 + 430 + 545 – 27 500]		15 226
Total equity and liabilities		1 184 299

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.6

1. INTEREST INCOME		
on fixed deposit [3 906 + 296]		4 202
on current account		314
		4 516
2. INTEREST EXPENSE		
on loan [49 500 + 4 748 ^[1]]		54 248
on overdraft		545
		54 793

^[1] 422 060 x 13.5% x 1/12 = R4 748

3. FIXED ASSETS	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning	821 000	89 800	33 100	943 900
Cost [833 000 – 12 000]	821 000	181 000	114 000	1 116 000
Accumulated depreciation	-	[91 200]	[80 900]	[172 100]
Movements	-	61 600	8 800	70 400
Additions at cost	-	126 000	18 000	144 000
Disposals at carrying value	-	[26 000]	-	[26 000]
Depreciation	-	[38 400]	[9 200]	[47 600]
Carrying value at end	821 000	151 400	41 900	1 014 300
Cost	821 000	247 000	132 000	1 200 000
Accumulated depreciation	-	[95 600]	[90 100]	[185 700]

4. INVENTORIES		
Trading stock:		
Petrol		61 200
Motor oil [21 500 + 875 – 400 – 1 675]		20 300
Consumable stores on hand		400
		81 900
5. TRADE AND OTHER RECEIVABLES		
Net trade debtors		36 347
Trade debtors [39 800 – 1 050 – 850 + 360]		38 260
Provision for bad debts [1 990 – 77]		[1 913]
Prepaid expenses		550
Accrued income		7 000
		43 897
6. CASH AND CASH EQUIVALENTS		
Fixed deposit: West Bank		11 540
		11 540

7. CAPITAL	BARNES	MCHUNU	TOTAL
Balance at the beginning of the year	320 000	182 000	502 000
Contribution of capital during the year	-	18 000	18 000
Withdrawal of capital during the year	-	-	-
Balance at the end of the year	320 000	200 000	520 000

8. CURRENT ACCOUNTS	BARNES	MCHUNU	TOTAL
Profit per Income Statement	59 518	41 846	101 364
Partners' salaries	48 000	36 000	84 000
Partner's bonus	2 027	-	2 027
Interest on capital	16 000	9 100	25 100
Primary distribution of profits	66 027	45 100	111 127
Final distribution of profits	[6 509]	[3 254]	[9 763]
Drawings during the year	[120]	[43 960]	[44 080]
Retained income for the year	59 398	[2 114]	57 284
Retained income at beginning of year	[14 050]	1 670	[12 380]
Retained income at end of year	45 348	(444)	44 904

9. TRADE AND OTHER PAYABLES	
Trade creditors [41 290 + 126 000 – 22 000 + 27 500 + 360]	173 150
SARS – PAYE [3 580 + 80]	3 660
UIF [425 + 6 + 6]	437
Creditors for wages [600 – 80 – 6 – 400]	114
Current portion of loan	32 160
	209 521

6.22.2	The partners are not happy with their profits. What advice would you provide to them? Bear in mind that petrol prices are fixed by the government.
<p>Various answers:</p> <p>Possible answers:</p> <ul style="list-style-type: none"> • Net profit as a percentage of turnover is 12.5%. • Barnes' return is 18.7%. • Mchunu's return is 21%. <p>Advice:</p> <ul style="list-style-type: none"> • Increase the mark-up % (presently it is 11.7%). • Reduce expenses if possible. • High loan which results in high interest – try to reduce it. • Increase the sales. • Advertise the products. • Etc. 	
6.22.3	The accountant of the business feels that the business is wasting money on staff development and the HIV awareness programme as these are not benefiting the business. Do you agree? Explain.
<p>Various answers possible.</p> <p>In the long term these programmes benefit both the community and the business.</p> <p>The business is giving back to the community – for this it gets publicity.</p> <p>This enhances the image of the business.</p> <p>This may result in an improvement in profitability.</p> <p>Etc.</p>	

NOTE TO THE TEACHER:

In rounding off this Task, Teachers may discuss the following with their classes:

- The Accounting Equation: effect of adjustments.
- Responsible citizenship – making a difference to the local community.

TASK 6.23  **Ethics and internal control scenarios**

6.23.1	David phones Thabo from Brazil to say he is there for a month to investigate new products for Power Sports. This means that Thabo will have to work overtime.
<p>This is an ethical matter.</p> <p>The partners have to agree in advance otherwise this can cause a problem between them.</p> <p>David should not inform Thabo once he has left. Thabo might well think that David is just having a holiday.</p> <p>The business should also be supporting local products to benefit the South African economy.</p> <p>This could also be an internal control matter which affects the finances of the business.</p> <p>If David is going to charge the cost of the trip to the partnership, then this will affect Thabo financially too.</p> <p>SARS might well contest the costs of the trip if they feel that it is not a genuine business expense.</p>	
6.23.2	David and Thabo want to solve the financial problems of Power Sports by admitting a new partner. The financial results of 20.7 are much better than 20.8. They tell the accountant to delay in preparing the 20.8 financial statements until they finalise the agreement with the new partner.
<p>This is completely unethical.</p> <p>The partners may be accused of fraud if they hide information from a prospective new partner.</p> <p>The accountant should not agree to delay the publication of the financial statements.</p>	

6.23.3	David has awarded himself a bonus without consulting Thabo.
<p>This is both an ethical and internal control matter. David must comply with the partnership agreement. There will probably be stipulations about bonuses in the agreement. If David receives the bonus, this will affect the sharing of the profit and will negatively affect Thabo's returns.</p>	
6.23.4	The partners decide that they do not have time to do a physical count of the fixed assets each year. They decide to install security cameras instead.
<p>This is an internal control matter. Stock has to be counted in order to compare to the balance on the Trading stock account in order to identify shortages as soon as they occur. Cameras will only identify a culprit once the partners know when the incident occurs. The partners will probably not have the time to sit watching hours of video recordings. Doing the physical counts is much more effective.</p>	
6.23.5	Thabo has paid for entertainment expenses but he has not bothered to keep the documents. He says this was to benefit the partnership.
<p>This is an internal control matter. The expenses might well be genuine but Thabo will have to prove this by presenting the vouchers. He cannot submit vouchers for private drinks and meals. SARS will also disallow the expenditure as a tax deduction if the vouchers are missing.</p>	
6.23.6	David has taken over a fully depreciated vehicle at the book value of R1.00. The vehicle had been used for delivering goods to customers.
<p>This is both an internal control and ethical matter. A vehicle worth R1.00 might well still serve the purpose for which it was bought, even if the asset is fully depreciated. The business will have to replace the vehicle at current market price which could be over R200 000. This will affect the financial position of the partnership as a whole.</p>	
6.23.7	The partners decide to take drawings in the form of trading stock rather than cash. They feel that cash would have to be recorded as it affects the bank reconciliation whereas they do not have to make an entry for the trading stock.
<p>This is both an internal control and ethical matter. All transfers of stock to partners must be recorded as drawings to ensure that the correct financial position is calculated. Also, if no entry is made for the stock taken, it will increase the value of the trading stock deficit and reduce the net profit which is taxable. The taking of the stock without recording it in order to reduce profit and tax will be regarded as tax evasion which is illegal.</p>	

TASK 6.24 Pinevalley Pharmacy: Income Statement & ethics

6.24.1 PINEVALLEY PHARMACY

INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 20.6

	Note	
Sales (4 140 000 – 18 000)		4 122 000
Cost of sales (1 840 000 – 8 000)		(1 832 000)
Gross profit		2 290 000
Other operating income		333 300
Rent income (218 400 + 50 400 ^[3])		268 800
Profit on plastic packets (27 000 + 4 500)		31 500
Discount received		33 000
Gross operating income		(2 623 300)
Operating expenses		991 100
Depreciation (8 000 + 155 000 ^[1] + 27 000 ^[2])		190 000
Loss on disposal of asset (93 000 – 10 000)		83 000
Salary to pharmacist (95 200 – 7 600)		87 600
Employer's contributions to Medical Aid & Provident Fund (21 400 – 1 800)		19 600
Wages (56 000 + 5 200)		61 200
Motor vehicle expenses		95 000
Repairs & maintenance (176 000 – 75 000)		101 000
Commission paid (80 000 + 50 000)		130 000
Insurance (30 000 – 2 100)		27 900
Electricity & water (35 000 + 2 800)		37 800
Donation to Pinevalley Clinic (60 000 + 11 000)		60 000
Sponsorship of Pinevalley Soccer Club (60 000 + 11 000)		71 000
Sundry expenses		27 000
Operating profit		1 632 200
Interest income [35 000 – 7 000]		28 000
Profit before interest expense		1 660 200
Interest expense / Financing cost [77 000 + 4 470]		(81 470)
Net profit for the year		1 578 730

^[1] 620 000 x 25%

^[2] (300 000 – 30 000) x 10% = 27 000

^[3] 218 400 – (4 200 x 2 mths) = 218 400 – 8 400 = 210 000

210 000 ÷ 10 mths = 21 000

New rent per month = 21 000 + 4 200

In advance = 25 200 x 2 mths = 50 400

OR:

$8y + 2(y + 4 200) = 218 400$; Solve for $y = 21 000$; New rent = R25 200;

In advance = 25 200 x 2 = 50 400

6.24.2 NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 20.6

7.	CAPITAL	F. Flue	V. Virus	TOTAL
	Balance at the beginning of the year	700 000	2 200 000	2 900 000
	Contribution of capital during the year (1 Jan 20.6)	200 000	0	200 000
	Withdrawal of capital during the year (1 Aug 20.5)	0	(400 000)	(400 000)
	Balance at the end of the year	900 000	1 800 000	2 700 000

8. CURRENT ACCOUNTS	F. Flue	V. Virus	TOTAL
Profit per Income Statement	586 243	992 487	1 578 730
Partners' salaries	[¹]220 000	330 000	550 000
Bonus to Flue	50 000	0	50 000
Interest on capital[²]	44 000	118 000	162 000
Primary distribution of profits	314 000	448 000	762 000
Final distribution of profits	272 473	544 487	816 730
Drawings	(230 000)	(500 000)	(730 000)
Retained income for the year	356 243	492 487	848 730
Retained income at beginning of year	(40 000)	70 000	30 000
Retained income at end of year	316 243	562 487	878 730

[¹] $330\,000 \times \frac{100}{150}$

[²] Flue: $[700\,000 \times 6\% \times \frac{10}{12} = 35\,000] + [900\,000 \times 6\% \times \frac{2}{12} = 9\,000]$; Total = 44 000

[³] Virus: $[2\,200\,000 \times 6\% \times \frac{6}{12} = 66\,000] + [1\,800\,000 \times 6\% \times \frac{6}{12} = 54\,000]$; Total = 120 000

6.24.3 Ethical issues affecting Pinevalley Pharmacy

(a)	The customers feel that the partners are taking unfair advantage of the fact that the nearest competitor is 80 km away. Do you agree?
<p>Yes. The mark-up is 125% which is very unfair as the customers have no other place to buy their medicines. The business has made a gross profit of R2.29m out of this community. Furthermore they are also making a profit on the plastic bags. This is an added insult to the community as the business should aim to break-even on these items.</p>	
(b)	The employees want to resign but they have no alternative employment in the area. Why are they dissatisfied?
<p>The shop assistants got only a 4% increase in their wages. They are not subject to PAYE deductions because their R2 600 per month wages are below the taxable threshold, and they do not get any of the standard benefits regarding medical aid and provident fund. The qualified pharmacist is earning less than R100 000. For a person of his/her qualifications this is very low, especially as he is also running the business on a daily basis. The partners are together earning almost R1.6m. The partners are not looking after their employees properly.</p>	
(c)	You are told that the commission expense comprises payments to Billy Bell and other individuals. These payments are made by the partners, Flue and Virus, to secure lucrative contracts (tenders) to supply hospitals in the province with medical supplies.
<p>The amounts of R130 000 are not 'commission'. They are in fact bribes which are illegal. The partners may be accused of corruption, as well as the persons such as B. Bell who are paid these amounts. If this becomes known to the public, the business and the partners will get a very poor reputation.</p>	
(d)	The partners feel that their donations to a local clinic and sponsorship of the local soccer club will increase the 'goodwill' which the community would have for the pharmacy and gain them more customers. Is this a good strategy?
<p>Yes: Supporting local communities is a very good strategy because the local community will tend to support the business in future. 'Corporate social investment' by the business in encouraging good, healthy activity through the soccer club (R71 000) and encouraging better health care through the clinic (R60 000) are most worthwhile causes, although they might get criticised for the amounts being so low in comparison to the profit earned of almost R1.6m.</p>	

(e)	<p>Refer to part (d) above. Would your opinion change if you were told the following:</p> <ul style="list-style-type: none"> • The donation to the clinic contained a requirement that the clinic would have to buy all its medical supplies from Pinevalley Pharmacy. • The sponsorship of the local soccer club is dependent on the fact that Flue's son and Virus' son must both be selected for the club's 1st team.
<p>Yes, most definitely. These conditions indicate that the partners were not serious about supporting the community. All they are concerned about is their own self-interest in either making a profit (through the clinic) or giving their children an unfair advantage in sport (through the soccer club).</p>	
(f)	<p>Explain your opinion on the following points:</p> <ul style="list-style-type: none"> • The Repairs & maintenance account contains figures that relate to the repairs of the homes of both partners. • The Vehicle expenses account contains payments made for petrol for Mrs Flue and Mrs Virus.
<p>The business entity rule should apply. Many of these expenses do not relate to the business. If they are for private expenses, and they are paid through the business, they must be debited to Drawings and not treated as expenses which will reduce the net profit of the business. SARS can lay criminal charges against the partners for tax evasion because income tax on the partners is calculated on their portions of the net profit.</p>	
(g)	<p>You are told that the Shady Nightclub does not check identity documents of the people who want to get in. How will this affect Pinevalley Pharmacy?</p>
<p>The Pharmacy will get a bad reputation amongst parents in the community who want to bring their children up to respect the law. They are likely to protest and attract negative publicity to the Pharmacy, a business which professes: <i>'Your health is our concern'</i>. In order to retain its reputation, the Pharmacy should rent out its unused premises to a business which does not clash with its own line of business. Alternatively, they should sell the portion of the property that they do not need.</p>	
(h)	<p>Consider the following statement: Although the partners of Pinevalley Pharmacy have made very impressive returns on their capital investment in the business, the business is not sustainable, i.e. it will not last very long into the future. Do you agree?</p>
<p>Yes. The partners have indeed made an excellent return of R1.574m net profit on their capital investment of R2.7m, which is more than a 50% return. However, the pharmacy may well lose its good employees or the employees may deliberately decide to reduce the quality of their work if they are legitimately dissatisfied. Without a qualified pharmacist the business cannot continue. The pharmacy is also accused of corruption (i.e. tax evasion and bribery) which could land the partners in jail or face large fines imposed by the courts. The loss of goodwill through the nightclub could also be a major concern. Furthermore, the partners are making such a good return that a potential competitor is likely to enter the area. If the competitor applies a reasonable mark-up percentage, Pinevalley Pharmacy will be driven out of business very quickly.</p>	

TASK 6.25 Monument TV Shop: Balance Sheet & internal control

6.25.1 MONUMENT TV SHOP

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 28 FEBRUARY 20.8

ASSETS	Note	
Non-current assets		3 688 541
Tangible/Fixed assets	3	3 150 441
Financial assets: Fixed deposit (654 100 – 116 000)		538 100
Current assets		937 989
Inventories (846 400 – 27 600 + 36 800 – 36 800 – 110 400)	4	708 400
Trade and other receivables	5	128 589
Cash & cash equivalents (15 000 + 9 000 + 116 000 – 3 000)	6	137 000
Total assets		4 662 530
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		1 885 000
Capital	7	2 000 000
Current accounts	8	(158 300)
Non-current liabilities		1 556 000
Mortgage loan: Mafikeng Bank (993 795 + 134 205 – 72 000)		1 056 000
Loan from W. Williams		500 000
Current liabilities		1 221 530
Trade and other payables	9	771 220
Current portion of mortgage loan		72 000
Bank overdraft (345 300 + 2 400 + 4 610 + 11 000 - 55 000 + 70 000)		378 310
Total equity and liabilities		4 662 530

6.25.2 NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 20.8

1.	FIXED ASSETS	Land and buildings	Vehicles	Equipment	Computers	Total
	Carrying value at beginning	2 695 389	3	59 000	180 000	2 934 392
	Cost	2 695 389	930 000	292 000	240 000	4 157 389
	Accumulated depreciation	-	(929 997)	(233 000)	(60 000)	(1 222 997)
	Movements	275 000	(1)	56 050	(115 000)	253 384
	Additions at cost	275 000	-	63 000	-	338 000
	Disposals at carrying value	-	(1)	-	(35 000)	(35 001)
	Depreciation	-	(0)	*(6 950)	** (80 000)	(86 950)
	Carrying value at end	2 970 389	2	115 050	65 000	3 150 441
	Cost	2 970 389	620 000	355 000	156 000	4 101 389
	Accumulated depreciation	-	(619 998)	(239 950)	(91 000)	(950 948)

*(59 000 x 10%) + (63 000 x 10% x $\frac{2}{12}$) = 6 950

**240 000 x $33\frac{1}{3}\%$ = 80 000

2.	TRADE AND OTHER RECEIVABLES	
	Trade debtors (196 000 – 64 400 – 45 360 + 12 100)	98 340
	Provision for bad debts (9 000 + 5 751)	(14 751)
		83 589
	Income receivable (24 000 + 4 000)	28 000
	Expenses prepaid	17 000
		128 589

3.	CAPITAL	WILLIAMS	ZONDO	TOTAL
	Capital at the beginning of the year	900 000	1 300 000	2 200 000
	Additions (withdrawals) during the year	300 000	(500 000)	(200 000)
	Capital at the end of the year	1 200 000	800 000	2 200 000

4.	CURRENT ACCOUNTS	WILLIAMS	ZONDO	TOTAL
	Profit for the year	275 000	375 000	650 000
	Partners' salaries	300 000	300 000	600 000
	Bonus	0	100 000	100 000
	Interest on capital*	84 000	84 000	168 000
	Primary distribution	384 000	484 000	868 000
	Share of remaining profits	(109 000)	(109 000)	(218 000)
	Drawings (Zondo: 410 400 + 27 600)	(340 000)	438 000	(778 000)
	Retained income for the year	(65 000)	(63 000)	(128 000)
	Retained income at beginning of year	67 000	(54 000)	13 000
	Retained income at end of year	2 000	(117 000)	(115 000)

*Williams: $[900\ 000 \times 8\% \times \frac{6}{12} = 36\ 000] + [1\ 200\ 000 \times 8\% \times \frac{6}{12} = 48\ 000]$; Total = 84 000
Zondo: $[1\ 300\ 000 \times 8\% \times \frac{6}{12} = 52\ 000] + [800\ 000 \times 8\% \times \frac{6}{12} = 32\ 000]$; Total = 84 000

5.	TRADE AND OTHER PAYABLES	
	Trade creditors (282 700 + 306 000 – 36 800 + 55 000)	606 900
	Expenses payable (33 900 + 18 750)	52 650
	Deferred income	48 400
	Creditors for wages (37 000 – 13 100)	23 900
	SARS (PAYE) (25 700 – 2 400)	23 300
	UIF (2 300 – 170 – 170)	1 960
	Cape Provident Fund (18 100 – 1 330 – 2 660)	14 110
		771 220

6.25.3	Answer the following questions. In each case explain, provide a reason and quote figures (where possible) to support your answer.
(a)	Have the partners controlled their fixed assets well?
	No.
	<ul style="list-style-type: none"> The delivery vehicles are very old. They are valued at R1.00 each as they are fully depreciated. The vehicles and might well be a danger to other road-users in view of the crash that occurred. The partners should not have used a driver without the required driver's licence. The computers were not properly secured. Seven of them had been stolen without any sign of breaking and entering. This is extremely negligent of the employees. Policies should be put in place to require employees to take due care over the assets entrusted to them. These computers will now need to be replaced which will cause further financial strain to the business.

(b)	Have the partners controlled their debtors well?
<p>No.</p> <ul style="list-style-type: none"> • Bad debts are extremely high at R387 000 (more than 10% of gross sales). • The provision for bad debts has been increased to 15% of debtors which is also very high. • In February, there was a dishonoured cheque from a debtor of R11 000 and an insolvent debtor written off of R45 360. It appears that debtors are not being properly screened or checked before opening accounts. Credit limits should also be set as these amounts for the adjustments are both very high. 	
(c)	Have the partners controlled the wages well?
<p>No.</p> <ul style="list-style-type: none"> • There were 10 ghost employees in the Wages Journal for the last week in February (amount of net wages R1 310). It is clear that fraud has occurred here and the wages clerk is probably the main suspect. If this has occurred in the last week of the financial year, there must be a suspicion that it has also occurred at other times of the year. 	
(d)	Have the partners controlled their cash resources well?
<p>No.</p> <ul style="list-style-type: none"> • There is a large bank overdraft of R378 310, the mortgage loan is R1 056 000, and the loan from Williams is R500 000 with large amounts of interest attached to each. • In contrast there is R654 100 in the fixed deposits, earning a low interest rate of 5.5%. • It would make sense to use the funds in the fixed deposit to settle as many of the debts as possible. • The partners have also been over-drawing. Their drawings were R778 000 whereas the net profit was only R650 000. They are not retaining any of the funds for future expansion. • The petty cash has also not been well controlled. Every payment should have a valid voucher. In February, R3 000 was lost. To charge the amount to sundry expenses is an easy but unsatisfactory solution. Possibly this type of fraud has also occurred earlier in the year. 	
(e)	What general advice can you offer the partners?
<ul style="list-style-type: none"> • Appoint an internal auditor to do a detailed audit of all aspects of the business' accounting procedures. • Ensure that divisions of duty exist so that the work of one individual serves as a check on another. • Ensure that proper policies are drawn up to regulate the work of the employees, and place all of them on training to ensure that they take due care of the assets entrusted to them. 	

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Identify various groups or people who are interested in the financial statements of a business.			
Understand important characteristics of financial statements.			
Explain basic rules of GAAP.			
Identify GAAP applications and explain each one.			
Distinguish between operating, financing and investing activities.			
List year-end procedures in the correct sequence.			
Draw up a basic format of an income Statement (Statement of Comprehensive Income) and a Balance Sheet (Statement of Financial Position) with Notes.			
Work out year-end adjustments to be entered in preparing the financial statements.			
Understand the difference between normal adjustments in the books and Balance Sheet adjustments.			
Understand the effect of year-end adjustments on the Accounting equation.			
Draw up an Income Statement (Statement of Comprehensive Income) and Notes for a partnership.			
Allocate the net profit to partners in accordance with the partnership agreement and draw up an Appropriation Statement.			
Draw up a Balance Sheet (Statement of Financial Position) and Notes for a partnership.			
Identify errors and correct the errors in financial statements.			
Reflect on the figures in the financial statements and express general opinions.			
Explain and express opinions on internal control issues relating to partnerships.			
Explain and express opinions on issues affecting business ethics relating to partnerships.			

MODULE 7


PARTNERSHIPS:




INTERPRETATION OF FINANCIAL STATEMENTS

Advice to Teachers on how to use this Module.

Teachers are advised to use different strategies so that learners can share opinions on certain Tasks. They can learn from each other and learn to test their understanding by expressing their opinions to others. Also, there are opportunities on other Tasks for them to work independently and to enhance their examination techniques.

Teachers should also provide opportunities for learners to mark their own work from time to time, guided by their Teachers, so that they gain an understanding of the marking process which should also enhance their examination techniques.

Learners do not need to do every Task in this Module, but they should do all the Tasks indicated by the symbol  in order to understand the essential basics of financial indicators, their calculation and interpretation. Learners should not memorise formula for the financial indicators. All the financial indicators are based on Accounting logic. If learners understand the concepts of profitability, solvency, liquidity, gearing and return, and where these are located in the financial statements, they should find the logical calculation of the financial indicators much easier to understand and remember.

Teachers are urged to nurture their learners through the essential and relatively easy Tasks denoted by  through to the more challenging Tasks denoted by  or . The challenging Tasks are inserted in this Module to challenge and extend the more capable learners.

ADVANCED INTERPRETATION OF FINANCIAL STATEMENTS

From the previous Tasks in this Module, learners should have become aware that financial statements are prepared with a major purpose in mind, i.e. to provide information that enables the owners and other stakeholders to assess the performance of the business and to make appropriate decisions based on that information.

TASK 7.1 Information relevant to owners

This Task is suitable for working in pairs or groups.

- How profitable is this undertaking? The owner can see whether the capital that has been invested in the undertaking is providing the highest possible return. He/she must consider whether it would be more rewarding to invest his capital elsewhere. (This is done by calculating the net profit as a percentage of the capital invested).
- How efficient is the purchasing policy, the stock control policy and the sales policy of this undertaking? (Calculate the percentage of the gross profit and net profit on the turnover).
- Are the current expenses (operating expenses) within acceptable limits? Compare the percentage of gross profit on turnover with the percentage of net profit on turnover.
- Has the business sufficient liquidity to pay creditors if the business deteriorated and is placed under pressure? The ratio of current assets to current liabilities must be monitored with great care.
- Is there a pattern of progress, deterioration or even stagnation in the activities of the business undertaking? This is done by comparing figures, ratios and results with those of previous years and also by comparing these with particulars of other similar business undertakings).
- Do the financial statements reflect good internal control over assets, expenses, income, etc., or are there areas of concern which need attention?
- Do the financial statements reflect any positive contribution to the local community or the environment? Not only is this the 'right thing to do' but the business' sustainability could depend on it.

TASK 7.2

Information relevant to owners

<p>1. Financial institutions, e.g. commercial banks and building societies.</p> <p>If the owner should apply for short-term credit (a bank overdraft facility on his current banking account, or short term loans), the institution can determine - from the statements - whether the business is in a position to supply sufficient security and settle current liabilities on a regular basis.</p> <p>In the case of long term credit (e.g. mortgage bonds at building societies or commercial banks), security will be required. These institutions can determine from the business' statements whether the interest can be paid regularly. They can also assess the settlement of the capital debt.</p>
<p>2. Creditors who grant short-term credit.</p> <p>By making a careful study of the statement, creditors can also determine whether the business undertaking has sufficient assets (liquid assets) to be turned into cash when necessary, in order to meet current liabilities.</p>
<p>South African Revenue Services (SARS).</p> <p>The South African Revenue Services must be convinced that the annual income return has been recorded correctly so that the income tax can be levied on the correct taxable income; that VAT paid appears to be correct in relation to total sales; or that PAYE returns appear to be correct in relation to total salaries and wages paid.</p>
<p>4. Employees or their representative trade unions.</p> <p>Employees will be interested in whether or not the business is profitable as this is likely to provide them with job security, but they would also be interested in assessing whether a reasonable share of the business' income is allocated to salaries and wages.</p>
<p>5. The local and wider community.</p> <p>There is a growing awareness that for a business to sustain itself into the future, it needs to respect the wider community and gain its support. Provision of employment, social upliftment and respect for the environment are examples of concerns in this area.</p>

TASK 7.3

Concepts reflected in the financial statements

Information:	Location:	Definition:
Net profit	At the bottom of the Income Statement.	The final profit after deducting all expenses from income.
Gross profit	At the top of the Income Statement.	The trading profit made on the buying and the selling of goods
Current assets	Under Assets in the Balance Sheet.	Those assets that are expected to be converted into cash within a year.
Amount invested by the owners	Under Owners' equity in the Balance Sheet.	The capital invested by the owners and the profit retained (reinvested) in the business.
Amount earned by each partner	In the Current account note to the financial statements.	The amount of salary, interest on capital, other earnings, and share of remaining profits.
Amount withdrawn by the owners	In the Current account note to the financial statements.	The amount of earnings withdrawn by the owners (i.e. not retained in the business).
Current liabilities	Under Liabilities in the Balance Sheet.	Those debts which will be settled within the next year.
Operating expenses	In the Income Statement between gross profit and operating profit.	Expenses incurred in operating the business.
Operating profit	In the Income Statement below operating expenses.	The profit earned in operating the business, i.e. operating income less operating expenses.
Non-current assets	In the Balance Sheet under Assets.	Assets that will not be converted into cash within the next year
Non-current liabilities	In the Balance Sheet under Liabilities.	Debts that will be settled in periods longer than a year.

TASK 7.4

Basic interpretation of items in financial statements

This Task is suitable for working in pairs or groups.

7.4.1	The net profit of R80 000 is a lot of money. The business has done very well.
Assessment of profit depends on the size or risk of the business – consider or compare to the owner’s equity as well.	
7.4.2	The gross profit of R120 000 is very good. The business has sets its prices very well in order to earn this gross profit.
Assessment of gross profit depends on the volume of goods sold – consider or compare to the cost of sales or sales.	
7.4.3	The operating expenses of R90 000 are satisfactory. The business has controlled them well.
Assessment of operating expenses depends on the size of the business and sales volume – consider or compare to Sales.	
7.4.4	The debts of the business that must be repaid within the next year amount to R105 000. The business can easily settle these debts.
Assessment of current liabilities depends on resources available to settle the debts – consider or compare to current assets or liquid assets (debtors or cash).	
7.4.5	All the debts of the business amount to R300 000. The business can repay these without a problem.
Assessment of all debts depends on the volume of all the assets of the business – consider or compare to total assets.	
7.4.6	The business has trading stock on hand amounting to R60 000. This is sufficient to satisfy the needs of the customers.
Assessment of stock depends on the volume of goods traded during a year – consider or compare to credit purchases, or if this figure is not available, Cost of Sales (this will equal purchases if stock levels are fairly constant).	
7.4.7	The trade debtors amount to R36 000. They are settling their debts on time and the business is controlling them well.
Assessment of trade debtors depends on how much is sold to them each month – consider or compare to credit sales per month.	
7.4.8	The trade creditors amount to R40 000. They are being paid in accordance with normal credit terms.
Assessment of trade creditors depends on how much is bought from them each month – consider or compare to credit purchases, or if this figure is not available, Cost of sales (this will equal purchases if stock levels are fairly constant).	
7.4.9	It is good business practice for a business to dump waste materials in a nearby river as there are no cost implications.
There is a cost implication – the effect on the environment. This will have to be cleaned up. The community will end up paying through the municipality or through volunteer work. This practice will cause a business to lose support from the community, which will affect its sustainability.	
7.4.10	A business should always try to achieve the highest mark-up percentage possible.
A business has to apply prices that are competitive, otherwise sales will decline. If the business is a monopoly with not competition, high mark-ups will lead to consumer resistance.	

TASK 7.5

Understanding practical financial indicators statements

7.5.1	Why is it not advisable to make your decision simply on the basis of the number of runs that each batsman has scored?
One batsman might have played more innings than the other.	
7.5.2	If you calculate their batting averages, who appears to be the more successful batsman in this series?
Kallis' average = $512 \div 6 = 85.3$ Amla' average = $665 \div 10 = 66.5$ According to the averages, Kallis appears to be more successful.	
7.5.3	Amla might be upset that you have made your decision based on the averages. What factors might make the averages misleading?
He opens the batting – has to face fast bowlers. He played on all the pitches, some of them might have been difficult to play on. He has played more often – fatigue could occur.	

Note to Teacher:

Teachers should stress that financial indicators are not an exact science, but they do give clues as to areas of interest or concern.

TASK 7.6

DD Magazines: Calculation and explanation of financial indicators

No.	Description of calculation	Workings	Answer	Explanation
7.6.1	Gross profit as a percentage of sales	$\frac{304\ 000}{784\ 000} \times \frac{100}{1}$	38.8%	The percentage of the selling price that represents gross profit.
7.6.2	Gross profit as a percentage of cost of sales	$\frac{304\ 000}{480\ 000} \times \frac{100}{1}$	63.3%	The mark-up % - the extent to which prices are marked up from cost to selling price.
7.6.3	Operating profit as a percentage of sales	$\frac{136\ 240}{784\ 000} \times \frac{100}{1}$	17.4%	The % of the selling price that represents operating profit.
7.6.4	Operating expenses as a percentage of sales	$\frac{201\ 290}{784\ 000} \times \frac{100}{1}$	25.7%	The % of the selling price that is used to settle operating expenses.
7.6.5	Net profit as a percentage of sales	$\frac{104\ 040}{784\ 000} \times \frac{100}{1}$	13.3%	The % of the selling price that represents net profit.
7.6.6	Net profit as a percentage of owners' equity at beginning of the year	$\frac{104\ 040}{635\ 000^{[1]}} \times \frac{100}{1}$	16.4%	The return earned by the business on equity invested by the owners at the beginning of the year.
7.6.7	Net profit as a percentage of average owners' equity	$\frac{104\ 040}{672\ 020^{[2]}} \times \frac{100}{1}$	15.5%	The return earned by the business on average equity invested by the owners during the year (this is the more accurate calculation).
7.6.8	The Rand amount of net assets, i.e. total assets minus total liabilities	OE = R709 040		The Rand amount by which assets exceed liabilities.
7.6.9	The ratio of total assets to total liabilities	928 400 : 219 360	4.2 : 1	The extent to which assets exceed liabilities.

No.	Description of calculation	Workings	Answer	Explanation
7.6.10	The Rand amount of net current assets (working capital), i.e. current assets minus current liabilities	110 500 – 19 360	R91 140	The Rand amount by which current assets exceed current liabilities.
7.6.11	The ratio of current assets to current liabilities	110 500 : 19 360	5.7 : 1	The extent to which current assets exceed current liabilities.
7.6.12	The amount earned by each partner	Dube = R59 770 Dimba = R44 270		The amount earned by each partner out of the business profits.

[1] $420\,000 + 210\,000 + 3\,000 + 2\,000 = 635\,000$

[2] $(630\,000 + 5\,000) + (630\,000 + 79\,040) = 1\,344\,040 \div 2 = 672\,020$

PART B

Profitability	Return	Solvency	Liquidity
Gross profit as a percentage of sales. Gross profit as a percentage of cost of sales. Operating profit as a percentage of sales. Operating expenses as a percentage of sales. Net profit as a percentage of sales.	Net profit as a percentage of average owners' equity. The amount earned by each partner.	The Rand amount of net assets, i.e. total assets minus total liabilities. The ratio of total assets to total liabilities.	The Rand amount of net current assets, i.e. current assets minus current liabilities. The ratio of current assets to current liabilities.

TASK 7.7

Basic calculation of and comment on financial indicators

7.7.1	AB Stores:
(a) Calculate the percentage gross profit on sales (turnover).	
$\frac{560\,000 - 400\,000}{560\,000} \times \frac{100}{1}$ $\frac{160\,000}{560\,000} \times \frac{100}{1} = 28.6\%$	
(b) Calculate the percentage gross profit on cost of sales.	
$\frac{160\,000}{400\,000} \times \frac{100}{1} = 40\%$	
(c) Calculate operating expenses as a percentage of sales (turnover).	
$\frac{164\,000}{560\,000} \times \frac{100}{1} = 29.3\%$	
(d) Calculate operating profit as a percentage of sales (turnover).	
Operating profit = $160\,000 + 60\,000 - 164\,000 = 56\,000$ $\frac{56\,000}{560\,000} \times \frac{100}{1} = 10\%$	
(e) Calculate net profit as a percentage of sales (turnover).	
Net profit = $56\,000 + 16\,000 - 30\,000 = 42\,000$ $\frac{42\,000}{560\,000} \times \frac{100}{1} = 7.5\%$	

(f) Use the financial indicators you have calculated to comment on the profitability of the business. Bear in mind that AB Stores uses a fixed mark-up of 50% when pricing its merchandise.
The business has achieved only a 40% mark-up instead of its intended 50%, probably due to trade discounts. On each R1.00 of sales the business earns 28.6c gross profit, operating expenses account for 29.3c, the business earns 10c operating profit, and a final net profit of 7.5c. These should be compared to performance in the previous year or to some target which they might have had.
7.7.2 CD Stores:
(a) Calculate net profit as a percentage of owners' equity at the beginning of the year.
$\frac{240\ 000}{400\ 000} \times \frac{100}{1} = 60\%$
(b) Calculate net profit as a percentage of owners' equity at the end of the year.
$\frac{240\ 000}{1\ 200\ 000} \times \frac{100}{1} = 20\%$
(c) Calculate net profit as a percentage of average owners' equity.
Average owners' equity = $(400\ 000 + 1\ 200\ 000) \div 2 = R800\ 000$
$\frac{240\ 000}{800\ 000} \times \frac{100}{1} = 30\%$
(d) Which of these three calculations is the more reliable one to use? Explain.
Average owners' equity. Equity changes throughout the year as profits are earned and as the owners invest extra capital. The average will therefore be more accurate.
(e) Use the financial indicators you have calculated in order to comment on the <i>return</i> earned in this business. Should the owners be satisfied with this return? Explain briefly.
Yes. Compare with alternative investments (e.g. a Fixed deposit or shares on the stock exchange). A 30% return is very favourable. Alternative investments could earn a much lower return than 30% - compare with the current bank rates.
7.7.3 EF Stores:
(a) Calculate net assets.
$(360\ 000 + 60\ 000 + 270\ 000) - (180\ 000 + 300\ 000)$ $690\ 000 - 480\ 000 = R210\ 000$
(b) Calculate the solvency ratio (i.e. total assets : total liabilities).
$690\ 000 : 480\ 000 = 1.4 : 1$
(c) Use the financial indicator you have calculated in order to comment on the <i>solvency</i> situation of the business. Should the owners be satisfied? Explain.
Yes. Assets are 40% higher than liabilities. The business should not have too much trouble in settling its debts.
7.7.4 GH Stores:
(a) Calculate net current assets.
$720\ 000 - 340\ 000 = R380\ 000$
(b) Calculate the current ratio (i.e. current assets : current liabilities).
$720\ 000 : 340\ 000 = 2.1 : 1$
(c) Calculate liquid assets (i.e. current assets without inventories).
$720\ 000 - 410\ 000 = R310\ 000$

(d) Calculate the acid-test ratio (i.e. liquid assets : current liabilities).
$310\ 000 : 340\ 000 = 0.9 : 1$
(e) Use the financial indicators you have calculated in order to comment on the liquidity situation of the business. Should the owners be satisfied? Explain.
<p>The business should not have a liquidity problem.</p> <p>The current assets are more than twice the current liabilities as indicated by a current ratio of 2.1 : 1.</p> <p>However, when one excludes the inventories, the liquid assets are lower than the current liabilities as indicated by an acid-test ratio of 0.9 : 1.</p> <p>This could be a concern if the business is not able to sell any of its stock, which is unlikely.</p>
7.7.5 IJ Stores:
(a) Calculate average stock for the year.
$(140\ 000 + 180\ 000) \div 2 = R160\ 000$
(b) Estimate how long it will take the business to sell its closing stock, assuming sales and cost of sales remain constant in future.
<p>Average daily cost of sales = $800\ 000 \div 365 = R2\ 192$</p> <p>Closing stock = R180 000</p> <p>Number of days of stock on hand = $180\ 000 \div 2\ 192 = 82$ days</p> <p>Alternative calculation:</p> $\frac{180\ 000}{800\ 000} \times 365 \text{ days} = 82 \text{ days}$
(c) Calculate how many times the business had to re-order stock during the year, i.e. the turnover rate of stock (use average stock in your calculation).
$800\ 000 \div 160\ 000 = 5$ times
(d) Comment on appropriate stock levels:
<p>- Why should stock levels not be too low?</p> <p>Stock levels should not be too low, as customers could get disappointed when their orders cannot be satisfied. They will then support competitors.</p> <p>- Why should stock levels not be too high?</p> <p>Stock levels should not be too high for various reasons: possibility of theft, storage space problems, obsolescence (new models came onto the market), stock ties up working capital in an asset that does not earn a return.</p> <p>- How does a business decide on appropriate stock levels?</p> <p>Consider sales volumes, customer demand, the type of product (perishable or durable?), and possibility of new models coming out.</p>

TASK 7.8 Liquidity & Working capital

7.8.1 Calculate the current ratio for 20.7.
$(94\ 000 + 64\ 000 + 15\ 000) : 51\ 000$ $173\ 000 : 51\ 000 = 3.4 : 1$
7.8.2 Calculate the acid-test ratio for 20.7.
$(173\ 000 - 94\ 000) : 41\ 000$ OR $(64\ 000 + 15\ 000) : 51\ 000$ $79\ 000 : 51\ 000 = 1.5 : 1$

7.8.3	Calculate the stock turnover rate for 20.7.		
$\frac{400\ 000}{\frac{1}{2}[94\ 000 + 110\ 000]} = 3.9 \text{ times}$			
7.8.4	Calculate the stock holding period (period for stock on hand) at the end of 20.7.		
$\frac{94\ 000}{400\ 000} \times \frac{365}{1} = 85.8 \text{ days}$			
7.8.5	Calculate the debtors collection period for 20.7. Use average debtors in your calculation.		
$\frac{\frac{1}{2}[64\ 000 + 75\ 000]}{760\ 000} \times \frac{365}{1} = 33.4 \text{ days}$			
7.8.6	Calculate the creditors payment period for 20.7. Use average creditors in your calculation.		
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> $\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{400\ 000} \times \frac{365}{1} = 54.8 \text{ days}$ </td> <td style="width: 50%; vertical-align: top;"> OR $\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{384\ 000} \times \frac{365}{1} = 57.0 \text{ days}$ </td> </tr> </table>		$\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{400\ 000} \times \frac{365}{1} = 54.8 \text{ days}$	OR $\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{384\ 000} \times \frac{365}{1} = 57.0 \text{ days}$
$\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{400\ 000} \times \frac{365}{1} = 54.8 \text{ days}$	OR $\frac{\frac{1}{2}[51\ 000 + 69\ 000]}{384\ 000} \times \frac{365}{1} = 57.0 \text{ days}$		
7.8.7	Comment on your calculations. Bear in mind this is a furniture shop and their suppliers offer them 60 days credit. Has the business controlled its working capital effectively? Explain. The corresponding calculations for the previous year are:		
<p>The business should not experience any liquidity problems. In fact, the current ratio and acid-test ratio have both increased from the previous year, and now appear to be too high. This means that the business has excess current assets which are not earning a return.</p> <p>The turnover rate of stock has increased from 2.5 to 3.9 which indicate that a greater volume of goods was sold, while the stock on hand has declined from an excessive 143 days to 85.8 days. This is sufficient to satisfy customers' needs.</p> <p>Debtors are taking a little too long to pay. They should be restricted to one month but are usually paying after 33 days. However, this is an improvement from the 44 days of the previous year.</p> <p>Creditors are being paid before the credit terms expire, which could cause strain on liquid assets. However this is a far better result than the 90 days of the preceding year which would have earned them a poor reputation with their suppliers.</p>			

TASK 7.9 Liquidity & Working capital

7.9.1	Calculate the current ratio for 20.9.
$(19\ 000 + 13\ 000 + 4\ 000) : 31\ 000 = 1.2 : 1$	
7.9.2	Calculate the acid-test ratio for 20.9.
$(36\ 000 - 19\ 000) : 31\ 000 = 0.5 : 1$	

7.9.3	Calculate the stock turnover rate for 20.9.	
	$\frac{490\ 000}{\frac{1}{2}[19\ 000 + 20\ 000]} = 25 \text{ times}$	
7.9.4	Calculate the stock holding period (period for stock on hand) at the end of 20.9.	
	$\frac{19\ 000}{490\ 000} \times \frac{365}{1} = 14 \text{ days}$	
7.9.5	Calculate the debtors collection period for 20.9.	
	$\frac{13\ 000}{640\ 000 \times 25\%} \times \frac{365}{1} = 29.7 \text{ days}$	
7.9.6	Calculate the creditors payment period for 20.9.	
	$\frac{31\ 000}{490\ 000} \times \frac{365}{1} = 23.1 \text{ days}$	OR $\frac{31\ 000}{489\ 000} \times \frac{365}{1} = 23.1 \text{ days}$
7.9.7	Comment on your calculations. Bearing in mind this is a grocery shop, has the business controlled its working capital effectively? Explain. The corresponding calculations for the previous year are:	
	<p>The current and acid-test ratios appear to be very low, and they have declined from the previous year. This could indicate possible liquidity problems, especially if all the stock could not be sold. However, the business has operated with low liquidity rates in the past, which means it could do so in future.</p> <p>Stock on hand for 14 days might be appropriate as certain perishables (e.g. bread) need to be re-stocked daily, while durables (e.g. minerals or canned items) could be re-stocked monthly.</p> <p>The business is selling goods on credit to selected customers, and their debtors are paying promptly in 29.7 days, which is much better than the 52 days of the previous year.</p> <p>The creditors are now being paid in 23.1 days, rather than the 28 days in 20.8. This could be extended to one month depending on the credit terms provided by the suppliers.</p>	

TASK 7.10 Debt-equity & Gearing

7.10.1	Calculate your debt : equity ratio on 1 January 20.7.	
	$1\ 000 : 40\ 000 = 0.025 : 1$	
7.10.2	Assuming you earn interest only, how much will you earn during the year ended 31 December 20.7?	
	$7\% \times 20\ 000 = R1\ 400$	
7.10.3	Calculate your return on equity for 20.7.	
	$\frac{1\ 400}{40\ 000} \times \frac{100}{1} = 3.5\%$	

7.10.4	Your grandmother has won a lot of money in the lottery. She offers to lend you R50 000 which must be repaid in 10 years' time. She will charge interest of 4% p.a. You are tempted to borrow the money and invest it in a Fixed Deposit account. If you accept her offer on 1 January 20.8, what will your new debt : equity ratio be?
(51 000 + 1 000) : 40 000 51 000 : 40 000 = 1.275 : 1	
7.10.5	Assuming you accept her offer on 1 January 20.8, how much profit will you make during the year ended 31 December 20.8?
Interest income = 7% x R70 000 = R4 900 Interest expense = 4% x R50 000 = R2 000 Profit = R2 900	
7.10.6	Calculate your expected return on equity for 20.8.
$\frac{2\,900}{40\,000} \times \frac{100}{1} = 7.25\%$	
7.10.7	Taking all the above into account, will you borrow the money from your grandmother? Explain.
Yes. It pays to borrow at 4% because I would be earning 7% on the amount invested, which increases the overall return on equity to 7.25%.	
7.10.8	If your grandmother charges interest of 8% p.a. will you accept her offer? Explain, quoting figures to support your answer.
No - the interest rate on the loan is higher than the rate on the investment. I would earn less than I did before taking out the loan. Interest income = 7% x R70 000 = R4 900 Interest expense = 8% x R50 000 = R4 000 Profit = R900 % Return on equity drops to 2.25%.	
7.10.9	Reflect on your calculations. Under what conditions will it be favourable to make use of the loan from your grandmother, i.e. under what conditions will your return be 'geared up' as a result of utilising the loan?
If the money borrowed can be utilised at a rate higher than the rate on the loan, my returns will be 'geared up'.	

TASK 7.11 Debt-equity & Gearing

7.11.1	Study the information and fill in the missing figures or details denoted (a) to (j).	
No.	Answer	Working
(a)	16.5%	$\frac{16\,500}{100\,000} \times \frac{100}{1}$
(b)	0.1 : 1	10 000 : 1
(c)	Low	-
(d)	310 000	110 000 + 200 000
(e)	210 000	10 000 + 200 000
(f)	100 000	310 000 - 210 000
(g)	49 500	16 500 x 3
(h)	29 500	49 500 - (200 000 x 10%) = 49 500 - 20 000
(i)	29.5%	$\frac{29\,500}{100\,000} \times \frac{100}{1}$
(j)	2.1 : 1	210 000 : 100 000
(k)	High	-

7.11.2	In your opinion, should Khoza Bags take out the loan? List the main positive and negative points, and explain your conclusions.
<p>Positive point of taking out the loan</p> <ul style="list-style-type: none"> - Increased operating profit exceeds interest to be paid on the loan. <p>Negative point of taking out the loan</p> <ul style="list-style-type: none"> - Increased risk. - Possible effect on personal assets of owners if business cannot repay loan or pay interest. <p>Overall decision:</p> <p>Take out the loan if the profits can treble. The return is expected to increase from 16.5% to 29.5%. Repay the loan as soon as possible if the operating profit does not increase to that extent.</p>	
7.11.3	In your opinion, should the business consider taking out more loans? Explain.
<p>Learners might well disagree on this. Their answers will depend on their attitude towards risk. The personal assets of the partners could be at risk if the business becomes insolvent or illiquid, i.e. if their future profits do not outweigh the extra interest on the loans, and if the cash flow will enable them to repay the loans on due date.</p>	

TASK 7.12 Partners' returns & Gearing

7.12.1	Calculate the percentage return earned by the business for 20.6.
<p>Average equity = $\frac{[420\ 000 + 380\ 000 + 20\ 000 + 5\ 000] + [360\ 000 + 330\ 000 + 8\ 000 + 3\ 000]}{2}$ $= \frac{[825\ 000 + 701\ 000]}{2} = 763\ 000$</p> <p>$\frac{152\ 250}{763\ 000} \times \frac{100}{1} = 20\%$</p>	
7.12.2	Calculate the amount earned by Naidoo for 20.6.
<p>$60\ 000 + 19\ 500 + 15\ 000 = R94\ 500$</p>	
7.12.3	Calculate the amount earned by Martin for 20.6.
<p>$30\ 000 + 17\ 750 + 10\ 000 = R57\ 750$</p>	
7.12.4	Calculate the percentage return earned by Naidoo for 20.6.
<p>Average equity = $\frac{(420\ 000 + 20\ 000) + (360\ 000 + 8\ 000)}{2}$ $= \frac{(440\ 000 + 368\ 000)}{2} = 404\ 000$</p> <p>$\frac{94\ 500}{404\ 000} \times \frac{100}{1} = 23.4\%$</p>	
7.12.5	Calculate the percentage return earned by Martin for 20.6.
<p>Average equity = $\frac{(380\ 000 + 5\ 000) + (330\ 000 + 3\ 000)}{2}$ $= \frac{(385\ 000 + 333\ 000)}{2} = 359\ 000$</p> <p>$\frac{57\ 750}{359\ 000} \times \frac{100}{1} = 16.1\%$</p>	
7.12.6	Calculate the debt : equity ratio for both years.
<p>$20.6 = 200\ 000 : 825\ 000 = 0.2 : 1$ $20.5 = 300\ 000 : 701\ 000 = 0.4 : 1$</p>	

7.12.7 Comment on your calculations above.

SUGGESTED RUBRIC

Criterion:	Level 1	Level 2	Level 3	Level 4
Comparison of financial indicators to previous year.	No valid comparison done to previous year.	One or two indicators compared explicitly to previous year.	Three indicators compared explicitly to previous year.	All four indicators compared explicitly to previous year.
Comparison of Partner A's return to Partner B's return.	No valid comparison done between the partners.	Comparison done but poor explanation on the differential between the partners.	Comparison done but differential between the partners not convincing.	Comparison well done highlighting the differential between the partners and possible reasons.
Comment on returns compared to returns on alternative investments.	No valid comment or comparison done.	Comparison done but knowledge of returns on alternative investments and opinion is poor.	Comparison done but knowledge of returns on alternative investments and opinion not clear.	Comparison well done indicating knowledge of returns on alternative investments and opinion.
Comment on degree of financial risk as indicated by the debt/equity ratio.	No valid explanation of risk or gearing.	Risk and/or gearing mentioned, but poorly explained.	Risk and/or gearing mentioned, but not convincingly explained.	Clear explanation of risk and gearing including consideration of interest rates.

TASK 7.13 Partners' returns & Gearing

7.13.1

GENERAL LEDGER OF CR TRADERS BALANCE SHEET ACCOUNTS SECTION CURRENT ACCOUNT: CHETTY

Dr					B					Cr				
20.4					20.3									
Feb	28	Drawings: Chetty	GJ	244 000	Mar	1	Balance	b/d						6 000
		Balance	c/d	14 000	20.4									
					Feb	28	Salary: Chetty*	GJ						120 000
							Interest on capital	GJ						80 000
							Appropriation	GJ						60 000
				266 000										266 000
					20.4									
					Mar	1	Balance	b/d						14 000

* $[700\ 000 \times 10\% \times \frac{6}{12}] + [900\ 000 \times 10\% \times \frac{6}{12}] = 35\ 000 + 45\ 000 = 80\ 000$

7.13.2 Calculate the percentage return earned by the business for the year ended 28 February 20.4.

$$\text{Average equity} = \frac{[700\ 000 + 6\ 000 + 900\ 000 + 14\ 000] + [500\ 000 - 8\ 000 + 700\ 000 + 8\ 000]}{2}$$

$$= \frac{1\ 620\ 000 + 1\ 200\ 000}{2} = \frac{2\ 820\ 000}{2} = R1\ 410\ 000$$

$$\frac{486\ 000}{1\ 410\ 000} \times \frac{100}{1} = 34.3\%$$

7.13.3 Calculate the percentage return earned by each partner for the year ended 28 February 20.4.

Chetty:

$$\text{Earnings} = 120\ 000 + 80\ 000 + 60\ 000 = R260\ 000$$

$$\text{Average equity} = \frac{(700\ 000 + 6\ 000 + 900\ 000 + 14\ 000)}{2} = R810\ 000$$

$$\frac{260\ 000}{810\ 000} \times \frac{100}{1} = 32.1\%$$

Robb: Earnings = 140 000 + 10 000 + 60 000* = R210 000 Average equity = (500 000 - 8 000 + 700 000 + 8 000) ÷ 2 = R600 000 $\frac{210\ 000}{600\ 000} \times \frac{100}{1} = 35\%$ *140 000 - 80 000 = 60 000 OR (500 000 x 10% x $\frac{6}{12}$) + [700 000 x 10% x $\frac{6}{12}$] = 60 000	
7.13.4	Calculate the debt : equity ratio for 20.4.
600 000 : (900 000 + 700 000 + 14 000 + 8 000) 600 000 : 1 622 000 0.4 : 1	

7.13.5 Comment on your calculations above.

SUGGESTED RUBRIC

Criterion:	Level 1	Level 2	Level 3	Level 4
Comparison of financial indicators to previous year.	No valid comparison done to previous year.	One or two indicators compared explicitly to previous year.	Three indicators compared explicitly to previous year.	All four indicators compared explicitly to previous year.
Comparison of Partner A's return to Partner B's return.	No valid comparison done between the partners.	Comparison done but poor explanation on the differential between the partners.	Comparison done but differential between the partners not convincing.	Comparison well done highlighting the differential between the partners and possible reasons.
Comment on returns compared to returns on alternative investments.	No valid comment or comparison done.	Comparison done but knowledge of returns on alternative investments and opinion is poor.	Comparison done but knowledge of returns on alternative investments and opinion not clear.	Comparison well done indicating knowledge of returns on alternative investments and opinion.
Comment on degree of financial risk as indicated by the debt/equity ratio.	No valid explanation of risk or gearing.	Risk and/or gearing mentioned, but poorly explained.	Risk and/or gearing mentioned, but not convincingly explained.	Clear explanation of risk and gearing including consideration of interest rates.

7.13.6	In your opinion, should the business repay its loans as soon as possible? List the main points for and against this proposal, and explain your recommendation.
No. The return earned by the business exceeds the interest rate. It is advisable to make use of loans. The debt/equity ratio has remained constant, so there has been no increase in financial risk of borrowing.	

TASK 7.14

Partners' returns & Gearing

7.14.1

GENERAL LEDGER OF BESWIL TRADERS FINAL ACCOUNTS SECTION APPROPRIATION ACCOUNT

Dr					F3					Cr				
20.9					20.9									
Feb	28	Salary: Bester	GJ	100 000	Feb	28	Profit and loss a/c	GJ					335 500	
		Salary: Wilton	GJ	100 000										
		Bonus: Bester	GJ	20 000										
		Interest on capital	GJ	67 500										
		Current a/c: Bester	GJ	24 000										
		Current a/c: Wilton	GJ	24 000										
				335 500									335 500	

7.14.2 Calculate owners' equity at the beginning and end of the year, and calculate the average for the year.

	Beginning	End	Average
Capital: Bester	400 000	600 000	500 000
Current a/c: Bester	10 000	51 500	30 750
Capital: Wilton	320 000	480 000	400 000
Current a/c: Wilton	(9 000)	(65 000)	(37 000)
	721 000	1 066 500	893 750

7.14.3 Calculate the percentage return earned by the business for the 20.9 financial year.

$$\frac{335\,500}{893\,750} \times \frac{100}{1} = 37.5\%$$

7.14.4 Calculate the amount earned by each partner for 20.9.

Bester: $100\,000 + 20\,000 + 37\,500 + 24\,000 = \text{R}181\,500$
 Wilton: $100\,000 + 30\,000 + 24\,000 = \text{R}154\,000$

7.14.5 Calculate the percentage return earned by each partner for 20.9.

Bester: $\frac{181\,500}{500\,000 + 30\,750} \times \frac{100}{1} = 34.2\%$
 $\frac{181\,500}{530\,750} \times \frac{100}{1} = 34.2\%$

Wilton: $\frac{154\,000}{400\,000 - 37\,000} \times \frac{100}{1} = 42.4\%$
 $\frac{154\,000}{363\,000} \times \frac{100}{1} = 42.4\%$

7.14.6 Calculate the debt : equity ratio for 20.9.

$$360\,000 : 1\,066\,500 = 0.3 : 1$$

7.14.7 Comment on your calculations above.

Business' return has improved from 32% to 37.5%
 Bester's return has remained the same at 34%
 Wilton's return has improved from 29% to 42%
 The debt-equity ratio has declined from 0.6 : 1 to 0.3 : 1
 The business should make more use of borrowed capital – positive gearing.

7.14.8	Explain the manner in which each partner increased his/her capital.
Bester has contributed an extra R200 000 cash. Wilton has provided a vehicle worth R160 000.	
7.14.9	What is the profit-sharing ratio that is stipulated in the partnership agreement?
Bester : Wilton = 1 : 1	
7.14.10	The loan from Sharon Bester, Barry's cousin, is repaid in equal annual instalments on the same date each year. Explain how the loan will be treated in the financial statements for 20.9.
Non-current loans = R300 000 Current loans = R60 000	
7.14.11	Comment on the drawings and the current account balances of the partners at the end of the year. Should the partners be satisfied?
Bester will not be happy. He could have drawn R51 500 but did not. Wilton has overdrawn by R65 000. This is placing strain on the liquidity situation, and accounts for why Wilton is earning such a high percentage return. Effectively she has invested less in the business, while Bester has invested more.	
7.14.12	The partners wish to open a second branch. Suggest ways in which they can raise finance in order to do this. Should they take out further loans?
Consider: <ul style="list-style-type: none"> • Positive gearing effect – interest rate lower than return earned by the business. • Low cash situation – Debt : equity = 0.3 : 1 • Conclusion – make use of loan. 	

TASK 7.15 Partners' returns & Gearing

Suggested marking grid:

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Indicators	Some attempt to choose appropriate indicators with many errors.	Appropriate indicators with some errors.	Appropriate indicators are correctly calculated.	Very good insight shown in the selection of indicators that are correctly calculated.
Validity of interpretation	Some attempt to interpret the information.	Generally thorough interpretations but some flaws.	Thorough interpretation of indicators.	Interpretation shows great insight.
Communication of letter	Very simple letter written.	Some aspects of the letter are interesting.	Interesting, well presented letter.	Outstanding, very professional letter.

TASK 7.16 Partners' returns & Gearing

7.16.1	Which business earns the better net profit? What is the reason for this, bearing in mind that they are both efficient businesses.
GG Garbs earns the higher net profit as they have lower interest expense.	
7.16.2	Calculate the debt : equity ratio for each business.
AA Attire: 450 000 : 450 000 = 1 : 1 GG Garb: 90 000 : 810 000 = 0.1 : 1	

7.16.3	Calculate the percentage return earned by each business.
AA Attire:	$\frac{130\,500}{\frac{1}{2}[330\,000 + 450\,000]} \times \frac{100}{1}$ $\frac{130\,500}{390\,000} \times \frac{100}{1} = 33.5\%$
GG Garb:	$\frac{171\,100}{\frac{1}{2}[600\,000 + 810\,000]} \times \frac{100}{1}$ $\frac{171\,100}{705\,000} \times \frac{100}{1} = 24.3\%$
7.16.4	Which business would you choose to join as a one-third partner? Remember that you will have to contribute one-third of the equity (capital). Compare your decision and the reasons for this decision with those of the learner sitting next to you in class.
Consider points in favour of AA Attire: <ul style="list-style-type: none"> Higher percentage return. Positive gearing effect. Less capital to contribute ($\frac{1}{3}$ of R450 000 = R150 000, rather than $\frac{1}{3}$ of R810 000 = R270 000). 	
Consider points in favour of GG Garb: <ul style="list-style-type: none"> Safer investment – lower debt-equity ratio. If profits drop, then there is less strain on the business in repaying loans and paying interest. 	

TASK 7.17 Consolidation of all major financial indicators

No.	Description	Formula	Profitability	Liquidity	Solvency	Operating efficiency	Gearing & risk	Returns
1.	% gross profit on sales	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	✓			✓		
2.	% gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	✓			✓		
3.	% operating expenses on sales	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	✓			✓		
4.	% operating profit on sales	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	✓			✓		
5.	% net profit on sales	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$	✓			✓		
6.	Net assets	Assets – Liabilities			✓			
7.	Solvency ratio	Total assets : Total liabilities			✓			
8.	Net current assets	Current assets – Current liabilities		✓				
9.	Current ratio	Current assets : Current liabilities		✓				
10.	Acid-test ratio	(Receivables + Cash) : Current liabilities		✓				
11.	Stock turnover rate	$\frac{\text{Cost of sales}}{\text{Average stock}}$		✓		✓		
12.	Stock holding period	$\frac{\text{Average stock}}{\text{Cost of sales}} \times \frac{365}{1}$		✓		✓		
13.	Debtors collection period	$\frac{\text{Debtors}}{\text{Credit sales}} \times \frac{365}{1}$		✓		✓		

No.	Description	Formula	Profitability	Liquidity	Solvency	Operating efficiency	Gearing & risk	Returns
14.	Creditors payment period	$\frac{\text{Creditors}}{\text{Cost of sales}^*} \times \frac{365}{1}$		✓		✓		
	OR:	$\frac{\text{Creditors}}{\text{Credit purchases}} \times \frac{365}{1}$		✓		✓		
15.	% return on equity	$\frac{\text{Net profit}}{\text{Average equity}} \times \frac{100}{1}$						✓
16.	Amount earned by a partner	Partners' salary + Interest on capital + Share of remaining profit or – Share of remaining loss						✓
17.	% return earned by a partner	$\frac{\text{Amount earned by partner}}{\text{Partner's equity}} \times \frac{100}{1}$						✓
18.	Debt : equity ratio	Non-current liabilities : Owners' equity					✓	

TASK 7.18 ☼🌱 YO Gift Shop: Consolidation of all major financial indicators

7.18.1	(a) Calculate the following financial indicators from the Income Statement for 20.6 (the percentage in brackets relate to the previous year):
<p>Percentage gross profit on sales (20.5: 47.4%) $\frac{1\ 014\ 000}{2\ 366\ 000} \times \frac{100}{1} = 42.9\%$</p>	
<p>Percentage gross profit on cost of sales (20.5: 90%) $\frac{1\ 014\ 000}{1\ 352\ 000} \times \frac{100}{1} = 75\%$</p>	
<p>Percentage operating expenses on sales (20.5: 29.7%) $\frac{660\ 600}{2\ 366\ 000} \times \frac{100}{1} = 27.9\%$</p>	
<p>Percentage operating profit on sales (20.5: 12.8%) $\frac{353\ 400}{2\ 366\ 000} \times \frac{100}{1} = 14.9\%$</p>	
<p>Percentage net profit on sales (20.5: 10.1%) $\frac{313\ 000}{2\ 366\ 000} \times \frac{100}{1} = 13.2\%$</p>	
	(b) You are told that the total sales increased by R500 000 in 20.6. Comment on the financial indicators calculated in part (a) above. Should the partners be satisfied? Explain, quoting financial indicators to support your answer.
<p>The mark-up percentage dropped from 90% to 75% which led to an increase in customers and therefore sales went up by R500 000. This strategy worked well for the business. Although the percentage gross profit on sales decreased to 42.9% this was because of the lower mark-up percentage and increased total sales.</p>	
<p>The operating expenses were well-controlled. As a percentage of the bigger sales volume the expenses decreased from 29.7% to 27.9%. This increase in efficiency consequently led to the business earning an increased operating profit of 14.9% of sales, up from 12.8% in the previous year).</p>	

The net profit percentage on sales for 20.6 is 13.2% (up from 10.1%) due to the effect of the mark-up strategy, the control of the expenses and the lower interest on the loan (due to the significant decrease in the loan).

7.18.2 (a) Calculate the following financial indicators from the Balance Sheet for 20.6 (the ratios in brackets relate to the previous year):

Solvency ratio (20.5: 2.9 : 1)

$$(1\,641\,000 + 140\,000 + 400\,000) : (240\,000 + 218\,000)$$

$$2\,181\,000 : 458\,000 = 4.8 : 1$$

Current ratio (20.5: 5.4 : 1)

$$400\,000 : 218\,000 = 1.8 : 1$$

Acid-test ratio (20.5: 2.1 : 1)

$$(400\,000 - 225\,000) : 218\,000 \text{ OR } (170\,000 + 5\,000) : 218\,000$$

$$175\,000 : 218\,000 = 0.8 : 1$$

(b) Comment on the financial indicators calculated in part (a) above. Should the partners be satisfied? Explain, quoting financial indicators to support your answer.

The solvency ratio increased from 2.9 : 1 to 4.8 : 1 due to the significant decrease in the liabilities. This means that the business is in a much stronger solvency position as its assets outweigh the liabilities by almost 5 times.

The current ratio has decreased significantly from 5.4 : 1 to 1.8 : 1 due to the decrease in all the current assets and the high bank overdraft in 20.6. However, the business is still liquid as the current assets are almost double the current liabilities. The business has financial assets which can be cashed in, or it can increase loans in the event of an emergency.

The acid-test ratio has reduced from 2.1 : 1 to 0.8 : 1 but the business might be a lot more efficient in managing its resources now because the debtors have decreased significantly despite the increase in sales. The business should be able to manage as the liquid assets are 80% of the current liabilities, and it does have other assets that it can use in the medium to long-term to repay the bank overdraft.

7.18.3 (a) Calculate the following financial indicators relating to working capital (net current assets) for 20.6 (the days in brackets relate to the previous year):

Stock holding period (20.5: 44 days)

$$\frac{\frac{1}{2}[225\,000 + 285\,000]}{1\,352\,000} \times \frac{365}{1}$$

$$\frac{255\,000}{1\,352\,000} \times \frac{365}{1} = 68,8 \text{ days}$$

Debtors' collection period (20.5: 69 days)

$$\frac{\frac{1}{2}[170\,000 + 405\,000]}{2\,366\,000 \times 50\%} \times \frac{365}{1}$$

$$\frac{287\,500}{1\,183\,000} \times \frac{365}{1} = 88,7 \text{ days}$$

Creditors' payment period (20.5: 60 days)

$$\frac{\frac{1}{2}[162\,000 + 138\,000]}{352\,000} \times \frac{365}{1}$$

$$\frac{150\,000}{1\,352\,000} \times \frac{365}{1} = 40,5 \text{ days}$$

OR

$$\frac{\frac{1}{2}[162\,000 + 138\,000]}{1\,292\,000} \times \frac{365}{1}$$

$$\frac{150\,000}{1\,292\,000} \times \frac{365}{1} = 42,4 \text{ days}$$

	(b) Comment on the financial indicators calculated in part (a) above. Should the partners be satisfied? Explain, quoting financial indicators to support your answer.
<p>The stock holding period increased from 44 days to 69 days, which means that more stock is being kept in relation to goods sold. This business should not run out of stock.</p> <p>The debtors collection increased from 69 days to 89 days. This means that debtors are not being well-controlled despite the increase in sales. The partners can still try to get this figure down to the normal credit terms of 30 days.</p> <p>The creditors are being paid faster, now in 40 (or 42) days compared to the 60 days of the previous year. The creditors will be happier with this, and it might be the reason for the bank overdraft in 20.6.</p>	
7.18.4	(a) Calculate the debt / equity ratio for 20.6 (the ratio for the previous year was 0.4 : 1).
$240\ 000 : (1\ 520\ 000 + 203\ 000) = 0.1 : 1$	
	(b) Comment on the debt / equity ratio. Should the partners be satisfied? Explain, quoting financial indicators to support your answer.
<p>The debt/equity ratio has dropped from 0.4 : 1 to 0.1 : 1 which indicates a lower degree of financial risk in 20.6. The R400 000 decrease in the loan has led to a significant saving on interest expense. However the interest on the loan is 11.5% and as the business is earning a bigger return than this, it might be profitable to make use of more loans, particularly if these can be used to replace the overdraft where interest rates are a lot higher. The business could gear up profits even further if they make use of loans.</p>	
7.18.5	(a) Calculate the following financial indicators relating to the percentage returns for 20.6 (the percentage in brackets relate to the previous year):
<p>% Return earned by the business (20.5: 16.5%)</p> $\frac{313\ 000}{\frac{1}{2}[1\ 520\ 000 + 1\ 400\ 000 + 203\ 000 + 70\ 000]} \times \frac{100}{1}$ $\frac{313\ 000}{1\ 596\ 500} \times \frac{100}{1} = 19.6\%$	
<p>% Return earned by Young (20.5: 16%)</p> $\frac{196\ 000}{\frac{1}{2}[800\ 000 + 800\ 000 + 126\ 000 + 50\ 000]} \times \frac{100}{1} = 19.6\%$ $\frac{196\ 000}{888\ 000} \times \frac{100}{1} = 22.1\%$	
<p>% Return earned by Old (20.5: 17%)</p> $\frac{117\ 000}{\frac{1}{2}[720\ 000 + 600\ 000 + 77\ 000 + 20\ 000]} \times \frac{100}{1}$ $\frac{117\ 000}{708\ 500} \times \frac{100}{1} = 16.5\%$	
	(b) Comment on the percentage returns calculated in part (a) above. Should the partners be satisfied? Explain, quoting financial indicators to support your answer.
<p>Yes, they should be satisfied because all of these returns exceed returns on alternative investments.</p> <p>The business' return increased from 16.5% to 19.6% which indicates a positive trend. Young's return has improved from 16% to 22.1% which is now a very good return. Old's return decreased slightly from 17% to 16.5% and he is now earning a significantly lower return than Young. This is probably due to the increase in his capital investment of R120 000 as the interest on capital appears to be low (5%).</p> <p>The profit-sharing ratio is 3 : 2 while there is only a 10% difference in their capital. Old is earning a significantly lower salary and bonus than Young is, which might be based on the hours worked by them, but he might want to ask for a change in the profit sharing ratio to approximately 1 : 1 to address the imbalance in their returns.</p>	

TASK 7.19
M & M Toy Shop: Analysis & interpretation, Internal control and Business ethics
7.19.1

	Calculation	20.6	20.5
Percentage of gross profit on cost of sales	$\frac{311\,040}{777\,600} \times \frac{100}{1}$	40%	↑ 30%
Percentage of operating expenses on sales	$\frac{320\,140}{1\,088\,640} \times \frac{100}{1}$	29.4%	↑ 26%
Percentage of operating profit on sales	$\frac{78\,900}{1\,088\,640} \times \frac{100}{1}$	7.2%	↑ 6%
Percentage of net profit on sales	$\frac{54\,270}{1\,088\,640} \times \frac{100}{1}$	5%	↑ 3%
Percentage of return on owners' equity	$\frac{54\,270}{\frac{1}{2}[220\,000 + 196\,000 + 12\,600 + 6\,000]} \times \frac{100}{1}$ $\frac{54\,270}{217\,300} \times \frac{100}{1}$	25%	↑ 17%
Percentage return: Mickey	$\frac{6\,385}{\frac{1}{2}[160\,000 + 130\,000 + 5\,000 + 1\,385]} \times \frac{100}{1}$ $\frac{6\,385}{148\,193} \times \frac{100}{1}$	4.3%	↓ 12%
Percentage return: Minnie	$\frac{47\,885}{\frac{1}{2}[36\,000 + 90\,000 + 1\,000 + 11\,215]} \times \frac{100}{1}$ $\frac{47\,885}{69\,108} \times \frac{100}{1}$	69.3%	↑ 30%
Solvency ratio	592 200 : 359 600	1.6 : 1	1.5 : 1
Debt-equity ratio	230 000 : 232 600	1 : 1	↓ 1.3 : 1
Current ratio	342 200 : 129 600	2.6 : 1	↓ 3.1 : 1
Acid-test ratio	(22 000 + 61 000) : 129 600 83 000 : 129 600	0.6 : 1	↓ 1.1 : 1
Stock turnover rate	$\frac{777\,600}{\frac{1}{2}[259\,200 + 247\,500]}$ $\frac{777\,600}{253\,350}$	3 times	3 times
Period of stock on hand	$\frac{259\,200}{777\,600} \times \frac{365}{1}$	122 days	126 days
	OR $\frac{259\,200}{789\,300} \times \frac{365}{1}$	120 days	126 days
Debtors collection period	$\frac{22\,000}{108\,864} \times \frac{365}{1}$	74 days	↑23 days

	Calculation	20.6	20.5
Creditors payment period	$\frac{129\ 600}{777\ 600} \times \frac{365}{1}$	61 days	61 days

7.19.2	Employee unhappiness about the increases in remuneration.
R206 800 compared to R163 000 represents a 27% increase – this significantly exceeds the inflation rate. The employees might mention that their salaries in the past were low, or that the profits went up by more than 87%. The owners will probably mention that the employees earned more out of this business than the owners did, and that if this business does not earn a better return for the owners it might as well close down in which case they will lose their jobs.	
7.19.3	The business changed its mark-up % in 20.6. Was this a good strategy? Explain.
Mark-up percentage in 20.6 is 40% compared to 30% in 20.5. This is a good strategy because the cost of sales increased from R714 000 to R777 600. Increasing the mark-up percentage did not negatively affect the operating profit.	
7.19.4	Comment on the operating efficiency and internal control exercised by the business
<ul style="list-style-type: none"> • Compare operating expenses of 20.5 to 20.6 (26% → 29.4%, unfavourable / unsatisfactory.) • Compare operating profits of 20.5 to 20.6 (6% → 7%, favourable / satisfactory.) • There is an improvement in the expenses. • There is an improvement due to the mark-up strategy. • The control of debtors declined (23 days → 74 days) • Control of stock and creditors has generally remained constant. • Comment on specific concerns, e.g. stock written off, control of individual expenses, etc. 	
7.19.5	Quote the appropriate indicators and comment on the returns. Should the partners be satisfied?
<ul style="list-style-type: none"> • Compare the business' return in 20.5 to 20.6 (17% → 25%, favourable.) • Compare to alternative returns (25% exceeds interest rates from fixed deposits). • Compare Mickey's return in 20.5 to 20.6 (12% → 4.3%, unfavourable.) • Compare Minnie's return in 20.5 to 20.6 (30% → 69.3%, favourable.) <p>Mickey should not be happy. His return is very low in relation to the amount he has invested. The partnership agreement should possibly be re-negotiated. Although Minnie earned a high return, she is not earning much if her partners' salary is excluded.</p>	
7.19.6	In your opinion, is this advisable based on the figures in the financial statements? Explain.
<p>The following points should be considered:</p> <ul style="list-style-type: none"> • The profits are too low at the moment. • Decide on strategies to increase profits. • Decide on strategies to decrease expenses. 	
7.19.7	Comment on the liquidity situation of the business.
<p>Consider:</p> <ul style="list-style-type: none"> • Current ratio = 3.1 : 1 → 2.6 : 1 (favourable) • Acid-test ratio = 1.1 : 1 → 0.6 : 1 (favourable, but this is a concern.) • Stock turnover rate = 3 times → 3 times (the business should try and improve this rate.) • Debtors collection period = 25 days → 74 days (unfavourable, there should be tighter control on the debtors.) • Collection payment period = 61 days → 61 days (this is not a problem if there are credit terms.) <p>Liquidity will be a concern if the stock cannot be sold. The current ratio is high while the acid-test ratio is low.</p>	

7.19.8	Quote the appropriate indicator/s and comment on the solvency situation of the business. Is this satisfactory?
Assets are higher than liabilities by 1.6 : 1. The solvency has remained satisfactory and the business should have no problem in paying off all the debts.	
7.19.9	Should this business continue to rent their premises, or should they buy the property? The owner of the property might sell for R410 000.
<p>If the premises are rented:</p> <ul style="list-style-type: none"> • No repairs and maintenance need to be paid for. • Rent is less costly than the interest on a bond. <p>If the premises are bought:</p> <ul style="list-style-type: none"> • Bond on R410 000 will be approximately R4 100 p.m. (R49 200 p.a.) • Repairs and maintenance costs will increase. • However, the business will earn capital growth on the value of the premises. 	

TASK 7.20 Dullstroom CD Shop: Analysis & interpretation, Internal control & Business ethics

Group member A

	20.9	20.8	Comment
Gross profit on cost of sales	72.0%	82.0%	There was a decline, however, this led to an increase in sales and gross profit. This worked well. More customers due to lower prices.
Operating expenses on sales	24.4%	29.4%	There was an improvement, indicating that the operating expenses were well controlled. Although the operating expenses increased, relative to sales the business economised.
Operating profit on sales	21.7%	20.6%	There was an increase in the profit by R185 920 (34% increase) due to improved mark-up and economies in the operating expenses.
Net profit on sales	16.1%	13.2%	There has been an improvement due to increased profitability and efficiency and the positive gearing effect.
Salaries and wages on sales	15.5%	18.9%	The increase in Salaries & wages was only 4% whereas the sales increased by 27%. The Salaries & wages did not increase at the same rate as the Sales. The workers are being given an increase lower than the inflation rate.

Favourable trends	Unfavourable trends	Relatively constant
Repairs (- 28.8%)	Rates (+ 12.8%)	Salaries and wages
Advertisements (- 15.8%)	Telephone (+ 6.5%)	Insurance
Interest expense (- 2.8%)	Packing material (+ 69.2%)	Bank charges
Sundry expenses (- 46.4%)	Depreciation (+ 32.4%)	Trading stock deficit
	Staff training (+ 36.4%)	

Suggested marking grid:

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Ability to select the appropriate indicators.	No or few pertinent indicators were selected.	Some pertinent indicators were selected.	Most of the pertinent indicators were selected.	All pertinent indicators were selected.
Ability to calculate all indicators accurately.	No or few calculations correctly done.	Some calculations correctly done.	Most calculations correctly done.	All indicators correctly calculated.
Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.
Ability to assess sustainability in a convincing and interesting manner.	None or few matters or concerns are valid – poorly communicated.	Some matters and concerns are valid and communicated in a satisfactory manner.	Most matters and concerns are valid and well communicated.	Internal control matters and concern for the interests of all stakeholders is convincingly communicated.

Group member B

	20.9	20.8	Comment
Solvency ratio	2.3 : 1	2.2 : 1	This has been constant and there are no solvency problems.
Current ratio	3.4 : 1	10.5 : 1	Favourable. This was too high in 20.8 but has improved. Although, it has improved it is still too high.
Acid-test ratio	0.8 : 1	1.1 : 1	Unfavourable. This is still acceptable but it must not decline any further.
Stock turnover rate	3.2 times	1.8 times	Favourable. More efficient levels.
Stock holding period	114 days	199 days	Favourable. More efficient levels.
Debtors collection period	45 (on year-end debtors) 34 days (on average debtors)	29 days	Becoming unfavourable. Some debtors are starting to take too long to settle their debts. Must not allow this to increase beyond 30 days.
Creditors payment period	45 days (using COS) Or 56 days (using credit purchases)	50 days	Acceptable as it is still within 60 days credit terms, but could still make full use of the 60 day period).

See suggested marking grid above.

Group member C

	20.9	20.8	Comment
Percentage return – business	26.5%	18.5%	Positive trend. Compare to alternative returns (e.g. fixed deposit.)
Percentage return – Dozi	27.4%	14.0%	Increased significantly.
Percentage return – Idle	24.8%	25.0%	Almost no change.
Debt equity	0.7 : 1	0.8 : 1	Positive gearing compares favourable to 26.5%.
Income retained	1.0%	8.0%	Decreased. Very little being reinvested in the business (mainly due to Idle over-drawing).
Drawings: Dozi	79.4%		
Drawings: Idle	139.3%		

See suggested marking grid above.

TASK 7.21 E & L Paint Shop: Analysis & interpretation, Internal control & Business ethics

7.21.1	Consider the change in the mark-up.
	(a) Calculate the mark-up percentage for 20.4 (the mark-up % for 20.3 was 70%).
	$\frac{2\ 160\ 000}{2\ 700\ 000} \times \frac{100}{1} = 80\%$
	(b) The change in the mark-up percentage obviously caused a problem for the business. Explain what happened and how the problem can be solved.
	The extra 10% on the mark-up has apparently caused customers to shop elsewhere. The sales decreased significantly in total from R5 950 000 to R4 860 000, which caused the gross profit to drop by R290 000.
7.21.2	Apart from selling paint the partners decided to offer a painting service since 20.3
	(a) Calculate the profit made from the painting contracts for 20.4 (the corresponding figure for 20.3 was R90 000).
	$R720\ 000 - 54\ 000 - 144\ 000 = R522\ 000$
	(b) The painters are threatening to resign. What appears to be the problem? What advice would you offer to the partners?
	The business has taken advantage of the painters they have employed. Although the fee income has risen 4 times from R180 000 to R720 000, they are each earning only R27 000 (up from R18 000). The painters' wages were 40% of the profit earned on the painting contracts in 20.3, but despite their increases, this percentage dropped to 10.3% in 20.4. These financial statements are probably not published, so the painters are probably sensing from the size of the jobs they are doing that they are not being fairly paid or they are being over-worked. Advice: Consider employing another 2 or 3 painters and determine a more reasonable way of paying the painters, e.g. if painting contract income goes up by a certain percentage, so should the wages paid to the painters in total.
	(c) In March 20.4 the municipality levied a fine on the partners of R200 000. The painters had been disposing of the paint waste in the local river and the fish and plant life had died. What would you say to the partners?
	The partners have been negligent. They should not allow their business to abuse the environment as someone else (i.e. the municipality) would have to clean up the mess, and someone else might be bearing the cost of the clean-up (i.e. the residents who pay rates to the municipality). The municipality has done the right thing by levying the fine. The partners must ensure that their employees clean up their mess properly and responsibly, even if it costs more to dispose of the waste in the proper way.
7.21.3	Consider the salaries and wages to the manager and shop assistants. There were 4 shop assistants in 20.3. One of them resigned and was not replaced.
	(a) Are the partners likely to experience any problem relating to these employees?
	The salaries per assistant increased from R50 000 to R53 000, an increase of 6%. They might not be happy with this despite the fact that it is approximately equal to the inflation rate in current times. The goods sold in 20.4 were 77% of those sold in 20.3 (judging from cost of sales), so the partners should make them understand that if customers decline, then workers might have to be retrenched accordingly. The manager received only a 2% increase so it is clear he will not be happy. These financial statements might not be published for all to see, but the partners are earning substantial profits despite not working at the shop. If the employees sense that they are not being fairly treated, they might well resign or become de-motivated and less efficient.

	(b) Explain the advice you would give to the partners in this regard.
<p>Assess the work that is being done by the manager and the assistants. If they do not deserve bigger increases, they must know what is expected of them in future. They cannot be blamed for results that are beyond their control, e.g. the increase in the mark-up percentage was probably decided by the partners. If so, the manager cannot be blamed for the drop in the number of customers. However, if poor service is the reason for the decline in sales, then they must be reprimanded. If the employees have all done their best, they need to be fairly rewarded.</p>	
7.21.4	Consider the donations made by the partners through this business.
	(a) Why would the partners have made a sizable donation to Toti Primary School in 20.3?
<p>It is appropriate for businesses to support the local community as the community in turn supports the business, especially if profits are significant. It is disappointing that something similar has not happened in 20.4. Maybe this is what is causing a drop in goodwill from the community in 20.4.</p>	
	(b) GodfreyProjects.com is an organisation controlled by Gary Godfrey who is the campus manager of a local university. He has promised to buy paint exclusively from E & L Paint Shop when they paint the university. What comment would you make on the R100 000 in the Income Statement?
<p>This is obviously a bribe which is unethical. The partners and Gary Godfrey can face criminal charges. The other paint suppliers in the area have a right to complain bitterly about this situation.</p>	
7.21.5	Consider the working capital items, i.e. stock, debtors and creditors. Have these items been efficiently controlled or not? Explain.
<p>The stock turnover rate has increased from 8 to 12 times, which means they have enough stock to last 1 month. Whilst this means the stock is being efficiently controlled, they must ensure that the stock does not run out, especially if suppliers have production problems. The trading stock deficit dropped from R70 000 to R54 000 which indicates better control but is still not ideal, especially for large items like paint. The debtors are not being properly controlled. The collection period has worsened from 35 days to 50 days, whereas they should be paying in accordance with normal credit terms of 30 days. Bad debts increased from R36 800 to R66 300 which indicates poor control. Discount allowed dropped from R13 000 to R5 000 and this could be used as a strategy to make debtors pay more quickly. The creditors need not be paid so quickly. They are being paid after 15 days whereas normal credit terms of 30 days were applied in 20.4.</p>	
7.21.6	Consider the other operating expenses not mentioned above.
	(a) Identify those that <u>have been</u> well-controlled and provide evidence in each case.
<p>Electricity & water dropped from R19 500 to R17 300. Telephone dropped from R14 600 to R13 200. Property expenses dropped from R64 000 to R53 000 (but not wise if they are not maintaining the property properly, if rates are included here, note that these are beyond the control of the business). Sundry expenses have not shown a significant increase, so there does not appear to be a problem in this regard.</p>	
	(b) Identify those that <u>have not been</u> well-controlled and provide evidence in each case.
<p>Entertainment of clients has increased from R8 000 to R35 000. Security guards dropped from R36 000 to R18 400 (probably not wise). Motor vehicle expenses increased from R32 000 to R56 000. Depreciation probably due to extra assets bought, so does not get controlled in the same way as expenses which affect cash.</p>	

(c) What advice would you offer the partners?

Keep up the good control of those items that have been well-controlled.

Compliment the manager and the employees on their roles in this regard, especially as they will have used the electricity and telephone.

Investigate reasons for the worsening situation of those expenses that have not been well controlled, e.g. are the entertainment expenses genuine, are partners' private car expenses being legally included in these figures, what new assets caused the increase in depreciation, are they needed for the business to operate?

TASK 7.22 **Bezerk Clothing: Interpretation of information, Internal control & Business ethics**

Expected responses:

Mark-up and profitability

- Prices have been increased. Mark-up percentage has increased from 50% to 100%.
- Sales increased by 22% in 20.7, probably because of increased advertising (from 8% to 15% on sales), the higher mark-up or the change in the lines of clothing sold, or a combination of these factors.
- Operating profit has increased by 30%, so the overall effect has been positive.
- Operating expenses on sales has a favourable trend from 40% to 30% indicating good control despite the increase in sales volume.
- Certain individual line items showed good control, e.g. electricity & water (3% to 1% on sales), trading stock deficit (4% to 1%).
- A remuneration policy needs to be investigated and implemented as the managers and the assistants are not being treated equally (10% increase compared to 4%).
- Interest is having a positive gearing effect on the net profit. Although, the operating profit on sales decreased from 15% to 12%, there was a positive trend in the net profit on sales from 8% to 10%.

Solvency

- The business is solvent. Assets are higher than liabilities by 2.4 : 1.

Liquidity and working capital

- The current ratio has improved from the previous year as it has declined from 3.5 : 1 to 2 : 1.
- The acid-test ratio has decreased from 1.6 : 1 to 0.7 : 1. Although this is relatively acceptable for the moment, it could also lead to liquidity problems if this declines further.
- The stock turnover rate (1.5 to 3.6 times p.a.), and stock levels (240 to 100 days) have improved, although for a clothing store keeping more than 3 months' stock could be risky.
- Debtors are extremely well controlled (paying in 22 days which is lower than 30 days' normal credit terms).
- Payment of creditors is slow. This has improved from 90 days to 70 days, but this could still lead to a bad reputation.

Returns and gearing

- The business' return has increased from 18% to 24%.
- This exceeds rates in alternative investments, such as fixed deposits and shares in companies.
- Beeson's return is exceptionally high, while Zerkov's has declined. The partnership agreement has to be renegotiated or the salaries must be removed from this calculation to get a clear indication.
- The business has retained 40% of the profits earned which help the debt-equity ratio and this is good for future expansion of the business.
- Positive gearing effect obviously exists. The interest rates on the loans (approximately 12% these days) are lower than the profitability rates within the business (with bottom line return on equity now being 24% which is good).
- The debt-equity ratio is not a problem under these conditions although it has increased from 0.2 : 1 to 0.5 : 1 thereby increases the degree of potential financial risk.

Governance issues, e.g. other matters relating to whether or not the business has been well run by the partners, internal control, business ethics, treatment of other stakeholders (employees, customers, the community) or the environment.

- Consider change in mark-up (re customers). This is now 100%,
- Consider the fact that the business is now selling locally-made clothes (84%) compared to only 36% in the previous year. This helps local industries and helps provides jobs for South Africans.
- Consider increases granted to managers and assistants (re employees)
- Consider economies in electricity and water. These are scarce resources in this country.
- Consider donations made to the HIV Aids Clinic. These would benefit local communities but it is disappointing that this appears to have been discontinued (now 0% compared to 2% in the previous year).

Suggested marking grid:

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Ability to select the appropriate indicators.	No or few pertinent indicators were selected.	Some pertinent indicators were selected.	Most of the pertinent indicators were selected.	All pertinent indicators were selected.
Ability to calculate all indicators accurately.	No or few calculations correctly done.	Some calculations correctly done.	Most calculations correctly done.	All indicators correctly calculated.
Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.

TASK 7.23 Simzama Sports: Composite Task on preparing, analysing and interpreting financial statements

7.23.1 SIMZAMA SPORTS SHOP

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.2

	Note	
Sales (1 462 500 – 23 900 – 4 320)		1 434 280
Cost of sales (1 000 000 – 3 200 ^[3])		(996 800)
Gross profit		437 480
Fee income (101 500 - 208)		101 292
Other income		64 094
Rent income (70 000 – 10 000)		60 000
Commission income (3 000 + 720)		3 720
Provision for bad debts adjustment		374
Gross operating income		602 866
Less: Operating expenses		(431 699)
Wages: repairman (54 000 + 1 375)		55 375
Salaries & wages: shop workers (210 000 + 2 300)		212 300
Consumable stores (60 000 - 600)		59 400
Advertising		26 250
Delivery expenses (2 050 - 275)		1 775
Discount allowed (750 - 20)		730
Stationery & printing (9 250 - 450)		8 800
Bank charges (9 100 + 540 + 21)		9 661
Sundry expenses (16 000 - 225 + 38)		15 813
Loss on disposal of asset (6 400 - 1 973 - 3 000)		1 427
Depreciation (533 ^[1] + 5 960 ^[2] + 29 000)		35 493
Loss due to theft (2 250 – 1 750)		500
Bad debts		750
Trading stock deficit		3 425
Operating profit		171 167
Interest income	1	4 250
Profit before interest expense		175 417
Interest expense	2	(57 391)
Net profit for the year	8	118 026

^[1] $6\,400 \times 10\% \times \frac{10}{12}$

^[2] $66\,000 - 6\,400 \times 10\%$

^[3] $4\,320 \times \frac{100}{90} = 4\,800$

$4\,800 \times \frac{100}{150} = 3\,200$

**SIMZAMA SPORTS SHOP
BALANCE SHEET AS AT 28 FEBRUARY 20.2**

ASSETS	Note	
Non-current assets		970 220
Fixed assets	3	942 720
Financial assets		27 500
Current assets		367 141
Inventories	4	305 600
Trade & other receivables	5	57 791
Cash & cash equivalents	6	3 750
TOTAL ASSETS		1 337 361
EQUITY & LIABILITIES		
Owners' equity		817 726
Capital	7	825 000
Current accounts	8	(7 274)
Non-current liabilities		373 586
Mortgage loan (388 240 + 4 206 – 5 900 – 12 960)		373 586
Current liabilities		146 049
Trade & other payables	9	106 823
Bank overdraft (33 750 + 540 + 21 + 485 + 5 900 + 280 – 1 750)		39 226
TOTAL EQUITY & LIABILITIES		1 337 361

**SIMZAMA SPORTS SHOP
NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 20.2**

1. INTEREST INCOME		
from investments		3 250
from current bank account		1 000
		4 250
2. INTEREST EXPENSE		
on mortgage loan (48 600 + 4 206)		52 806
on overdraft (4 100 + 485)		4 585
		57 391

3. FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning	820 000	49 000	44 240	913 240
Cost	820 000	119 000	66 000	1 005 000
Accumulated depreciation	-	(70 000)	(21 760)	(91 760)
Movements	38 400	2 000	(10 920)	29 480
Additions at cost	38 400	31 000	-	69 400
Disposals at carrying value*	-	-	(4 427)	(4 427)
Depreciation	-	(29 000)	(6 493)	(35 493)
Carrying value at end	858 400	51 000	33 320	942 720
Cost	858 400	150 000	59 600	1 068 000
Accumulated depreciation	-	(99 000)	(26 280)	(125 280)

*6 400 – (1 440 + 533) = 6 400 – 1 973 = 4 427

4. INVENTORIES		
Trading stock (308 000 + 3 200 - 2 250 - 800 + 275 - 3 425)		305 000
Consumable stores on hand		600
		305 600
5. TRADE AND OTHER RECEIVABLES		
Net trade debtors		54 646
Trade debtors (62 500 - 4 320 - 208 + 300 - 750)		57 522
Provision for bad debts (3 250 - 374)		2 876
Income receivable (720 + 1 750)		2 470
Prepaid expenses (450 + 225)		675
		57 791
6. CASH AND CASH EQUIVALENTS		
Savings account		2 500
Cash float		750
Petty cash		500
		3 750

7. CAPITAL	Simm	Zama	Total
Balance at the beginning of the year	450 000	225 000	675 000
Contribution of capital during the year	100 000	50 000	150 000
Withdrawal of capital during the year	0	0	0
Balance at the end of the year	550 000	275 000	825 000

8. CURRENT ACCOUNTS	Simm	Zama	Total
Net profit for the year	38 684	79 342	118 026
Partners' salaries	60 000	60 000	120 000
Partner's bonus	0	30 000	30 000
Interest on capital ^[2]	25 000	12 500	37 500
Primary distribution of profits	85 000	102 500	187 500
Final distribution of profits	(46 316)	(23 158)	(69 474)
Drawings during the year ^[1]	(48 500)	(79 300)	(127 800)
Retained income for the year	(9 816)	42	(9 774)
Retained income at beginning of year	(17 500)	20 000	2 500
Retained income at end of year	(27 316)	20 042	(7 274)

^[1] Simm: $45\,500 + 3\,000 = 48\,500$

Zama: $78\,500 + (1\,200 \times \frac{100}{150} = 800) = 79\,300$

^[2] Simm: $(450\,000 \times 5\% \times \frac{6}{12}) + (550\,000 \times 5\% \times \frac{6}{12})$
 $11\,250 + 13\,750 = 25\,000$

Zama: $(225\,000 \times 5\% \times \frac{6}{12}) + (275\,000 \times 5\% \times \frac{6}{12})$
 $5\,625 + 6\,875 = 12\,500$

9. TRADE AND OTHER PAYABLES	
Trade creditors (72 500 + 1 750)	74 250
Current portion of loan	12 960
Deferred income	10 000
Creditors for salaries (1 375 + 2 300 - 813 - 38)	2 824
SARS (PAYE) (5 500 + 813)	6 313
UIF (400 + 38 + 38)	476
	106 823

7.23.2

(a)	% Gross profit on sales $\frac{437\,480}{1\,434\,280} \times \frac{100}{1}$	20.2 31%	20.1 29%
(b)	% Gross profit on cost of sales $\frac{437\,480}{1\,434\,280} \times \frac{100}{1}$	44%	40%
(c)	% Operating profit on sales $\frac{171\,167}{1\,434\,280} \times \frac{100}{1}$	12%	14%
(d)	% Operating expenses on sales $\frac{431\,699}{1\,434\,280} \times \frac{100}{1}$	30%	23%
(e)	% Net profit on sales $\frac{118\,026}{1\,434\,280} \times \frac{100}{1}$	8%	11%
(f)	Net assets	R817 726	R677 500
(g)	Solvency ratio 1 337 361 : (373 586 + 146 049) 1 337 361 : 519 635	2.6 : 1	2.8 : 1
(h)	Net current assets 367 141 – 146 049	R221 092	R145 000
(i)	Current ratio 367 141 : 146 049	2.5 : 1	1.5 : 1
(j)	Acid-test ratio (367 141 – 305 600) : 146 049 OR (57 791 + 3 750) : 146 049 61 541 : 146 049	0.4 : 1	0.6 : 1
(k)	Rate of stock turnover (note that stock at the beginning of the year was R221 000) $\frac{996\,800}{\frac{1}{2}(305\,000 + 221\,000)}$ $\frac{996\,800}{263\,000}$	3.8 times	6.2 times
(l)	Debt : equity ratio 373 586 : 817 726	0.5 : 1	0.6 : 1
(m)	Each partner's equity at beginning of year Simm: 450 000 – 17 500 Zama: 225 000 + 20 000	S = R432 500 Z = R245 000	Not needed
(n)	Each partner's equity at end of year Simm: 550 000 – 27 316 Zama: 275 000 + 20 042	S = R522 684 Z = R295 042	Not needed

(o)	% Return on equity for the business Average equity: $(432\ 500 + 245\ 000 + 522\ 684 + 295\ 042) \div 2 = 747\ 613$ $\frac{118\ 026}{747\ 613} \times \frac{100}{1}$	20.2	20.1
		16%	20%
(p)	Total amounts earned by each partner	S = R38 684 Z = R79 342	Simm: R61 000 Zama: R92 000
(q)	% Returns earned by each partner Simm: Average equity = $(432\ 500 + 522\ 684) \div 2 = 477\ 952$ $\frac{38\ 684}{477\ 952} \times \frac{100}{1}$ Zuma: Average equity = $(245\ 000 + 295\ 042) \div 2 = 270\ 021$ $\frac{79\ 342}{270\ 021} \times \frac{100}{1}$	S = 8.1%	Simm: 17%
		Z = 29.4%	Zama: 23%

Suggested marking grid:

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Ability to select the appropriate indicators.	No or few pertinent indicators were selected.	Some pertinent indicators were selected.	Most of the pertinent indicators were selected.	All pertinent indicators were selected.
Ability to calculate all indicators accurately.	No or few calculations correctly done.	Some calculations correctly done.	Most calculations correctly done.	All indicators correctly calculated.
PROFITABILITY & OPERATING EFFICIENCY: Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.
SOLVENCY & LIQUIDITY: Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.
GEARING & RISK: Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
RETURNS OF THE BUSINESS & THE OWNERS: Ability to interpret the indicators and communicate valid conclusions in a convincing and interesting manner.	None or few interpretations are valid – poorly communicated.	Some interpretations are valid and communicated in a satisfactory manner.	Most interpretations are valid and well communicated.	All interpretations are valid and convincingly communicated.
REPAIR SERVICE OFFERED: Ability to appreciate that there are costs which should be matched against the income, and conclude that this business is losing on this aspect, but may be used as a loss-leader to attract customers.	Few or no aspects identified, conclusion unsatisfactory.	Some aspects identified, conclusion satisfactory but not complete.	Most of the relevant aspects are identified, but conclusion not entirely convincing.	All income and expenses for the repair service correctly identified, with valid conclusion.
OVERALL ADVICE FOR IMPROVEMENT & SUSTAINABILITY	Suggestions have little or no validity.	Suggestions are satisfactory but might not focus on the major aspects.	Suggestions are valid, but not entirely convincing.	Suggestions are well thought out and are valid with convincing explanation, including points on internal control and concern for stakeholders and wider community.

TASK 7.24 **Kalahari Traders: Preparing financial statements from financial indicators**

KALAHARI TRADERS

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 28 FEBRUARY 20.7

CAPITAL	A. Alley	B. Bhengu	Total
Balance at the beginning of the year	360 000	240 000	<i>600 000</i>
Contribution of capital on 1 Sept 20.6	0	<i>100 000</i>	<i>100 000</i>
Withdrawal of capital 31 Dec 20.6	(50 000)	0	<i>(50 000)</i>
Balance at the end of the year	<i>310 000</i>	^[2] <i>340 000</i>	<i>650 000</i>

CURRENT ACCOUNTS	A. Alley	B. Bhengu	Total
Profit per Income Statement	<i>118 640</i>	<i>169 360</i>	288 000
Partners' salaries ^[1]	<i>72 000</i>	<i>96 000</i>	<i>168 000</i>
Partner's bonus	0	<i>17 280</i>	<i>17 280</i>
Interest on capital	<i>31 650</i>	26 100	<i>57 750</i>
Primary distribution of profits	<i>103 650</i>	<i>139 380</i>	<i>243 030</i>
Final distribution of profits	<i>14 990</i>	<i>29 980</i>	<i>44 970</i>
Drawings during the year	(120 000)	<i>(154 000)</i>	<i>(274 000)</i>
Retained income for year	<i>(1 360)</i>	<i>15 360</i>	<i>14 000</i>
Retained income at beginning of year	18 600	<i>(10 600)</i>	8 000
Retained income at end of year	<i>17 240</i>	4 760	^[3] <i>22 000</i>

[1] Alley: $6\ 000 \times 12 = 72\ 000$

Bhengu: $6\ 000 \times \frac{120}{90} \times 12 = 96\ 000$

[2] Interest on capital of Bhengu:

$$(9\% \times 240\ 000 \times \frac{6}{12}) + (9\% \times \frac{6}{12}) = R26\ 100$$

$$10\ 800 + 0.045X = R26\ 100$$

$$0,045X = R15\ 300$$

$$X = R340\ 000$$

Extension: It is also possible to work out the figures using partners' equity:

$$288\ 000 \times \frac{100}{45} = R640\ 000 \text{ (Average equity)}$$

$$\text{Total equity} = 640\ 000 \times 2 = R1\ 280\ 000$$

$$600\ 000 + 650\ 000 + 8\ 000 + \mathbf{22\ 000} = 1\ 280\ 000$$

TASK 7.25 Nokwe Stores: Preparing financial statements from financial indicators

NOKWE STORES INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME) FOR THE YEAR ENDED 28 FEBRUARY 20.6

		20.6	20.5
Sales	[1]	1 152 000	960 000
Cost of sales	[2]	(768 000)	(640 000)
Gross profit		384 000	320 000
Other income		55 680	62 800
Rent income	[4]	50 400	48 000
Commission income		5 280	14 800
Operating expenses		(278 400)	(267 600)
Salaries & wages	[5]	184 320	153 600
Other operating expenses		94 080	114 000
Operating profit	[6]	161 280	115 200
Interest income		6 075	6 075
Profit before interest expense		167 355	121 275
Interest expense		(13 355)	(8 275)
Net profit	[8]	154 000	113 000

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 28 FEBRUARY 20.6

ASSETS	20.6	20.5
Non-current assets	555 500	468 950
Fixed assets	488 000	401 450
Investment (Fixed deposit matures in 20.8) [7]	67 500	67 500
Current assets [10]	237 500	210 800
Inventories (all trading stock) [3]	123 500	80 000
Trade & other receivables (all trade debtors) [11]	47 500	72 300
Cash & cash equivalents	66 500	58 500
	793 000	679 750
EQUITY & LIABILITIES		
Owners' equity	580 000	520 000
Capital	550 000	500 000
Current accounts	30 000	20 000
Non-current liabilities	118 000	78 000
Loan from Bestbank (repayable 20.9) [9]	118 000	78 000
Current liabilities	95 000	81 750
Trade & other payables (all trade creditors) [12]	95 000	81 750
	793 000	679 750

Working:

- [1] $1\,152\,000 \times \frac{100}{120}$
- [2] $1\,152\,000 \times \frac{100}{150}$; $960\,000 \times \frac{100}{150}$
- [3] $320\,000 \div 8 = 40\,000$; $40\,000 \times 2 = 80\,000$
- [4] $4\,000 \times 12 = 48\,000$
 $[4\,000 \times 6] + [(4\,000 + 10\%) \times 6] = 50\,400$
- [5] $16\% \times 1\,152\,000 = 184\,320$; $14.5\% \times 960\,000$
- [6] $960\,000 \times \frac{12}{100} = 115\,200$; $1\,152\,000 \times \frac{14}{100} = 161\,280$
- [7] $6\,075 \times \frac{100}{9} = 67\,500$
- [8] $[580\,000 + 520\,000] \div 2 = 550\,000$
 $550\,000 \times \frac{28}{100} = 154\,000$; $154\,000 - 41\,000 = 113\,000$
- [9] $520\,000 \times 0.15 = 78\,000$; $78\,000 + 40\,000 = 118\,000$
- [10] $95\,000 \times 2.5 = 237\,500$
- [11] $95\,000 \div 1.2 = 114\,000$; $114\,000 - 66\,500 = 47\,500$
- [12] $72\,300 + 58\,500 = 130\,800 \div 1.6 = 81\,750$

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Identify information in the financial statements that is relevant to partners in a business.			
Identify information in the financial statements that is relevant to other stakeholders.			
Understanding the need to use financial indicators in interpreting financial statements.			
Understand the concepts of mark-up, profitability, solvency, liquidity, gearing and return.			
Understand what is meant by internal control, business ethics and sustainability.			
Use logical reasoning to calculate financial indicators for mark-up and profitability from the Income Statement.			
Use logical reasoning to calculate the financial indicator for solvency from the Balance Sheet.			
Use logical reasoning to calculate the financial indicators for liquidity and control of working capital items from the Balance Sheet.			
Use logical reasoning to calculate the financial indicators for returns earned by the business as a whole and by each partner from the current account note.			
Use logical reasoning to calculate the debt/equity ratio from the Balance Sheet.			
Basic and simple interpretation of the results of the financial statements of a partnership enterprise using financial indicators.			
More advanced analysis and interpretation of financial statements, including sustainability of a business.			

MODULE 8

FINANCIAL ACCOUNTING OF NON-PROFIT ORGANISATIONS (CLUBS)

Note to the Teacher:

The learners have already learnt the Accounting entries for sole trader and partnership businesses. It is important that they realise that a club is just another form of entity but now the profit motive is not important. Rather they aim to provide facilities to members. The costs that are incurred need to be offset against the income of the club. Generally, individuals or partners do not own clubs and the profits made are channelled back into the club.

While the majority of the entries are the same as what have already been learnt, you need to focus on what is different, i.e. some different ledger accounts, surplus as against a profit or deficit as against a loss, Receipts and Payments Statement, Income and Expenditure Statement, etc.

You can branch out from clubs to other forms of non-profit corporations, e.g. schools, charity concerns, etc. The learners can all relate to schools with their school fees, government grants and the expenses that have to be run. This could be a good opportunity to show the learners what it costs to run a school and that if textbooks, stationery, desks, etc. are destroyed, there needs to be an income to buy more – their parents have to pay increased school fees. Try to reinforce on the learners the need to be accountable and responsible for facilities they have the use of.

TASK 8.1 Definitions of Accounting concepts unique to non-profit organisations

Note to the Teacher:

The purpose of this Task is to enable the learners understand the accounting concepts unique to non profit organisations. It may be necessary after completion of this activity to go over the concepts again, especially with those learners who shy away from reading.

COLUMN "X"		COLUMN "Y"	
1.	Accumulated funds	F	The surplus that the club makes for the year is transferred to this account at the end of the year.
2.	Affiliation fees	D	The amount of money that the club must pay to another organising body to take part in a competition against other clubs.
3.	Annual general meeting	I	The chairperson for the next year is elected at this compulsory meeting by the majority of the members.
4.	Constitution	A	The set of rules by which the club is governed.
5.	Deficit	G	When the expenses of the club exceeds the income.
6.	Entrance fees	B	The once-off amount paid by a member to join the club at the time of registering his / her membership with the club.
7.	Honorarium	J	A cash gift from club funds given to the hardworking secretary as decided by the members at the AGM.
8.	Membership fees	C	The annual fees that each member must pay to the club to maintain his / her membership.
9.	Non-profit organisation	E	A club that operates with no intention of making a profit.
10.	Surplus	H	When the income of the club exceeds the expenses.

TASK 8.2

Group research on a non-profit organisation

Note to the Teacher:

The purpose of this Task is to enable the learners a chance to interview members from a local club so that they can determine for themselves the similarities and differences between a club and a business concern. You could also simplify the process, if it is more appropriate, to arrange for somebody to come to the school to address the learners. If there are no clubs in your area, then allow the learners to interview the bookkeeper, bursar of the school or any other non-profit making concern.

As an alternative, you may also help learners to interview a member of your school staff (or any Teacher) who is a member of his / her club in another area.

The skills of interviewing somebody in order to conduct a research is important for the learners to experience, so we advise you not to ignore this Task.

Suggested marking grid for the research

Criteria	Level 1	Level 2	Level 3	Level 4
Evidence of research	Inadequate research is evident	Some attempt with aspects that are thorough	Some aspects of the research are in-depth	Comprehensive and in-depth research evident
Relevance of research	Very little relevance to the research	Some attempt with about half the research relevant	Relevant research was conducted	Research was highly relevant and comprehensive
Ability to make assumptions based on research	Assumptions inadequate due to incomplete research been conducted	Some assumptions adequate based on research	Generally, good assumptions made on research evident	Excellent assumptions due to in-depth research of relevant information

TASK 8.3

An opportunity to plan your own club

Note to the Teacher:

This Task allows the learners a chance to plan their own club. The information they have gained from the research should help them in deciding what is best for their needs. This is a very important skill you will be giving the learners, as they will have to digest what they learnt in their research, consider the implications thereof and make their own decisions.

The cash budget will be a good revision of that section of work which was introduced in Grade 10 and will be added to in Grade 11.

In this Module, learners will need to apply the GAAP principle of Matching in order to make the necessary adjustments. Allow them to do this baseline Task individually to ensure that they have the necessary knowledge and skills as this will be applied in clubs, particularly in connection with Membership Fees and Tennis Balls / Refreshments accounts. If they have the necessary skills and knowledge, it will be a simple adaptation to apply this same principle to the new types of accounts when doing the books of non-profit organisations.

Before proceeding onto the membership fees account, it may be necessary to revise the REVERSAL CONCEPT from Grade 10 work. This can be done as a separate lesson or informally, depending on your class.

You can use the following illustrative activity to revise this aspect:

Baseline assessment – Activity on Reversal

Information:

You are furnished with the following information of Cato Ridge Stores for the year ended 28 February 20.5:

Extract from the Pre-Adjustment Trial Balance on 28 February 20.5

Rent income	39 000
Commission income	23 800
Stationery	2 400

Adjustments:

- An unused storeroom has been let for the whole of the financial year at a rent of R3 000 per month. Make the necessary adjustment entry to the rent income figure.
- R1 200 is still owing for commission to Cato Ridge Stores. This is for cleaning materials sold on consignment basis.
- Stationery on hand on 28 February 20.5 is R180.

Required:

- Open all necessary accounts to record the balances / totals and the adjustments.
- Journalise the adjustment entries in the general journal and post to the ledger.
- Close off all necessary accounts on 28 February 20.5
- Process the reversal entries in the general journal on 1 March 20.5 and post to the ledger.

Solution:

GENERAL LEDGER OF CATO RIDGE STORES BALANCE SHEET SECTION

Dr					ACCRUED INCOME/INCOME RECEIVABLE					B		Cr	
20.5					20.5								
Feb	28	Commission income	GJ	1 200	Mar	1	Commission Income	GJ				1 200	

DEFERRED INCOME/INCOME RECEIVED IN ADVANCE

					DEFERRED INCOME/INCOME RECEIVED IN ADVANCE					B			
20.5					20.5								
Mar	1	Rent income	GJ	3 000	Feb	28	Rent income	GJ				3 000	

CONSUMABLE STORES ON HAND

					CONSUMABLE STORES ON HAND					B			
20.5					20.5								
Feb	28	Stationery	GJ	180	Mar	1	Stationery	GJ				180	

NOMINAL ACCOUNTS SECTION

RENT INCOME

					RENT INCOME					N			
20.5					20.5								
Feb	28	Deferred income	GJ	3 000	Feb	28	Total	b/f				39 000	
		Profit and Loss a/c	GJ	36 000									
				39 000								39 000	
					Mar	1	Deferred income	GJ				3 000	

COMMISSION INCOME

					COMMISSION INCOME					N			
20.5					20.5								
Feb	28	Profit and loss a/c	GJ	25 000	Feb	28	Total	b/f				23 800	
							Income receivable	GJ				1 200	
				25 000								25 000	
Mar	1	Income receivable	GJ	1 200									

Dr					STATIONERY		N		Cr	
20.5					20.5					
Feb	28	Total	b/f	2 400	Feb	28	Consumable stores on hand	GJ		180
							Profit and Loss a/c	GJ		2 220
				2 400						2 400
Mar	1	Consumable stores on hand	GJ	180						

GENERAL JOURNAL OF CATO RIDGE STORES - FEBRUARY 20.5

GJ

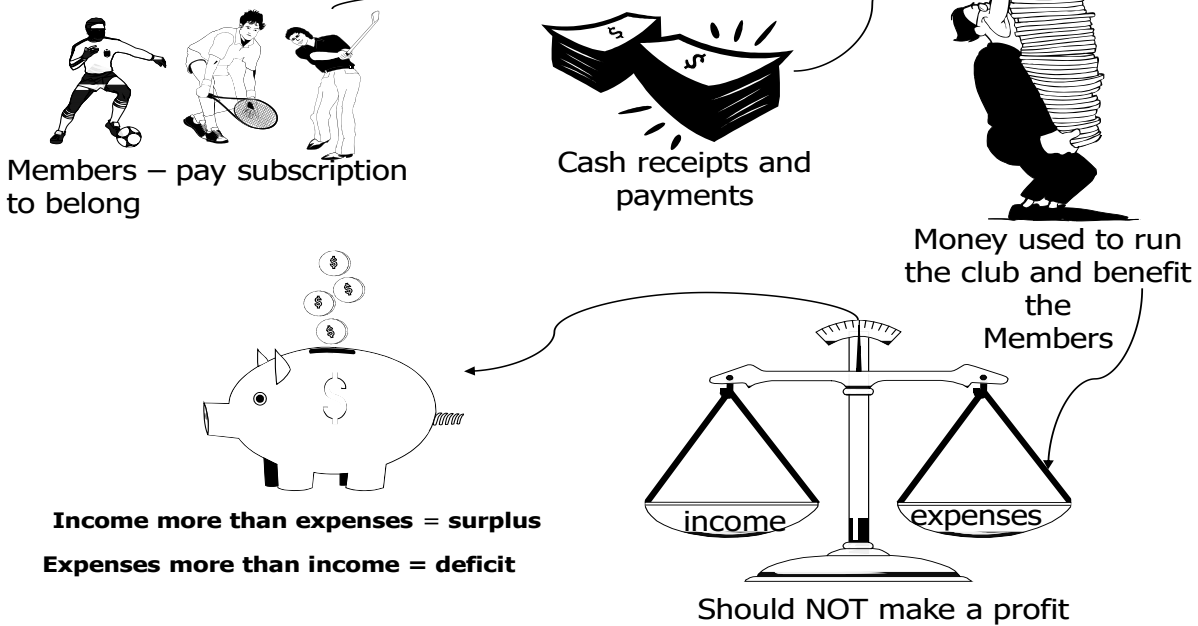
No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Adjustment journal entries:							
		Rent income	N	3 000					
		Deferred income/Deferred income	B		3 000				
		Rent received in advance for one month							
		Accrued income/Income receivable	B	1 200					
		Commission income	N		1 200				
		Commission income owing							
		Consumable stores on hand	B	180					
		Stationery	N		180				
		Stationery on hand at year-end							
		Reversal journal entries – March 20.5							
	1	Income received in advance/Deferred income	B	3 000					
		Rent income	N		3 000				
		Reversal entry							
		Commission income	N	1 200					
		Consumable stores on hand	B		1 200				
		Reversal entry							
		Stationery	N	180					
		Consumable stores on hand	B		180				
		Reversal entry							



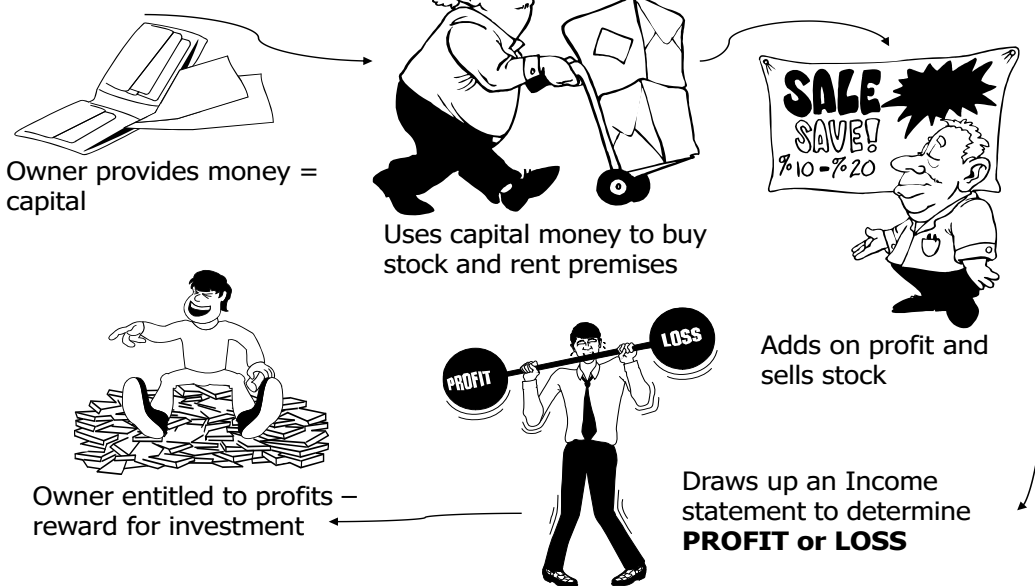
Suggestion: Photostat the following diagram, enlarging it to A3 size and pin it up on your classroom wall or let a group of learners design their own poster.

Difference between a sports club and a business concern

SPORTS CLUB



BUSINESS



TASK 8.4 **Pro Soccer Club: Membership fees account**

A	Accrued income/Income receivable	F	$15\ 200 + 1\ 400 + 800 - 600 - 14\ 400 - 200 =$
B	R800		2 200
C	Income received in advance/Deferred income	G	$76 \times 200 = R15\ 200$
D	R600	H	R14 400
E	Income received in advance/Deferred income	I	$800 - 600 = R200$
		J	$800 + 1\ 400 + 15\ 200 = R17\ 400$

Dr				ENTRANCE FEES				N		Cr	
20.6					20.6						
Dec	31	Income & Expenditure	GJ	2 000	Dec	31	Bank (10 x R200)	CRJ		2 000	

Note:

Either the Bank or the Income and Expenditure figure has to be calculated; the other becomes a balancing figure.

CALCULATION OF BANK:

- 8 new members x R250
- 2 new members x R150
- 80 old members minus 1 expelled minus 2 still owing; minus 2 who paid last year x R250
- 6 members already paid for next year

CALCULATION OF INCOME AND EXPENDITURE FIGURE (generally the easier calculation)

- 80 – 1 expelled = 79 members x R250
- 8 new members x R250
- 2 new members x R150

The Bank figure shows the actual cash received for this year, last year plus next year. Any amounts not paid are not included and the amounts received in advance at the beginning of the year would have appeared in the Bank last year.

The Income and Expenditure figure shows the amount that should have been received for this year. One member was expelled, leaving 79 from last year plus the 10 new members - of which some paid R250 and some R150.

As there is no instruction concerning the Entrance Fees account, it is closed off to Income and Expenditure Account. If the instruction was to capitalise, then the account would have been closed off to the Accumulated / Capital Fund account.

TASK 8.7  **SC Recreation Club: Membership fees account and Entrance fees**

**GENERAL LEDGER OF SC RECREATION CLUB
NOMINAL ACCOUNTS SECTION**

Dr				MEMBERSHIP FEES				N		Cr	
20.7					20.7						
Jan	1	Accrued income ^[1]	GJ	2 400	Jan	1	Deferred income ^[3]	GJ		1 200	
Dec	31	Deferred income ^[2]	GJ	960	Dec	31	Bank	CRJ		46 860	
		Income & Expend. ^[5]	GJ	48 900			Accrued income ^[4]	GJ		3 600	
							Membership fees written off	GJ		600	
				52 260						52 260	

^[1]8 x 300 ^[2]4 x 240 ^[3]5 x 240 ^[4]12 x 300
^[5](50 x 240) + (6 x 300) + (90 x 300) + (10 x 210) + (25 x 120) + (4 x 240)
= 12 000 + 1 800 + 27 000 + 2 100 + 3 000 + 960 = 48 900

				ENTRANCE FEES				N			
20.7					20.7						
Dec	31	Income & Expenditure	GJ	10 500	Dec	31	Bank (35 x 300)	CRJ		10 500	

TASK 8.8

Ixopo Badminton Club: Membership fees account and Interpretation

8.8.1

GENERAL LEDGER OF IXOPO BADMINTON CLUB NOMINAL ACCOUNTS SECTION

MEMBERSHIP FEES					MEMBERSHIP FEES									
Dr					N					Cr				
20.4					20.4					20.4				
Nov	1	Accrued income	GJ	1 200	Nov	1	Deferred income	GJ	1 400	Nov	1	Deferred income	GJ	1 400
20.5					20.5					20.5				
Oct	31	Deferred income ^[1]	GJ	600	Oct	31	Bank	CRJ	42 600	Oct	31	Bank	CRJ	42 600
		Income & Expend.	GJ	44 000			Accrued income ^[2]	GJ	1 000			Accrued income ^[2]	GJ	1 000
							Refreshments	GJ	200			Refreshments	GJ	200
							Honorarium	GJ	200			Honorarium	GJ	200
							Membership fees written off	GJ	400			Membership fees written off	GJ	400
				45 800										45 800

^[1]3 x 200 = 600

^[2]5 x 200 = 1 000

8.8.2	How many members does the badminton club have on 31 October 20.5?
R44 000 ÷ R200 = 220 members	
8.8.3	If there were 250 members last year, do you think the committee should be concerned and why?
Yes. Membership has dropped by 30, i.e. from 250 to 220 – less revenue (income).	

TASK 8.9

Membership fees and Interpretation

8.9.1	Why is the contra account "Deferred income" on both the debit and credit side of the membership fees account?
<p>Debit on 31 December: This is the year-end adjustment for the amount received by members for next year.</p> <p>Credit on 1 January: This is the reversal entry for the amount that was received in the previous year (last year) and is relevant to the current financial year.</p>	
8.9.2	Give a reason for the amount of R2 000 on the debit side.
Refund to members due to resignation or overpayment.	
8.9.3	Calculate the amount received this year from members who owed money for last year.
12 000 – 4 000 = R8 000	
8.9.4	Explain the following entries on the credit side:
<ul style="list-style-type: none"> R1 000 Member's honorarium contra against membership fees. R500 The club has received refreshments in lieu of membership fees. 	
8.9.5	The membership fees for the last two years were R500 per member per year and is unchanged for the current year as well as next year.
<ul style="list-style-type: none"> Calculate the number of members in the club at the end of the current year. 113 500 ÷ 500 = 227 members Calculate the number of members at the beginning of the year. 4 000 ÷ 500 = 8 8 + 227 = 235 	

TASK 8.10

Durban Sailing Club: Membership fees and Internal control

Note to the Teacher:

This Task allows learners an opportunity to try and work out the Membership fees account and the appropriate figures. They will need to draw on their knowledge of Income receivable/Accrued income and Income received in advance/Deferred income and reversal entries. Allow them time to engage with the topic – this is far more important than an accurate figure at this stage.

Suggested answer – not expected in this format.

Dr					MEMBERSHIP FEES					N					Cr				
20.5					20.5					20.5					20.5				
Jan	1	Accrued income	GJ	0	Jan	1	Deferred income	GJ	3 300	Jan	1	Deferred income	GJ	3 300	Jan	1	Deferred income	GJ	3 300
Dec	31	Deferred income	GJ	1 100	Dec	31	Bank	CRJ	269 500	Dec	31	Bank	CRJ	269 500	Dec	31	Bank	CRJ	269 500
		Income & Expenditure	GJ	277 200			Accrued income	GJ	5 500			Accrued income	GJ	5 500			Accrued income	GJ	5 500
				278 300										278 300					278 300

8.10.1 How much of the money that is reflected in the bank statement was for entrance fees?

R276 000 – R6 500 = R269 500 (note there were 13 new members: 240 at the beginning, -1 left and 252 at the end = 13 new members.)

Therefore entrance fees amount to R6 500, i.e. (13 x R500).

8.10.2 How much of the money that is reflected in the bank statement was for membership fees?

R269 500

8.10.3 How much is still outstanding for membership fees at the end of the year?

R5 500

8.10.4 How much should the club have earned for membership fees this year?

R277 200

8.10.5 What measures should the treasurer introduce to ensure that the members pay at the beginning of the year?

- Make an appeal at the AGM – at the end of this year or before the start of next financial year.
- Send out written notices.
- Send SMS messages to members, etc.

8.10.6 What control measures should be introduced next year in order to ensure that accurate records are being kept of all membership fees?

- A pre-numbered receipt book should be used only for membership fees received.
 - A reconciliation must be done at least once a month and then reminders sent out.
- Any other valid answer.

TASK 8.11

Internal control and problem solving

8.11.1 Identify TWO areas of concern that members of Health and Racquet may have.

- Accumulated funds – the amount of R2 400 000 is very high for a non-profit organisation.
 - Membership has decreased significantly from 330 to 200 over the past year.
- Any other valid answer.

8.11.2	As the chairman of the Health and Racquet club, what would you say to members at the Annual general meeting to quell their fears? State and explain 4 areas that the club can improve on.
	<ul style="list-style-type: none"> Plans to improve the buildings and equipment by using some of the Accumulated funds. Implement an advertising and marketing campaign in order to increase membership. Moving forward in order to bring the club to be as competitive as other newer clubs, e.g. the introduction of internet and Wi-Fi facilities. A feasibility study into the building of an indoor pool. The addition of other programmes, e.g. an abdominal exercise programme.
8.11.3	The members of the Health and Racquet club have complained that some equipment appears to be missing making their workouts difficult. Suggest two ways to rectify this situation from happening again.
	<ul style="list-style-type: none"> CCTV cameras. Metal detectors (or scanners) for individuals who enter or leave the premises. Visibility of security guards at strategic areas within the premises.

TASK 8.12 ☼ Ace Tennis Club: Ledger accounts

GENERAL LEDGER OF ACE TENNIS CLUB BALANCE SHEET ACCOUNTS SECTION

Dr					Cr				
ACCUMULATED DEPRECIATION ON EQUIPMENT									
					B				
20.6					20.6				
Sept	30	Asset disposal ^[3]	GJ	6 200	Jan	1	Balance	b/d	5 000
Dec	31	Balance	c/d	600	Sept	30	Depreciation ^[1]	GJ	1 200
					Dec	31	Depreciation ^[2]	GJ	600
				6 800					6 800
					Jan	1	Balance	c/d	600

^[1]8 000 x 20% x ⁹/₁₂

^[2]12 000 x 20% x ³/₁₂

^[3]5 000 + 1 200

NOMINAL ACCOUNTS SECTION ASSET DISPOSAL

					N				
20.6					20.6				
Sept	30	Equipment	GJ	8 000	Sept	30	Acc dep on equipment	GJ	6 200
		Profit on sale of asset	GJ	1 000			Bank	CRJ	2 800
				9 000					9 000

MEMBERSHIP FEES

					N				
20.6					20.6				
Jan	1	Accrued income	GJ	650	Jan	1	Deferred income	GJ	455
Dec	31	Deferred income	GJ	200	Dec	31	Bank	CRJ	9 560
		Income & Expenditure	GJ	9 880			Accrued income	GJ	195
		[76 x 130]					Honorarium	GJ	130
				10 730			M/fees written off	GJ	390
									10 730

Note:

Accrued income/Income receivable on 31 December is the balancing figure.

Dr					TENNIS BALLS					N					Cr				
20.6					20.6					20.6					20.6				
Jan	1	Tennis Balls on hand / Expenses prepaid	GJ	125	Dec	31	Honorarium	GJ	100										
Dec	31	Bank	CPJ	3 750			Tennis balls on hand / Expenses prepaid	GJ	149										
							Income & Expenditure	GJ	3 626										
				3 875															3 875

TASK 8.13

Mountain Sports Club: Refreshments and other ledger accounts

GENERAL LEDGER OF MOUNTAIN SPORTS CLUB NOMINAL ACCOUNTS SECTION

Dr					MEMBERSHIP FEES					N					Cr				
20.5					20.5					20.5					20.5				
Jan	1	Accrued income	GJ	1 000	Jan	1	Deferred income	GJ	1 400										
Dec	31	Deferred income	GJ	1 120	Dec	31	Bank	GJ	53 980										
		Income & Expend. ^[2]	GJ	54 600			Accrued income	GJ	560										
							Refreshments	GJ	280										
							M/fees written off ^[1]	GJ	500										
				56 720															56 720

^[1]2 x 250 = 500

^[2]177 + 20 - 2 = 195 x 280 = 54 600

Note: Accrued income/Income receivable on 31 December is the balancing figure.

Dr					SOCCER BALLS					N					Cr				
20.5					20.5					20.5					20.5				
Jan	1	Soccer balls on hand	GJ	100	Dec	31	Donation	GJ	550										
Dec	31	Bank	CPJ	3 600			Soccer balls on hand	GJ	195										
		Creditors control	CJ	2 800			Income & Expenditure	GJ	5 755										
				6 500															6 500

Dr					REFRESHMENTS					N					Cr				
20.5					20.5					20.5					20.5				
Jan	1	Stock of refreshments	GJ	750	Dec	31	Donation	GJ	230										
Dec	31	Bank	CPJ	1 200			Bank (sales)	CRJ	24 700										
		Creditors control	CJ	19 200			Stock of refreshments	GJ	520										
		Membership fees	GJ	280															
		Income & Expenditure	GJ	4 020															
				25 450															25 450

Dr					ENTRANCE FEES					N					Cr				
20.5					20.5					20.5					20.5				
Dec	31	Accumulated fund	GJ	5 000	Dec	31	Bank (20 x R500)	CRJ	10 000										
		Income & expenditure	GJ	5 000															
				10 000															10 000

TASK 8.14 Overport Social Club: Ledger and Trial Balance

8.14.1

GENERAL LEDGER OF OVERPORT SOCIAL CLUB BALANCE SHEET ACCOUNTS SECTION

Dr		BANK					B1		Cr
20.8					20.5				
Dec	31	Membership fees		15 000	Dec	31	Rent paid		8 800
		Entrance fees		12 000			Refresh. purchases		4 200
		Refreshment sales		17 600			Creditors for refresh.		3 800
							Affiliation fees		2 700
							Club equipment		4 000
							Creditors for equip.		9 000
							Bank charges		480

		CREDITORS FOR REFRESHMENTS					B2		
20.8					20.5				
Dec	31	Bank		3 800	Dec	31	Refresh. purchases		5 200

		CLUB EQUIPMENT					B3		
20.8									
Dec	31	Bank		4 000					
		Creditors for equip.		16 000					

		CREDITORS FOR EQUIPMENT					B4		
20.8					20.5				
Dec	31	Bank		9 000	Dec	31	Club equipment		16 000

NOMINAL ACCOUNTS SECTION MEMBERSHIP FEES

							N1		
					20.5				
					Dec	31	Bank		15 000

ENTRANCE FEES

							N2		
					20.5				
					Dec	31	Bank		12 000

REFRESHMENT SALES

							N3		
					20.5				
					Dec	31	Bank		17 600

RENT PAID

							N4		
20.8									
Dec	31	Bank		8 800					

REFRESHMENT PURCHASES

							N5		
20.8									
Dec	31	Bank		4 200					
		Creditors for refresh.		5 200					

Dr		AFFILIATION FEES				N6		Cr	
20.8									
Dec	31	Bank		2 700					

		BANK CHARGES				N7			
20.8									
Dec	31	Bank		480					

8.14.2 PRE-ADJUSTMENT TRIAL BALANCE AS AT 31 DECEMBER 20.8

BALANCE SHEET ACCOUNTS SECTION		Fol.	Debit	Credit
Bank		B1	11 620	
Creditors for refreshments		B2		1 400
Club equipment		B3	20 000	
Creditors for equipment		B4		7 000
NOMINAL ACCOUNTS SECTION				
Membership fees		N1		15 000
Entrance fees		N2		12 000
Refreshment sales		N3		17 600
Rent paid		N4	8 800	
Refreshment purchases		N5	9 400	
Affiliation fees		N6	2 700	
Bank charges		N7	480	
			R53 000	R53 000

Note to Teacher:

The following are **TWO** additional Tasks on interpretation of Membership fees account.

EXTRA TASK 1: Relax Social Club

Information:

Study the ledger accounts below and answer the questions which follow:

GENERAL LEDGER OF RELAX SOCIAL CLUB NOMINAL ACCOUNTS SECTION

Dr		MEMBERSHIP FEES				N		Cr	
20.8					20.8				
Jan	1	Income receivable		260	Jan	1	Deferred income		195
Dec	31	Deferred income		390	Dec	31	Bank		7 025
		Bank		35			M/fees written off		130
		Profit and Loss a/c		7 150			Refreshments		30
							Income receivable		455
				7 835					7 835

		ENTRANCE FEES				N			
20.8					20.8				
Dec	31	Accumulated fund		1 050	Dec	31	Bank		1 050

Note:

The membership fee is R65 per member per year. Each new member pays an entrance fee of R150 before being accepted as a member. All the new members joined at the beginning of the year and no members resigned from the club.

Questions:

1. How many new members joined the club at the beginning of the 20.8 financial year?
2. How many members does the club have, excluding those written off?
3. What will the figure be for 'Membership fees' in the Receipts and Payments Statement?
4. There is a figure of R7 150 on the debit side of the Membership Fees Account. Explain why the detail of this contra account (profit and loss) is incorrect and explain what the correct details should be.
5. Give one possible explanation for the entry of R35 on the debit side of the Membership Fees account.
6. Give one possible explanation for the entry of R30 on the credit side of the Membership Fees account.
7. How many members paid their 20.9 membership fees during 20.8?
8. Explain why there is an Income Receivable entry on both sides on the Membership fees account.
9. Explain why it is unlikely that there will be an Income Receivable entry in the Entrance fees account.

SOLUTION: EXTRA TASK 1

1.	How many new members joined at the beginning of the 20.8 financial year?
	7 (R1 050 ÷ 150)
2.	How many members does the club have, excluding those written off?
	R7 150 ÷ 65 = 110 members
3.	What will the figure be for 'Membership fees' in the Receipts and Payments Statement?
	R7 025 Receipt and R35 Payment (Receipts and payments shows the bank figures).
4.	There is a figure of R7 150 on the debit side of the Membership Fees Account. Explain why the detail of this contra account (Profit and Loss) is incorrect and explain what the correct details should be.
	Income and Expenditure – as this is a club. Profit and Loss is used for trading concerns.
5.	Give one possible explanation for the entry of R35 on the debit side of the Membership Fees account.
	Refund, dishonoured cheque.
6.	Give one possible explanation for the entry of R30 on the credit side of the Membership Fees account.
	Refreshments donated in lieu of membership fees
7.	How many members paid their 20.9 membership fees during 20.8?
	R390 ÷ R65 = 6 members
8.	Explain why there is an Income Receivable entry on both sides on the Membership fees account.
	On the Dr side on the 1 January: This is a reversal entry from last year. On the Cr side on 31 December: This is the adjustment entry for this year.
9.	Explain why it is unlikely that there will be an Income receivable entry in the Entrance fees account.
	New members generally have to pay in full before they become members.

EXTRA TASK 2: Fun Sailing Club

Information:

Study the ledger account below and answer the questions that follow:

GENERAL LEDGER OF FUN SAILING CLUB NOMINAL ACCOUNTS SECTION

Dr					SUBSCRIPTIONS					N					Cr				
20.5					20.5					20.5					20.5				
Jan	1	Income receivable	GJ	780	Jan	1	Deferred income	GJ	420										
Dec	31	Deferred income	GJ	300	Dec	31	Bank	CRJ	33 740										
		Bank	CPJ	110			Income receivable	GJ	980										
		Income & Expenditure	GJ	34 440			Subscriptions written off	GJ	520										
				35 660															35 660

The club increases the subscriptions by R10 each year. The subscriptions for 20.5 amounted to R140 per member. The committee writes off accrued subscriptions that are not received during the following year.

Questions:

- What figures, together with their descriptions, would appear in the Statement of Receipts and Payments?
- What figures, together with their descriptions, would appear in the Income and Expenditure account?
- How many members, who were in arrear in 20.4, paid their outstanding subscriptions?
- Give 2 possible reasons for the Bank figure of R150 on the debit side.
- How many members settled their 20.5 subscriptions during 20.5?
- Explain why Income receivable appears on the debit side on the 1 January but on the credit side on 31 December.
- How many members did the club have during 20.5?

SOLUTION: EXTRA TASK 2

1.	What figures, together with their descriptions, would appear in the Statement of Receipts and Payments?
	R33 740 under Receipts – Subscriptions R140 under Payments – Subscriptions
2.	What figures, together with their descriptions, would appear in the Income and Expenditure account?
	R34 440 under Income – Subscriptions R520 under Expenses – Subscriptions written off
3.	How many members, who were in arrear in 20.4, paid their outstanding subscriptions?
	$R780 - R520 = R260 \div R130$ (subs in 20.4) = 2 members paid
4.	Give 2 possible reasons for the Bank figure of R150 on the debit side.
	Refund, dishonoured cheque.
5.	How many members settled their 20.5 subscriptions during 20.5?
	$R33\ 740 - R260 - R300 = R33\ 180 \div 140 = 237$ members
6.	Explain why Income receivable appears on the debit side on the 1 January but on the credit side on 31 December.
	On 1 January on the Dr side – reversal from the previous year. On the 31 December on the Cr side – adjustment for the current year.
7.	How many members does the club have during 20.5?
	$R34\ 440 \div 140 = 246$ members

TASK 8.15
Difference between Receipts and Income

No.	Amount	Receipts	Income
E.g.	R6 520	R6 520	R520
1.	9 000	9 000	Nil
2.	1 020	1 020	120 (profit)
3.	400	400	400
4.	1 000	1 000	1 000
5.	1 700	1 700	1 700
6.	360	360	240
7.	50	50	50
8.	1 500	1 500	1 500
9.	350	Nil	350
10.	80	Nil	80

TASK 8.16
Difference between Payments and Expenditure

No.	Amount	Payment	Expenditure
E.g.	R9 200	R9 200	R1 200
1.	80 000	80 000	Nil
2.	112 800	112 800	12 800
3.	3 000	3 000	3 000
4.	1 600	1 600	1 600
5.	960	960	960
6.	5 280	5 280	Nil
7.	430	430	430
8.	1 450	1 450	1 450
9.	1 000	Nil	1 000
10.	32	Nil	32

TASK 8.17
NB Sports Club: Capital and Current income, Expenditure, Receipts and Payments
Note to the Teacher:

There are 3 aspects to this Task:

1. Is there actual cash received or paid?
2. Is the receipt of a capital or current nature? (i.e. is it for an asset or for income)
3. Is the expenditure of a capital or current nature?

No.	Receipts	Payments	Receipts		Expenditure	
			Capital	Current	Capital	Current
(i)	850		625	225		
(ii)		66 250			58 750	7 500
1.	8 000			8 000		
2.		900				900
3.		800				800
4.	2 500			2 500		
5.		140				140
6.	540		540			
7.	3 750			3 750		
8.	5 752			5 752		
9.	5 012			5 012		
10.		1 500				3 200
11.		2 900			2 900	

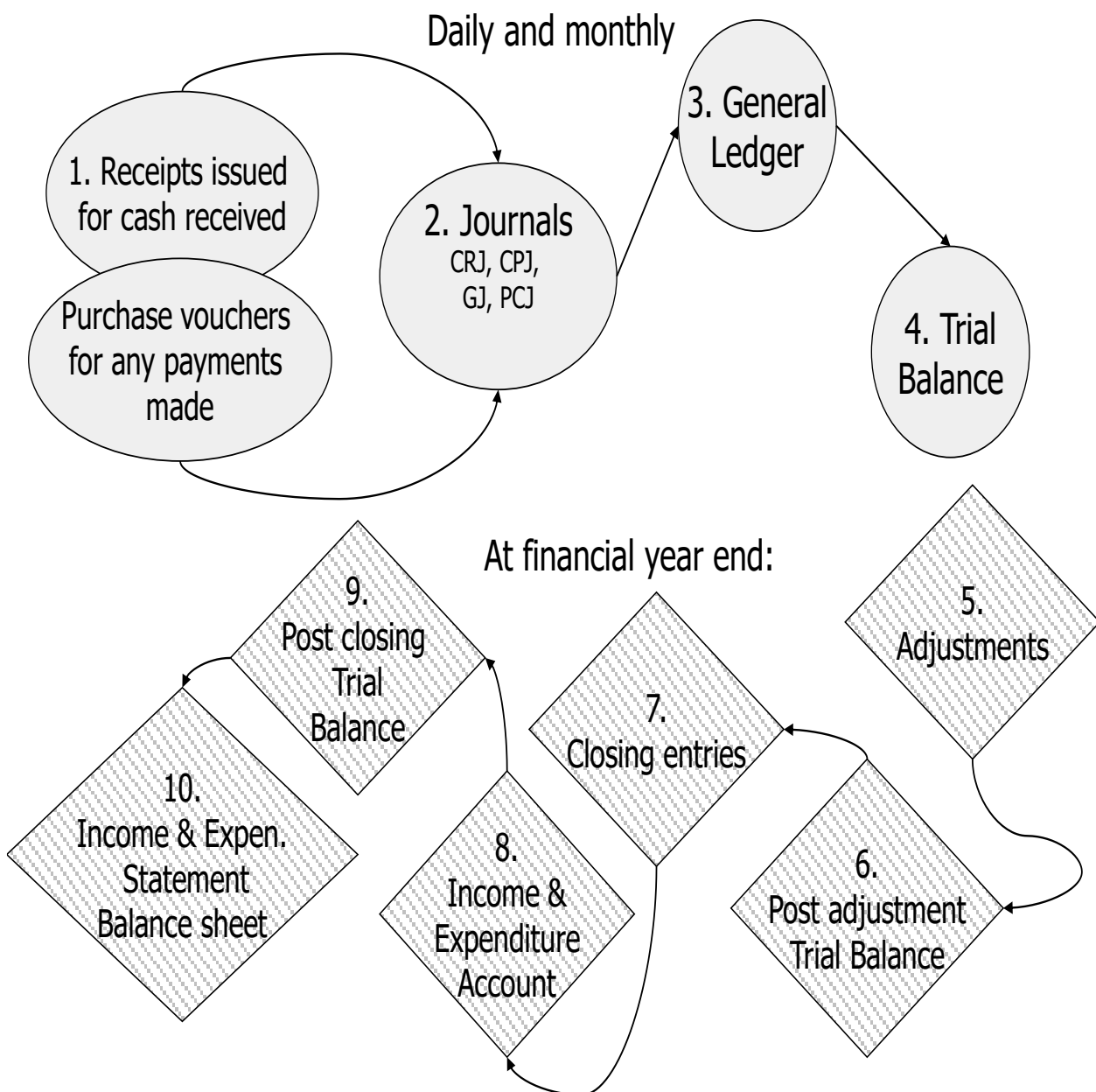
No.	Receipts	Payments	Receipts		Expenditure	
			Capital	Current	Capital	Current
12.	750			375		
13.		750				750
14.	3 000			3 000		
15.		2 500				2 500
16.					750	1 500

ACCOUNTING PROCEDURES



Suggestion: Photostat the following diagram, enlarging it to A3 size and pin it up on your classroom wall or let a group of children to design their own poster.

The Accounting procedures to be followed can be summarised as follows:



TASK 8.18 Protea Wrestling Club: Analysis Cash Book

ANALYSIS CASH BOOK OF PROTEA WRESTLING CLUB – RECEIPTS 20.1

Fol CB1

Doc no.	Day	Details	Fol	Analysis of receipts	Bank	Member-ship fees	Entrance fees	Dona-tions	Sundry accounts		
									Amount	Fol	Details
	Jan 1	Balance	b/d		2 308.20				2 308.20		
251	8	J. Smith		300.00	300.00	300.00					
252	25	K. Grant		500.00	500.00	300.00	200.00				
	Feb										
253-276	15	Cash		7 200.00	7 200.00	7 200.00					
277-292	28	Cash		4 800.00	4 800.00	4 800.00					
	Mar										
293-295	15	Cash		600.00			600.00				
296-305		Cash		3 000.00	3 600.00	3 000.00					
	May										
306–340	31	Cash		1 750.00	1 750.00				1 750.00		Entry fees
	June										
341	25	K. Angus		500.00	500.00			500.00			
	Oct										
342	4	J. Grey		275.00	275.00	75.00	200.00				
343	24	H. Nicol		950.00	950.00			950.00			
	Dec										
344	31	K. Louw		250.00	250.00			250.00			
					22 433.20	15 675.00	1 000.00	1 700.00	4 058.20		
	20.2										
	Jan 1	Balance	b/d		6 742.40						

ANALYSIS CASH BOOK OF PROTEA WRESTLING CLUB – PAYMENTS 20.1
Fol CB1

Doc no.	Day	Details	Fol	Bank	Consum-able stores	Wages	Sundry accounts		
							Amount	Fol	Details
321	Jan 31	AB Sports Shop		724.80	724.80				
322	Feb 26	BK Sports		756.00			756.00		Equipment
323	Mar 31	Cash		1 200.00		1 200.00			
324	Apr 23	BK Sports		1 401.50	1 401.50				
325	June 15	BA Jewellers		700.00			700.00		Tournament prizes
326	30	Cash		1 200.00		1 200.00			
327	Sept 30	Cash		1 200.00		1 200.00			
328	Oct 15	AB Builders		6 200.00			6 200.00		Repairs
329	Nov 21	AB Sports Shop		356.00	356.00				
330	Dec 30	City Treasurer		647.50			647.50		Water and lights
331	31	Cash		1 200.00		1 200.00			
BS		AB Bank		105.00			105.00		Bank charges
		Balance	c/d	6 742.40			6 742.40		
				22 433.20	2 482.30	4 800.00	15 150.90		

PROTEA WRESTLING CLUB**STATEMENT OF RECEIPTS & PAYMENTS FOR YEAR ENDED 31 DECEMBER 20.1**

RECEIPTS	20 125.00
Membership fees	15 675.00
Entrance fees	1 000.00
Donations	1 700.00
Entry fees	1 750.00
Less PAYMENTS	(15 690.80)
Consumable stores	2 482.30
Wages	4 800.00
Equipment	756.00
Tournament prizes	700.00
Repairs	6 200.00
Water and lights	647.50
Bank charges	105.00
Cash surplus for the year	4 434.20
Balance in bank on 1 January 20.1	2 308.20
Balance in bank on 31 December 20.1	6 742.40

TASK 8.19 ☼🍷 Panorama Bowling Club: Analysis Cash Book with Bank Reconciliation

ANALYSIS CASH BOOK OF PANORAMA BOWLING CLUB – DECEMBER 20.2

RECEIPTS

Fol CB1

Doc no.	Day	Details	Fol	Analysis of receipts	Bank	Member-ship fees	Entrance fees	Dona-tions	Refresh-ments	Sundry accounts		
										Amount	Fol	Details
	1	Totals	b/f		26 260	12 376	1 000	500	10 300	2 084		
426	4	S. Lewis		100	100			100				
813	6	Central Bowls Union (stale cheque)		500	500					500		Affiliation fees
427-430	31	Cash		800	800	800						
431		S. Nel		300	300	200		100				
		Balance	c/d		22 537					22 537		
					50 497	13 376	1 000	700	10 300	25 121		

ANALYSIS CASH BOOK OF PANORAMA BOWLING CLUB – DECEMBER 20.2

PAYMENTS

Fol CB1

Doc no.	Day	Details	Fol	Bank	Wages	Station-ery	Rent expense	Bowls	Refresh-ments	Sundry accounts		
										Amount	Fol	Details
	1	Totals	b/f	45 412	22 000	562	11 000	2 400	7 670	1 780		
889	5	Cash		640				640				
890	6	Central Bowls Union		500						500		Affiliation fees
891	28	Cash		1 000			1 000					
892	31	Cash		2 000	2 000							
BS		AB Bank		45						45		Bank charges
BS		DS Insurers		900						900		Insurance
				50 497	24 000	562	12 000	3 040	7 670	3 225		
Jan	01	Balance	b/d	22 537						22 537		

BANK RECONCILIATION STATEMENT ON 31 DECEMBER 20.2

	Debit	Credit
Debit balance as per bank statement	22 441	
Credit outstanding deposit		800
Debit outstanding cheque: No. 891	1 000	
Cr cheque wrongly debited		104
Credit balance as per Cash Book		22 537
	23 441	23 441

NAME OF CLUB: PANORAMA BOWLING CLUB**STATEMENT OF RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 20.2**

RECEIPTS	26 276
Membership fees	13 376
Entrance fees	1 000
Donations	700
Refreshment sales	10 300
Affiliation fees	500
Interest income	400
Less PAYMENTS	(50 497)
Wages	24 000
Stationery	562
Rent expense	12 000
Bowls	3 040
Refreshment purchases	7 670
Affiliation fees (500 + 500)	1 000
Bank charges	45
Insurance	900
Equipment	1 280
Cash surplus for the year	(24 221)
Balance in bank on 1 January 20.1	1 684
Balance in bank on 31 December 20.1	(22 537)

TASK 8.20
Social Dancing Club: Income and Expenditure Statement and Balance Sheet
SOCIAL TENNIS CLUB
INCOME & EXPENDITURE STATEMENT FOR YEAR ENDED 31 DECEMBER 20.2

	Note	
Income from membership fees [44 250 + 300 – 2 100 + 900]		43 350
Other income:		24 220
Donations		4 890
Dance proceeds		6 300
Refreshment profit:		13 030
Refreshment sales		32 230
Refreshment purchases [21 820 – 2 620]		(19 200)
Gross income		67 570
Expenditure		(45 689)
Affiliation fees		4 000
Bank charges		500
Repairs		3 150
Consumable stores [1 014 – 125]		889
Wages		25 680
Honorarium		1 500
Stationery		820
Water and electricity [3 570 + 330]		3 900
Membership fees written off		300
Depreciation		4 950
Surplus from general activities		21 881
Interest income	1	84
Surplus before interest expense/financing cost		21 965
Interest expense/financing cost	2	(11 250)
Net surplus for the year	7	10 715

BALANCE SHEET ON 31 DECEMBER 20.2

	Note	
ASSETS		
Non-current assets		253 200
Tangible / Fixed assets	3	253 200
Current assets		5 790
Inventories	4	2 745
Receivables	5	984
Cash and cash equivalents	6	2 061
Total assets		258 990
FUNDS AND LIABILITIES		
Accumulated fund	7	190 940
Non-current liabilities		40 000
Loan from B. Bank (60 000 – 20 000)		40 000
Current liabilities		28 050
Payables	8	28 050
Total funds and liabilities		258 990

Notes to the financial statements for the year/period ended 31 December 20.2

1.	INTEREST INCOME	
	from investments	84
		84
2.	INTEREST EXPENSE	
	on loans [5 630 + 5 620]*	11 250
		11 250

*75 000 x 15% = R11 250

3.	FIXED/TANGIBLE ASSETS	Tennis courts & clubhouse	Equipment	Total
		Carrying value at beginning	240 000	18 150
Cost	240 000	33 000	273 000	
Accumulated depreciation	-	(14 850)	(14 850)	
Movements	-	(4 950)	(4 950)	
Additions at cost	-	-	-	
Disposals at carrying value	-	-	-	
Depreciation	-	(4 950)	(4 950)	
Carrying value at end	240 000	13 200	253 200	
Cost	240 000	33 000	273 000	
Accumulated depreciation	-	(19 800)	(19 800)	

4.	INVENTORIES	
	Refreshments	2 620
	Consumable stores on hand	125
		2 745
5.	RECEIVABLES	
	Income receivable/Accrued income [900 + 84]	984
		984
6.	CASH AND CASH EQUIVALENTS	
	Savings account	1 194
	Bank	867
		2 061
7.	ACCUMULATED FUND	
	Balance at beginning of financial year	162 225
	Net surplus for the year	10 715
	Entrance fees capitalised	18 000
		190 940
8.	PAYABLES	
	Expenses payable/Accrued expenses [5 620 + 330]	5 950
	Current portion of loan	20 000
	Deferred income/Income received in advance	2 100
		28 050

TASK 8.21 Berg Tennis Club: Income and Expenditure Statement and Balance Sheet

NAME OF CLUB: BERG TENNIS CLUB

INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDED 31 DECEMBER 20.7

	Note	
Income from membership fees*		43 320
Other income:		6 728
Donations		888
Tournament profit:		2 520
Tournament receipts		4 860
Tournament expenses		(2 340)
Refreshment profit:		3 320
Refreshment sales		5 220
Refreshment purchases		(1 900)
Gross income		50 048
Expenditure		(18 599)
Honorarium to secretary		1 200
Wages of groundsman		5 760
Water and electricity		1 860
Tennis balls [7 800 – 55 + 30 – 38]		7 737
Stationery [1 040 + 18 – 43]		1 015
Membership fees written off (1 080 – 960)		120
Depreciation		907
Surplus from general activities		31 449
Interest income	1	58
Surplus before interest expense/financing cost		31 507
Interest expense/financing cost	2	(9 360)
Net surplus for the year	7	22 147

*42 840 – 1 080 + 840 + 960 – 360 + 120 = 43 320

BERG TENNIS CLUB

BALANCE SHEET ON 31 DECEMBER 20.7

ASSETS	Note	
Non-current assets		148 947
Tangible / Fixed assets	3	149 947
Current assets		18 956
Inventories	4	81
Receivables	5	960
Cash and cash equivalents	6	17 915
Total assets		167 903
FUNDS AND LIABILITIES		
Accumulated fund	7	92 723
Non-current liabilities		36 000
Loan from B. Gold [84 000 – 12 000 – 36 000]		36 000
Current liabilities		39 180
Payables	8	39 180
Total funds and liabilities		167 903

Notes to the financial statements for the year/period ended 31 December 20.2

1. INTEREST INCOME	from investments	58
		58
2. INTEREST EXPENSE	on loan	9 360
		9 360

3. FIXED/TANGIBLE ASSETS	Site & Buildings	Courts	Court Equipment	Total
Carrying value at beginning	96 400	29 600	9 070	135 070
Cost	96 400	29 600	11 200	137 200
Accumulated depreciation		-	(2 130)	(2 130)
Movements	-	13 944	(67)	13 877
Additions at cost	-	*13 944	840	14 784
Disposals at carrying value	-	-	-	-
Depreciation	-	-	(907)	(907)
Carrying value at end	96 400	43 544	9 003	148 947
Cost	96 400	43 544	12 040	151 984
Accumulated depreciation	-	-	(3 037)	(3 037)

*7 500 + 4 464 + 1 980

4. INVENTORIES	Consumable stores on hand [48 – 48 + 38 + 43]	81
		81
5. RECEIVABLES	Accrued income/Income receivable (1 080 – 1 080 + 960)	960
		960
6. CASH AND CASH EQUIVALENTS	Savings account at X Bank [948 + 2 400 + 58]	3 406
	Bank [1 250 + 71 183 – 57 924]	14 509
		17 915
7. ACCUMULATED FUND	Balance at beginning of financial year	53 256
	Net surplus for the year	22 147
	Entrance fees capitalised	17 320
	Balance at the end of the financial year	92 723
8. PAYABLES	Creditors [300 – 300 + 1 980 + 840]	2 820
	Deferred income [840 – 840 + 360]	360
	Current portion of loan (84 000 – 12 000 ÷ 2)	36 000
		39 180

TASK 8.22 AM Sports Club: Income and Expenditure Statement and Balance Sheet

GENERAL LEDGER OF AM SPORTS CLUB NOMINAL ACCOUNTS SECTION

Dr					MEMBERSHIP FEES					N1		Cr	
20.6					20.56								
Oct	1	Income receivable	GJ	1 440	Oct	1	Deferred income	GJ				2 160	
20.7					20.7								
Sept	30	Deferred income	GJ	1 800	Sept	30	Bank	CRJ				110 250	
		Income & Expenditure*	GJ	115 500			M/fees written off	GJ				1 080	
							Income receivable	GJ				5 250	
				118 740								118 740	

*[300 – 3 x 360] + [20 x R360] + [6 x 6 x R30] + [2 x 5 x R30] = 106 920 + 7 200 + 1 080 + 300 = 115 500

NAME OF CLUB: AM SPORTS CLUB INCOME & EXPENDITURE STATEMENT FOR YEAR ENDED 30 SEPTEMBER 20.7

	Note	
Income from membership fees		115 500
Other income:		22 912
Entrance fees [21 000 x ² / ₅]		8 400
Donations [1 237 + 750]		1 987
Refreshment profit:		9 000
Refreshment sales		18 750
Refreshment purchases		(9 750)
Dance proceeds		3 525
Gross income		138 412
Expenditure		(42 723)
Membership fees written off		1 080
Honorarium [1 500 – 1 500 + 1 500]		1 500
Wages [27 000 – 900]		26 100
Postage and stationery [1 270 + 23]		1 293
Water and electricity [2 690 + 310]		3 000
Depreciation [9 000 + 750]		9 750
Surplus from general activities		95 689
Interest income	1	1 256
Surplus before interest expense/financing cost		96 945
Interest expense/financing cost	2	(1 050)
Net surplus for the year	6	95 895

NAME OF CLUB: AM SPORTS CLUB
BALANCE SHEET ON 30 SEPTEMBER 20.7

ASSETS	Note	
Non-current assets		642 150
Tangible / Fixed assets	3	632 150
Financial assets:		
Fixed deposit at ABC Bank [9 000 + 3 000 – 2 000]		10 000
Current assets		74 619
Receivables	4	6 426
Cash and cash equivalents	5	68 193
Total assets		716 769
FUNDS AND LIABILITIES		
Accumulated fund	6	700 709
Non-current liabilities		12 000
Loan from municipality [15 000 – 1 500 – 1 500]		12 000
Current liabilities		4 060
Payables	7	4 060
Total funds and liabilities		716 769

Notes to the financial statements for the year ended 30 September 20.7

1. INTEREST INCOME	
from investments [(900 – 450 + 720*)]	1 170
from savings account (21 – 21 + 66)	66
from municipality	20
	1 256
2. INTEREST EXPENSE	
on loan	1 050
	1 050

* $(9\ 000 \times 12\% \times \frac{6}{12}) + (3\ 000 \times 12\% \times \frac{6}{12})$

3. FIXED/TANGIBLE ASSETS	Land & Building	Equip-ment	Vehicles	Total
Carrying value at beginning	500 000	90 000	7 500	597 500
Cost	500 000	120 000	180 000	800 000
Accumulated depreciation		(30 000)	(172 500)	(202 500)
Movements	6 900	28 500	(750)	34 650
Additions at cost	6 900	37 500	-	44 400
Disposals at carrying value	-	-	-	-
Depreciation	-	(9 000)	(750)	(9 750)
Carrying value at end	506 900	118 500	6 750	632 150
Cost	506 900	157 500	180 000	844 400
Accumulated depreciation	-	(39 000)	(173 250)	(212 250)

4. RECEIVABLES	
Deposit for water and electricity [670 – 280]	390
Prepaid expenses [23 – 23]	-
Income receivable [5 250 + 66 + 720]	6 036
[or 1 911 – 1 440 – 450 – 21 + 5 250 + 66 + 720.]	
	6 426

5. CASH AND CASH EQUIVALENTS	
Savings account [645 + 1 800]	2 445
Fixed deposit	2 000
Bank [1 500 + 155 683 – 93 435]	63 748
	68 193
6. ACCUMULATED FUND	
Balance at beginning of financial year	592 214
Net surplus for the year	95 895
Entrance fees capitalised (21 000 x $\frac{3}{5}$)	12 600
Balance at the end of the financial year	700 709
7. PAYABLES	
Creditors [375 – 375]	-
Expenses payable [1 500 – 1 500 + (1 500 – 750) + 310 - 300]	760
Current portion of loan	1 500
Deferred income [2 160 – 2 160 + 1 800]	1 800
	4 060

NOTE TO TEACHER:

The following is an extra Task involving financial statements of clubs.

EXTRA TASK 3: Lions Sports Club

Required:

From the following information extracted from the books of the Lions Sports Club draw up:

1. The Membership fees account.
2. The Income and Expenditure Statement for the year ended 31 December 20.5.
3. The Balance Sheet at 31 December 20.5.

Information:

LIONS SPORTS CLUB

POST-CLOSING TRIAL BALANCE ON 31 DECEMBER 20.4

	Fol	Debit	Credit
Accumulated fund			138 532
Club property and buildings at cost		109 204	
Equipment at cost		50 800	
Accumulated depreciation on equipment			12 160
Loan from the City Council (16% p.a.)			14 400
Creditors			540
Income received in advance (membership fees)			1 440
Accrued income (membership fees)		1 080	
Accrued expenses (interest on loan)			576
Prepaid expenses (stationery and stamps)		24	
Club blazers in stock (at cost)		4 800	
Bank		1 740	
		167 648	167 648

SUMMARY OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 20.5

Receipts		Payments	
Entrance fees	3 600	Rent expense	7 200
Membership fees	61 560	Affiliation fees	600
Interest on Savings account	81	Sundry creditors	540
Sales of club blazers	3 460	Repairs	8 400
Donations	4 373	Wages	18 960
Grant (Local Board)	3 000	Equipment	3 360
Refreshment sales	39 000	Instalment and accrued interest on loan (1 Jan 20.5)	4 176
Proceeds of the annual dance	13 420	Honorarium	3 000
		Stationery and stamps	720
		Interest on loan	2 592
		Fixed deposit at AB Bank	3 600
		Refreshment purchases	17 000
		Dance expenses	6 290

Additional information:

1. Entrance fees amounted to R180 per member. Entrance fees must be used to defray current expenses.
2. On 31 December 20.4, 150 members were registered. A further 20 members enrolled during January 20.5. Membership fees amounted to R360 per member per year.
3. A member still owing R360 for 20.4 disappeared and the amount must be written off. This member's membership was terminated as from 1 January 20.5. The balance of the outstanding membership fees for 20.4 was received, but there were still membership fees outstanding for 20.5.
4. On 31 December 20.5, the membership fees received in advance amounted to R2 160.
5. The grant from the Local Board must be used by the club to defray current expenses.
6. Included in the amount for wages was R2 960 which was paid for the erection of a storeroom.
7. An account for R720 in respect of the annual dance must still be paid. No entry has as yet been made for this.
8. The refreshments stock was sold to the members for R180 and still had to be paid for by them. No entry has been made in this regard.
9. Club blazers in stock (at cost) on 31 December 20.5, R1 920.
10. Provision must be made for depreciation at 10% p.a. on the diminished balance of the equipment. Equipment for R3 360 was bought on 1 April 20.5.
11. Interest at 16% p.a. on the balance of the loan was prepaid for 6 months. A loan repayment of R3 000 will be made on 30 June 20.6.
12. The investment of R3 600 was made on 31 December 20.5 at 15% p.a. at the AB Bank. Interest is payable half-yearly. R2 000 of this investment matures on 30 September 20.6.

SOLUTION: EXTRA TASK 3

NAME OF CLUB: LIONS SPORTS CLUB

INCOME & EXPENDITURE STATEMENT FOR YEAR ENDED 31 DECEMBER 20.5

	Note	
Income from membership fees		60 840
Other income:		40 143
Entrance fees		3 600
Profit on club blazers:		580
Sale of blazers		3 460
Cost of blazers [4 800 – 1 920]		(2 880)
Donations		4 373
Grant from Local Board		3 000
Refreshment profit:		22 180
Refreshment sales		39 000
Refreshment purchases [17 000 – 180]		(16 820)
Dance profit:		6 410
Dance proceeds		13 420
Dance expenses [6 290 + 720]		(7 010)
Gross income		100 983
Expenditure		(40 420)
Membership fees written off		360
Rent expense		7 200
Affiliation fees		600
Repairs		8 400
Wages [18 960 – 2 960]		16 000
Honorarium		3 000
Stationery and stamps [720 + 24]		744
Depreciation [3 864 + 252]*		4 116
Surplus from general activities		60 563
Interest income	1	81
Surplus before interest expense/financing cost		60 644
Interest expense/financing cost	2	(1 728)
Net surplus for the year	5	58 916

*(50 800 – 12 160 x 10%) + (3 360 x 10% x ⁹/₁₂)

**NAME OF CLUB: LIONS SPORTS CLUB
BALANCE SHEET ON 31 DECEMBER 20.5**

ASSETS	Note	
Non-current assets		151 648
Tangible / Fixed assets	3	150 048
Financial assets – Fixed deposit (3 600 – 2 000)		1 600
Current assets		59 480
Inventories	4	1 920
Receivables	5	1 764
Cash and cash equivalents	6	55 796
Total assets		211 128
FUNDS AND LIABILITIES		
Accumulated fund	7	197 448
Non-current liabilities		7 800
Loan from City Council [14 400 – 3 600 – 3 000]		7 800
Current liabilities		5 880
Payables	8	5 880
Total funds and liabilities		211 128

Notes to the financial statements for the year ended 31 December 20.5

1. INTEREST INCOME	
from savings	81
	81
2. INTEREST EXPENSE	
on loan [576 – 576 + 2 592 – 864]	1 728
	1 728

3. FIXED/TANGIBLE ASSETS	Club prop- erty & build- ings	Equipment	Total
Carrying value at beginning	109 204	38 640	147 844
Cost	109 204	50 800	160 004
Accumulated depreciation	-	(12 160)	(12 160)
Movements	2 960	(756)	2 204
Additions at cost	2 960	3 360	6 320
Disposals at carrying value	-	-	-
Depreciation	-	(4 116)	(4 116)
Carrying value at end	112 164	37 884	150 048
Cost	112 164	54 160	166 324
Accumulated depreciation	-	(16 276)	(16 276)

4. INVENTORIES	
Club blazers [4 800 – 4 800 + 1 920]	1 920
	1 920
5. RECEIVABLES	
Prepaid expenses [24 – 24 + 864]	864
Income receivable [1 080 – 1 080 + 720 + 180]	900
	1 764

6. CASH AND CASH EQUIVALENTS	
Bank [1 740 + 128 494 – 76 438]	53 796
Fixed deposit	2 000
	55 796
7. ACCUMULATED FUND	
Balance at beginning of financial year	138 532
Net surplus for the year	58 916
Balance at the end of the financial year	197 448
8. PAYABLES	
Creditors [540 – 540]	-
Expenses payable [576 – 576 + 720]	720
Current portion of loan	3 000
Deferred income [1 440 – 1 440 + 2 160]	2 160
	5 880

**GENERAL LEDGER OF LIONS SPORTS CLUB
NOMINAL ACCOUNTS SECTION**

MEMBERSHIP FEES					N1	Cr
Dr						
20.5				20.5		
Jan	1	Accrued income	GJ	1 080	Jan	1
Dec	31	Deferred income	GJ	2 160	Dec	31
		Income & Expenditure*	GJ	60 840		
				64 080		
						64 080

*[150 – 1 + 20] x 360

DIFFERENTIATE BETWEEN FINANCIAL STATEMENTS OF CLUBS AND PARTNERSHIPS

Note to Teacher:

Tasks 8.23 and 8.24 are used to demonstrate to learners the *differences* between the financial statements of a CLUB and a PARTNERSHIP. It maybe necessary, therefore, to briefly recap the purposes and motives of a non-profit organisation and a trading business.

Some of the following notes maybe helpful to you.

The main purpose of a **non-profit sports club** is to provide **facilities** for its members, while the main purpose of a business, whether a *trading or a service business*, is to make a **profit**. A sports club does not intend to make a profit. However, the income received should cover the expenses incurred.

The formation of a non-profit club

A group of persons who have similar interests would get together and discuss how to set up a club. This group of persons maybe interested in playing tennis. There will be work done by some members of this group but no one gets paid. This group will meet, say, every Saturday afternoon to play tennis and maybe meet once a month, possibly first Monday evening of every month, to discuss matters in respect of tennis. These members will need a **set of rules** by which every member must abide. Once this set of rules is formally accepted by every member at a meeting this set of rules becomes known as the **Constitution** of the club.

TASK 8.23 Partnerships and Clubs: Differences Income Statement and Income & Expenditure Statement

8.23.1	Write down the largest amount found in the CLUB. Explain in detail from where the club received this money.
<p>R100 983</p> <ul style="list-style-type: none"> • Club members contributed R60 840 as membership fees (subscriptions) so that the club can pay necessary expenses • The members again contributed additional funds by buying blazers and refreshments from the club which originally purchased these from outside businesses. • It is likely that members tried to raise funds by buying tickets and also selling tickets to friends to attend a dance organised by the club. 	
8.23.2	Write down the largest amount found in the PARTNERSHIP. Explain in detail from where the partnership received this money.
<p>R436 520</p> <ul style="list-style-type: none"> • Stock was purchased from wholesalers at cost price and the owners (partners) instructed their sales manager to mark up these costs by 240% so as to make a gross profit of R308 320 • These goods were most likely purchased every month and sales to the public took place every working day of the year. • The main purpose of this huge gross profit is to offset the operating expenses and leave a sufficient amount as net profit for the owners to share at the end of the year. 	
8.23.3	Write down two items (together with their amounts) found in the Income and Expenditure Statement of the club that are unlikely to be found in an Income Statement of a partnership. Explain why these two items would not appear in a partnership Income Statement.
<ul style="list-style-type: none"> • Membership fees of R60 840 – this is the voluntary amounts agreed by the members at a meeting to give to the club so that the club can meet its regular expenses. • Grant from local town board R3 000 – this amount is generally allowed to non-profit organisations who render some service to members of that town. • Honorarium of R1 000 – is generally a small gift given as a token of appreciation for free services rendered throughout the year by a member of the club. 	
8.23.4	Write down two items (together with their amounts) found in the Income Statement of the partnership that are unlikely to be found in an Income and Expenditure Statement of the club. Explain why these two items would not appear in the club Income and Expenditure Statement.
<ul style="list-style-type: none"> • Sales of R436 520 – a club's main objective is to maintain its status as a non-profit organisation to render service to its members. If it does sell some item, then that is a side issue, generally to raise funds to pay for expenses. • Medical aid contributions of R790 – almost all persons associated with the club do not get paid. Payment is sometimes made to a part-time worker – and it is most unlikely to have medical aid contribution for this part-time worker. 	
8.23.5	Explain what will happen to the net surplus of R58 916 of the club.
<p>This amount will be transferred to the accumulated funds account. Funds from this account are generally used to purchase assets such as furniture and equipment.</p>	
8.23.6	Explain what will happen to the net profit of R219 556 of the partnership.
<p>This amount will be transferred to the Appropriation account. This account is used to distribute the profit to the two (or more) partners according to the terms of the partnership agreement. The partners may agree to distribute the monies for the interest on partners' investment (capital); partners' salaries and share the remainder as per agreed ratio.</p>	

TASK 8.24 Partnerships and Clubs: Differences in Balance Sheet of each

Study the Balance Sheet together with the notes of the Lions Sports **Club** and the Balance Sheet (inclusive of notes) of the **Partnership** business of Clinbush Hardware and answer the following questions:

8.24.1	Examine Note 5 (Receivables) of the CLUB and compare this to Note 5 (Trade and other receivables) of the PARTNERSHIP and explain why one is just called "Receivables" and the other "Trade and other Receivables".
	<ul style="list-style-type: none"> A partnership is generally a trading business, i.e. it buys goods at low price and sells these same goods at higher price. Hence they are in the business of "trading". Customers who buy goods on credit and pay later are termed "Trade debtors" – therefore the heading Trade and other receivables for a partnership. In a club the "profit motive" is absent because the club is a "non-profit organisation"
8.24.2	Examine the amount for "Creditors" in Note 8 of the CLUB and compare the amount for "Trade Creditors" in Note 9 of the PARTNERSHIP. Explain why the details and amount appear to be reasonable.
	<ul style="list-style-type: none"> Creditors are similar to the case of debtors. The creditors of a partnership business sell their goods on credit and the partnership understands that the price of the goods was the <i>selling price</i> of the creditors – hence larger amount. The partnership business must have sufficient stocks for their own customers who buy from them. Since these goods are for trading purposes, the amount owing for these goods are termed "Trade Creditors".
8.24.3	Note 7 (CAPITAL) and Note 8 (CURRENT ACCOUNTS) have substantial amounts as final balances in the Partnership. Explain why Capital and Current account notes would never appear in the Balance Sheet of a club.
	<ul style="list-style-type: none"> The note for Capital and Current accounts comes under the heading "Equity and Liabilities" on the face of the Balance Sheet. This equity is really the "Owners equity" and the Owners equity represents how much of the business is "owned" by the partners. In the case of a Club no one individual can lay claim to "ownership" of the club. The club does not belong to any person. In the event of a club closing down, or stops functioning, the constitution may provide for selling the assets and donating the proceeds to another non-profit organisation such as local senior citizens club or a religious organisation.
8.24.4	Explain why you would expect to see that the "Non-Current Liabilities" amount for a Partnership would generally be much larger than that of a Club.
	<ul style="list-style-type: none"> The partnership business may take a loan to expand its future business activities. The size of the loan will depend on the size of the guarantees given to the bank. Since the partnership is in the business of making a profit it may take a large loan and pay off the loan from expected profits. In the case of a club, income in the form of membership fees and fund-raising activities is not guaranteed. Therefore the management of the club cannot take large loans unless it has sufficient guarantees for repayment.

TASK 8.25 Bloem Sports Club: Interpretation of financial statements

	Compare the surpluses of the two years and comment briefly
	Surplus has increased considerably by 620% ($2^{590}/418 \times 100/1$).
	Outline the factors responsible for the increase in the surplus of 20.3 compared to 20.2
	Refreshment sales have increased; increase in membership fees; increase in fund-raising activities, e.g. concert.

	The membership fee for 20.3 is R60 per member. Comment on the collection policy with regard to the membership fees.
Decline in collection – in 20.2, four members did not pay ($240 \div 60$) while in 20.3, eleven members are in arrears ($660 \div 60$).	
	Do you consider it necessary to raise the membership fee per member? Give 3 reasons for your answer.
Yes – expenses have increased, therefore, more income is needed; the club can accumulate funds for expansion or improving facilities for members; very few members would be unable to afford R60 per annum. No – surplus has improved; low fees result in increased membership; collection policy is unsatisfactory – this situation could worsen if fees are increased.	
	The secretary suggested that R1 000 should be invested at the current fixed deposit rate of 12% p.a. Would you support him or would you rather recommend that this amount be used to reduce the loan? Why?
The interest on the loan is 10% while the return on fixed deposit is 12% - positive gearing. The secretary's suggestion is therefore supported.	
	The employees of the club received an increase on 1 January 20.3. What was the percentage increase? Show workings.
$R3\ 766 - 3\ 424 = R342$ $\frac{342}{3\ 424} \times \frac{100}{1} = \underline{10\%}$	

TASK 8.26 Sung Young Sports Club: Internal control and problem solving

Note to the Teacher:

This Task is for the learners to consider control measures that need to be taken in a club and also how to deal with a crisis. There is no right or wrong answer, but the importance is for them to engage with the topic and to discuss the various options in class. You could have a few learners reporting back to the class, as if they were the club members and then opening the topic up for questions and finally a vote to be taken.

Suggested marking grid:

Criteria	Level 1	Level 2	Level 3	Level 4
Consideration of various options.	Fails to identify options available.	Identifies most of the obvious options.	Considers all options available.	Reveals great insight in identifying the options available.
Measures that can be taken to placate the members.	Fails to identify the measures.	Identifies most of the obvious options.	Considers all the measures available.	Discusses the various measures with great insight and understanding.
Control measures.	Fails to identify control measures.	Identifies most of the obvious options.	Identifies all the control measures.	Discusses the control measures with great insight and understanding.

TASK 8.27 Astroturf Hockey Field: Report

Suggested marking grid:

Criteria	Level 1	Level 2	Level 3	Level 4
Motivation for which option to choose.	Fails to give a motivation.	Motivated one option but without identifying the main benefits of this option.	Motivated one option in which all the benefits are highlighted.	Excellent motivation in which the 2 options are compared and discussed in great detail.
Identification of extra costs.	Fails to identify extra costs.	Identifies about half of the extra costs.	Identifies all the extra costs.	Excellent insight shown in identifying the extra costs.
Proposal for raising the extra money.	Fails to identify measures.	Identifies 2 methods.	Identifies all three but discusses only one method with insight.	Discusses all three methods with great insight.

TASK 8.28 Clanville Bowls Club: Internal control & ethical scenarios

The objective of this Task is to allow learners to see the need for internal control and ethics in all forms of business and in everyday life. The Task can be approached in various ways, i.e. every learner does all 10 aspects or you can choose to divide the class into groups and assign 2 or 3 to each group with a report back from each group.

Ensure that learners commit answers for every aspect.

With reference to ethics and internal control – encourage or draw out responses such as need for one to one discussion with relevant member as well as for voluntary disclosure of problem by individual at a formal meeting of members.

Members of a club need to know about incorrect procedures and or violation of good ethical behaviour. In most cases executive committee members (such as chairman, treasurer, etc.) need to be aware of conscious and unconscious actions on their part.

No.	Problem	Internal control OR Ethics	What should be done
8.28.1			
8.28.2			
8.28.3			
8.28.4			
8.28.5			
8.28.6			
8.28.7			
8.28.8			
8.28.9			
8.28.10			

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Explain Accounting concepts unique to a non-profit organisation.			
Distinguish between a sports club and a business concern.			
Identify how the bookkeeping entries need to be adapted to make the necessary recordings for a club.			
Complete a membership fees / subscriptions account in the General Ledger.			
Post accounts to ledger and draw up a Trial Balance.			
Distinguish between receipts and income.			
Distinguish between payments and expenditure.			
Prepare the Analysis Cash Book of clubs.			
Prepare the Financial Statements of clubs.			
Differentiate between Financial Statements of partnerships and clubs.			
Introduce and discuss control measures to be used in a sporting club.			
Analyse and interpret ledger accounts and financial statements.			

MODULE 9

COST ACCOUNTING

NOTE TO THE TEACHER:

Costing was introduced in Grade 10 so it is important to determine the learners' prior knowledge before proceeding. In the Grade 10 book initial Tasks focussed on the differences between retail and manufacturing businesses and definitions and explanations of basic cost concepts.

If learners are experiencing difficulties with costing concepts, it would be advisable to go over the basics again (even if it is for only one lesson or one work period). An understanding of simple, basic fixed and variable costs is essential.

TASK 9.1  **Woza Manufacturers (1): Baseline assessment**

This Task is suitable for working in pairs or groups.

This Task is meant as a baseline assessment to determine the learners' prior knowledge. Allow them to complete the answers individually and then to complete the assessment form to determine if they have the necessary skills. Before proceeding with Grade 11 work it is essential that they all understand the concepts thus far learnt.

9.1.1	Write down the details of the above costs (from Column A only) into the appropriate sections as set out in the table below:																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Direct (Raw) Materials</th> <th style="width: 33%;">Direct Labour</th> <th style="width: 33%;">Factory Overheads</th> </tr> </thead> <tbody> <tr> <td>Wood</td> <td>Labour</td> <td>Factory electricity</td> </tr> <tr> <td>Brass screws</td> <td></td> <td>Rent</td> </tr> <tr> <td>Sand paper</td> <td></td> <td>Consumable stores</td> </tr> <tr> <td>Varnish</td> <td></td> <td>Cleaning aids</td> </tr> <tr> <td></td> <td></td> <td>Factory manager's salary</td> </tr> <tr> <td></td> <td></td> <td>Factory cleaner's salary</td> </tr> </tbody> </table>		Direct (Raw) Materials	Direct Labour	Factory Overheads	Wood	Labour	Factory electricity	Brass screws		Rent	Sand paper		Consumable stores	Varnish		Cleaning aids			Factory manager's salary			Factory cleaner's salary
Direct (Raw) Materials	Direct Labour	Factory Overheads																				
Wood	Labour	Factory electricity																				
Brass screws		Rent																				
Sand paper		Consumable stores																				
Varnish		Cleaning aids																				
		Factory manager's salary																				
		Factory cleaner's salary																				
9.1.2	Calculate the raw material cost for 1 table.																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 70%;">Wood (10 x 1.8 = 18m x R8)</td> <td style="width: 30%; text-align: right;">R144.00</td> </tr> <tr> <td>Wood (6 x 2m x R10)</td> <td style="text-align: right;">120.00</td> </tr> <tr> <td>Brass screws</td> <td style="text-align: right;">1.50</td> </tr> <tr> <td>Sand paper (3 x R4)</td> <td style="text-align: right;">12.00</td> </tr> <tr> <td>Varnish</td> <td style="text-align: right;">15.00</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;"><u>R292.50</u></td> </tr> </tbody> </table>		Wood (10 x 1.8 = 18m x R8)	R144.00	Wood (6 x 2m x R10)	120.00	Brass screws	1.50	Sand paper (3 x R4)	12.00	Varnish	15.00	TOTAL	<u>R292.50</u>									
Wood (10 x 1.8 = 18m x R8)	R144.00																					
Wood (6 x 2m x R10)	120.00																					
Brass screws	1.50																					
Sand paper (3 x R4)	12.00																					
Varnish	15.00																					
TOTAL	<u>R292.50</u>																					
9.1.3	Calculate the direct labour cost for 1 table.																					
R18 x 5 hours = R90.00																						
9.1.4	Calculate the prime/direct cost for 1 table.																					
292.50 + 90.00 = R382.50																						
9.1.5	Calculate the prime cost for 230 tables.																					
R382.50 x 230 = R87 975.00																						

9.1.6	Calculate the total factory overhead costs.
Electricity	R2 000
Rent	3 000
Consumable stores	150
Cleaning aids	100
Factory manager's salary	7 000
Factory cleaner's salary	1 800
TOTAL	R14 050
9.1.7	Define fixed and variable costs.
<p>Fixed costs remain constant over a period of time irrespective of the amount of goods produced. Variable costs vary in proportion to the amount of goods produced. Fixed costs stay the same - they are not affected by changes in volume or changes in the number of products manufactured. Variable costs – these change when the number of products manufactured changes – they are affected by any change in the number of products manufactured.</p>	
9.1.8	Classify the factory overhead costs into fixed and variable costs.
<p>Examples: Fixed costs: Rent, Factory manager's salary, Factory cleaner's salary. Variable costs: Factory worker wages, raw materials.</p>	
9.1.9	Calculate the total production costs for 230 tables.
$R87\ 975 + R14\ 050 = R102\ 025$	
9.1.10	How much will one wooden table cost?
$R102\ 025 \div 230 = R443.59$	
9.1.11	If they make 30% profit, how much will they sell each table for?
$R443.59 + 30\% = R576.67$	
9.1.12	In your opinion do you think this is a realistic selling price? Explain.
Use discretion with learners' answers - learners must give reasons for their answer.	
9.1.13	Why is equipment not included in direct or indirect costs?
Equipment is an asset and not an expense to the business.	

SELF-ASSESSMENT FORM

Learners are to complete the self-assessment form, after marking their work, by ticking off the appropriate column, to determine their prior knowledge:

Knowledge and skills	YES	NO
Can identify direct material costs		
Can identify direct labour costs		
Can calculate the prime cost		
Can identify factory overhead costs		
Can define fixed and variable costs		
Can divide overhead costs into fixed and variable costs		
Can calculate the total cost of production		
Can work out the unit cost		
Can work out the selling price		

Note to the Teacher:

Assess the learners' responses. If there are learners who are experiencing gaps in their knowledge ensure that they make an attempt to catch up.

COSTING CONCEPTS



Suggestion: Let the class make a large poster with each group finding pictures (use newspaper or magazines) to depict the specific cost per group.

TASK 9.2 ☼💧 Break-even point calculations

Selling price per item	Variable cost per item	Contribution per item	Fixed costs (in total)	Break-even point (no. of items)
R10	R8	R2	R60	30
R24	R16	R8	R160	20
R50	R30	R20	R1 000	50
R75	R45	R30	R900	30
R40	R25	R15	R750	50
R80	R68	R12	R144	12
R80	R54	R26	R624	24

TASK 9.3 ☼💧 Woza Manufacturers (2): Break-even point calculation and interpretation

Note to the Teacher:

When reviewing answers of learners (possibly the next day), ask learners to EXPLAIN the reasons for their answers, especially for 9.3.3.

9.3.1	Refer to Task 9.1 and calculate Woza Manufacturer's break-even point.																						
$\frac{14\ 050}{576.67 - 382.50}$ $14\ 050 = 72.4 \text{ tables} / 73 \text{ tables}$ 194.17																							
9.3.2	Does this mean that Woza Manufacturer's makes a profit? Explain your answer?																						
<p>Yes. They are selling 230 tables, which is more than the break-even. They will, therefore, make a profit.</p>																							
9.3.3	State whether the <i>effect</i> would be an INCREASE or DECREASE or NO CHANGE on the break-even point when each of the following situations listed below occur.																						
<table border="1"> <thead> <tr> <th>SITUATIONS</th> <th>EFFECT ON BREAK-EVEN POINT</th> </tr> </thead> <tbody> <tr> <td>Labour cost per hour increased.</td> <td><i>Increase</i></td> </tr> <tr> <td>Raw material cost decreased.</td> <td><i>Decrease</i></td> </tr> <tr> <td>Rent increased.</td> <td><i>Increase</i></td> </tr> <tr> <td>Selling price decreased.</td> <td><i>Increase</i></td> </tr> <tr> <td>Loan was taken out interest free.</td> <td><i>No change</i></td> </tr> <tr> <td>Loan was taken out at 12% p.a. interest.</td> <td><i>Increase (Extra cost)</i></td> </tr> <tr> <td>Equipment was bought on credit.</td> <td><i>No change</i></td> </tr> <tr> <td>Depreciation was written off.</td> <td><i>Increase (Extra cost)</i></td> </tr> <tr> <td>Extra labourers were hired but quantity produced was the same.</td> <td><i>Increase</i></td> </tr> <tr> <td>Electricity cost per kilowatt increased.</td> <td><i>Increase</i></td> </tr> </tbody> </table>		SITUATIONS	EFFECT ON BREAK-EVEN POINT	Labour cost per hour increased.	<i>Increase</i>	Raw material cost decreased.	<i>Decrease</i>	Rent increased.	<i>Increase</i>	Selling price decreased.	<i>Increase</i>	Loan was taken out interest free.	<i>No change</i>	Loan was taken out at 12% p.a. interest.	<i>Increase (Extra cost)</i>	Equipment was bought on credit.	<i>No change</i>	Depreciation was written off.	<i>Increase (Extra cost)</i>	Extra labourers were hired but quantity produced was the same.	<i>Increase</i>	Electricity cost per kilowatt increased.	<i>Increase</i>
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Depreciation was written off.	<i>Increase (Extra cost)</i>																						
Extra labourers were hired but quantity produced was the same.	<i>Increase</i>																						
Electricity cost per kilowatt increased.	<i>Increase</i>																						

TASK 9.4

Woza Manufacturers (3): Written report

CALCULATIONS:

	230 tables (Present production)	2 000 tables (New order)	2 230 tables (Total)
Direct labour per unit	R90	R90	R90
Direct (raw) material per unit	R292.50	R266.10*	R266.10**
Total variable cost per unit	R382.50	R356.10	R356.10
Fixed costs (Total)	R14 050	R41 500	R55 550
Electricity	R 2 000	R3 000	R5 000
Rent	3 000	R7 000	R10 000
Consumable stores	150	R300	R450
Cleaning materials	100	R400	R500
Factory manager's salary	7 000	R7 000	R14 000
Factory cleaner's salary	1 800	R1 800	R3 600
Interest on loan	Nil	R2 000	R2 000
Transport	Nil	R20 000	R20 000
Selling price per unit	R576.67	R445	-
Total income from sales	R132 634.10	R890 000	R1 022 634.10
Break-even point	72.4 (73)	466.82 (467)	-
Profit	R30 608.40	R136 300	R172 981.10

Note:

*10% trade discount on the wood.

**The total cost of the wood would decrease.

As there are two different selling prices for the articles you cannot work out a combined selling price per unit or break-even – the separate figures have to be used in the comments.

Suggested marking grid:

Criteria	Level 1	Level 2	Level 3	Level 4
Calculation of appropriate figures	Fails to identify appropriate figures	Appropriate figures identified but not all accurate	Comprehensive calculations showing some insight	Comprehensive calculations of figures showing insight
Advice on whether to accept the order	Inappropriate advice	Generally good advice based on figures	Good advice showing some insight	Outstanding advice showing deep insight
Suggestions for improvement	Inappropriate suggestions	Generally good suggestions made	Good suggestions showing some insight	Outstanding suggestions showing deep insight
Presentation	Poor presentation	Generally good presentation	Very good presentation	Outstanding presentation

Some suggested comments:

- Selling price per unit for the order for 2 000 tables is less than the local order.
- Due to the large number of tables the total revenue and profit has increased.
- The larger order will require a loan with interest which adds to the risk of the business.
- If the order was to be cancelled then Woza would be left with higher costs – rent and salaries.
- The break-even point is a lot higher for the new order.
- Etc.

Suggestions for improvement:

- Negotiate a higher selling price.
- Pass the transport cost on to the debtor.
- Try to negotiate for cheaper premises.
- Negotiate a higher trade discount on the purchase of wood.
- Try to cut down on extra staff and rather given incentives for improved productivity.
- Negotiate a cheaper loan, etc.

TASK 9.5  **Woza Manufacturers (4): Understanding productivity**

9.5.1	What factors influence labour productivity? Discuss at least five.
	<ul style="list-style-type: none">• An employee is physically incapable of carrying out the job.• The employee does not have the personality or talent to do the job.• Inadequate training.• Lack of job satisfaction.• Standard of productivity expected is too high.• Poor working conditions – lighting, temperature, humidity, noise, number of hours worked.• Etc.
9.5.2	What measures could the business introduce in order to improve the productivity level of the workers?
	<ul style="list-style-type: none">• Improve working conditions• Incentive bonuses.• Training.• Profit sharing schemes.• Time off.• Forum in which to voice their grievances.• Etc.



Check your knowledge:
Stop and ensure that the learner's understand the term productivity.

Learners to assess themselves on the following criteria:

CRITERIA	YES	NO
Understand the term productivity.		
Understand why an increased productivity is of benefit to the economy.		
Can discuss at least 5 factors that influence the level of productivity.		
Can discuss measures that businesses can introduce to improve productivity.		
Conduct a self-analysis test to determine where they can personally improve.		

NOTE TO TEACHER:

1. Explain difference aspects of manufacturing business and retail business as per diagram and flow chart in learner book.
2. Highlight the flow of the goods from the storeroom to the factory to the finished and then to be sold to the customer.

RECORDING OF COST ELEMENTS IN THE GENERAL LEDGER



Suggestion: Photostat the following illustrations, enlarging them to A3 size and pin them up on your classroom wall.

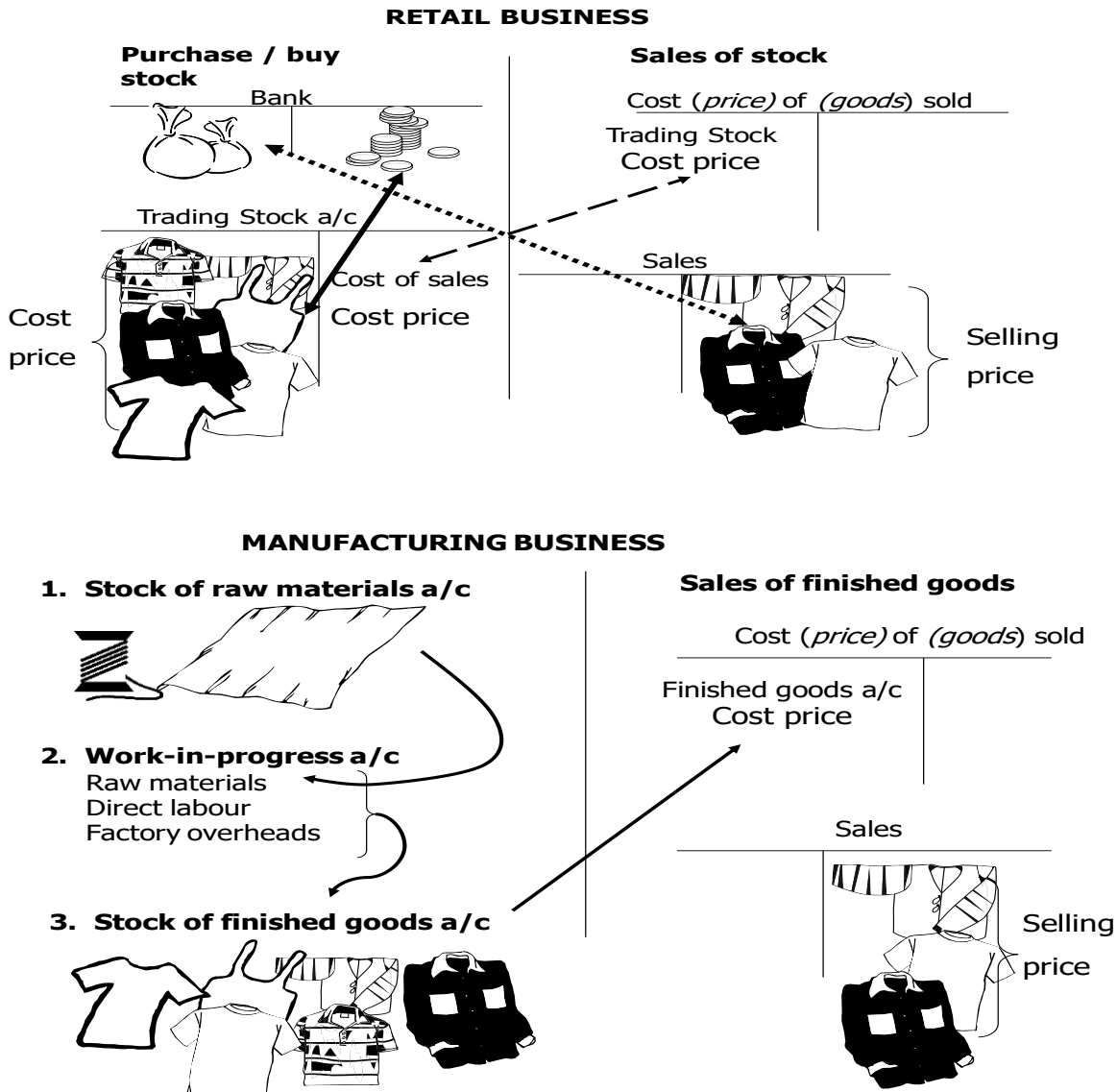
Allow learners time to study the flowchart and to see the links. Giving them time to explain also helps to consolidate their thinking.

1. The costs incurred – raw materials bought, labour used and factory overheads incurred.
2. The manufacturing costs are transferred to the Work-in-progress account so that the total cost of production can be calculated.

3. Goods that are completed in the production process are moved to the storeroom in order that they can be sold – Finished goods stock account.
4. The cost price of the goods sold is credited to the Finished goods stock account (stock is decreased) and the Cost of sales account is debited.
5. Goods are sold on credit.
6. Cost of sales is transferred to the Trading account (Income Statement).
7. The Sales amount is transferred to the Trading account (Income Statement).

RECORDING OF COST ELEMENTS IN THE GENERAL LEDGER

Key: Step 1: ——— Step 2a:..... Step 2b: — — —



Suggestion:

Allow the learners time to work through the example. Draw their attention to the fact that the principles are exactly the same as they are used to:

1. Work-in-progress is the new account and is used to calculate the cost of production. It also shows the value of goods that are still on the production line.
2. Finished goods stock account has the same function as the Trading stock account.
3. Raw materials stock account is the same as Direct materials cost account and works on the same concepts as the Trading stock.
4. All factory expenses are debited to the respective expense accounts. These expense accounts are then closed off to the Factory overhead cost account.

TASK 9.6

Sal Manufacturers: Drafting ledger accounts

GENERAL LEDGER OF SAL MANUFACTURERS

BALANCE SHEET ACCOUNTS SECTION

Dr					RAW MATERIALS STOCK					B	Cr
20.5					20.6						
Mar	1	Balance	b/d	40 000	Feb	28	Raw materials issued	GJ	165 000		
20.6							Balance	c/d	20 000		
Feb	28	Creditors control	CJ	100 000							
		Bank	CPJ	30 000							
		Bank	CPJ	15 000							
				185 000							185 000
Mar	1	Balance	b/d	20 000							

WORK-IN-PROGRESS STOCK					B					
20.5					20.6					
Mar	1	Balance	b/d	20 000	Feb	28	Finished goods stock	GJ	390 000	
20.6							Balance	c/d	22 000	
Feb	28	Raw materials cost	GJ	165 000						
		Direct labour cost	GJ	50 000						
		Factory overhead	GJ	177 000						
				412 000						412 000
Mar	1	Balance	b/d	22 000						

FINISHED GOODS STOCK					B					
20.5					20.6					
Mar	1	Balance	b/d	60 000	Feb	28	Cost of sales	GJ	395 000	
20.6							Balance	c/d	55 000	
Feb	28	Work-in-progress stock	GJ	390 000						
				450 000						450 000
Mar	1	Balance	b/d	55 000						

FINAL ACCOUNTS / COST ACCOUNTS SECTION

DIRECT MATERIALS COST					C				
20.6					20.6				
Feb	28	Raw materials issued	GJ	165 000	Feb	28	Work-in-progress stock	GJ	165 000

DIRECT LABOUR COST					C				
20.6					20.6				
Feb	28	Salaries and wages	GJ	50 000	Feb	28	Work-in-progress stock	GJ	50 000

FACTORY OVERHEAD COST					C				
20.6					20.6				
Feb	28	Consumable stores*	GJ	9 000	Feb	28	Work-in-progress stock	GJ	177 000
		Salaries and wages	GJ	30 000					
		Depreciation	GJ	8 000					
		Rent (90 000 x ² / ₃)	GJ	60 000					
		Electricity	GJ	60 000					
		Sundry expenses	GJ	10 000					
				177 000					177 000

*12 000 – 3 000

TASK 9.7

VUKA Manufacturers: Drafting ledger accounts

GENERAL LEDGER OF VUKA MANUFACTURERS BALANCE SHEET ACCOUNTS SECTIONS

Dr					RAW MATERIALS STOCK					B		Cr	
20.7					20.8								
Mar	1	Balance	b/d	15 000	Feb	28	Creditors control	CAJ				6 000	
20.8							Raw materials issued	GJ				178 000	
Feb	28	Creditors control	CJ	180 000			Balance	c/d				11 000	
				195 000								195 000	
Mar	1	Balance	b/d	11 000									


					WORK-IN-PROGRESS STOCK					B			
20.7					20.8								
Mar	1	Balance	b/d	12 000	Feb	28	Finished goods stock	GJ				434 000	
20.8							Balance	c/d				6 000	
Feb	28	Raw materials cost	GJ	178 000									
		Direct labour cost	GJ	90 000									
		Factory overhead cost	GJ	160 000									
				440 000								440 000	
Mar	1	Balance	b/d	6 000									

					FINISHED GOODS STOCK					B			
20.7					20.8								
Mar	1	Balance	b/d	22 000	Feb	28	Cost of sales	GJ				414 000	
20.8							Balance	c/d				42 000	
Feb	28	Work-in-progress stock	GJ	434 000									
				456 000								456 000	
Mar	1	Balance	b/d	42 000									

					COST ACCOUNTS SECTION FACTORY OVERHEAD COST					C			
20.8					20.8								
Feb	28	Consumable stores	GJ	8 000	Feb	28	Work-in-progress stock	GJ				160 000	
		Salaries and wages	GJ	20 000									
		Lease	GJ	45 000									
		Rent (80 000 × $\frac{700}{1\,000}$)	GJ	56 000									
		Elect. (40 000 × 70%)	GJ	28 000									
		Sundry expenses	GJ	3 000									
				160 000								160 000	

Note:

Calculate the Cost of sales (mark-up of 25% on sales of R517 500). As the closing balance in the Finished goods account is given, the Work-in-progress can be calculated and substituted into the Work-in-progress account and the closing balance calculated.

TASK 9.8 

FOX Manufacturers: Drafting ledger accounts with calculations

**GENERAL LEDGER OF FOX MANUFACTURERS
BALANCE SHEET ACCOUNTS SECTION**

Dr					RAW MATERIALS STOCK					B	Cr
20.5					20.6						
Mar	1	Balance	b/d	90 000	Feb	28	Creditors control	CAJ	12 000		
20.6							Raw materials issued	GJ	651 000		
Feb	28	Creditors control	CJ	300 000			Balance	c/d	32 000		
		Bank	CPJ	230 000							
		Creditors control	CJ	75 000							
				<u>695 000</u>							<u>695 000</u>
Mar	1	Balance	b/d	32 000							

					WORK-IN-PROGRESS STOCK					B	
20.5					20.6						
Mar	1	Balance	b/d	120 000	Feb	28	Finished goods stock	GJ	1 205 000		
20.6							Balance	c/d	14 880		
Feb	28	Direct materials cost	GJ	651 000							
		Direct labour cost	GJ	90 900							
		Factory overhead cost	GJ	357 980							
				<u>1 219 880</u>							<u>1 219 880</u>
Mar	1	Balance	b/d	14 880							

					FINISHED GOODS STOCK					B	
20.5					20.6						
Mar	1	Balance	b/d	35 000	Feb	28	Cost of sales	GJ	1 200 000		
20.6							Balance	c/d	40 000		
Feb	28	Work-in-progress stock	GJ	1 205 000							
				<u>1 240 000</u>							<u>1 240 000</u>
Mar	1	Balance	b/d	40 000							

FINAL ACCOUNTS / COST ACCOUNTS SECTION

					DIRECT MATERIALS COST					C	
20.6					20.6						
Feb	28	Raw materials issued	GJ	651 000	Feb	28	Work-in-progress stock	GJ	651 000		
				<u>651 000</u>							<u>651 000</u>

					DIRECT LABOUR COST					C	
20.6					20.6						
Feb	28	Salaries and wages ^[1]	GJ	90 900	Feb	28	Work-in-progress stock	GJ	90 900		
				<u>90 900</u>							<u>90 900</u>

Dr					FACTORY OVERHEAD COST					C		Cr	
20.6					20.6								
Feb	28	Consumable stores ^[2]	GJ	26 000	Feb	28	Work-in-progress stock	GJ					357 980
		Salaries and wages ^[3]	GJ	50 500									
		Depreciation ^[4]	GJ	36 480									
		Rent ^[5]	GJ	150 000									
		Electricity ^[6]	GJ	80 000									
		Sundry expenses ^[7]	GJ	15 000									
				357 980									357 980

[1] 90 000 + 900

[2] 7 000 + 22 000 – 3 000

[3] 50 000 + 500

[4] 500 000 – 120 000 x 12% x 80%

[5] 250 000 x 60%

[6] 160 000 x $\frac{3}{6}$

[7] 30 000 x $\frac{3}{6}$

SELLING AND DISTRIBUTION COST

C

20.6					20.6								
Feb	28	Rent expense ^[1]	GJ	50 000	Feb	28	Profit and Lossca/c	GJ					205 333
		Electricity ^[2]	GJ	53 333									
		Sundry expenses ^[3]	GJ	10 000									
		Commission	GJ	90 000									
		Bad debts	GJ	2 000									
				205 333									205 333

[1] 250 000 x 20%

[2] 160 000 x $\frac{2}{6}$

[3] 30 000 x $\frac{2}{6}$

ADMINISTRATION COST

C

20.6					20.6								
Feb	28	Salaries ^[1]	GJ	40 400	Feb	28	Profit and Loss a/c	GJ					131 187
		Depreciation ^[2]	GJ	9 120									
		Rent expense ^[3]	GJ	50 000									
		Electricity ^[4]	GJ	26 667									
		Sundry expenses ^[5]	GJ	5 000									
				131 187									131 187

[1] 40 000 + 400

[2] 500 000 – 120 000 x 12% x 20%

[3] 250 000 x 20%

[4] 160 000 x $\frac{1}{6}$

[5] 30 000 x $\frac{1}{6}$

Note:

Using the sales figure the cost of sales can be calculated (50% mark up) and thus the Work-in-progress figures in the Finished goods account, as you have the closing balance. This figure can then be substituted into the Work-in-progress stock account and the closing balance calculated.

TASK 9.9

Fairbreeze Manufacturers: Completion of ledger accounts with calculations

GENERAL LEDGER OF FAIRBREEZE MANUFACTURERS BALANCE SHEET ACCOUNTS SECTION

Dr					RAW MATERIALS STOCK					B	Cr
20.6					20.7						
Jul	1	Balance	b/d	120 000	Jun	30	Raw materials issued	GJ	495 000		
20.7							Balance	c/d	60 000		
Jun	30	Creditors control	CJ	300 000							
		Bank	CPJ	135 000							
				555 000							555 000
Jul	1	Balance	b/d	60 000							

					WORK-IN-PROGRESS STOCK					B	
20.6					20.7						
July	1	Balance	b/d	60 000	June	30	Finished goods stock	GJ	1 170 000		
20.7							Balance	c/d	66 000		
June	30	Direct materials cost	GJ	495 000							
		Direct labour cost	GJ	150 000							
		Factory o/head cost	GJ	531 000							
				1 236 000							1 236 000
July	1	Balance	b/d	66 000							

					FINISHED GOODS STOCK					B	
20.6					20.7						
June	1	Balance	b/d	180 000	June	30	Cost of sales	GJ	1 185 000		
20.7							Balance	c/d	165 000		
July	30	Work-in-progress stock	GJ	1 170 000							
				1 350 000							1 350 000
July	1	Balance	b/d	165 000							

FINAL ACCOUNTS / COST ACCOUNTS SECTION

					DIRECT MATERIALS COST					C	
20.7					20.7						
June	30	Raw materials is- sued	GJ	495 000	June	30	Work-in-progress stock	GJ	495 000		

					DIRECT LABOUR COST					C	
20.7					20.7						
June	30	Salaries and wages	GJ	150 000	June	30	Work-in-progress stock	GJ	150 000		

Dr					FACTORY OVERHEAD COST					C					Cr				
20.7					20.7					20.7					20.7				
June	30	Consumable stores	GJ	27 000	June	30	Work-in-progress			June	30	stock	GJ	531 000					
		Salaries and wages	GJ	90 000															
		Depreciation	GJ	34 000															
		Rent	GJ	180 000															
		Electricity	GJ	170 000															
		Sundry expenses	GJ	30 000															
				531 000															531 000

TASK 9.10 ☼ Mac Bicycle Manufacturers: Interpretation of a ledger account

9.10.1	Explain the 2 balance amounts, i.e. R80 000 and R79 000.
	R80 000 is the value of stock that is still in the production process at the beginning of the year and the R79 000 is the equivalent at the end of the year.
9.10.2	Name 3 items that could be included in the R162 000.
	Handles, chains, seats, wheels, etc.
9.10.3	What is the difference between direct and indirect labour cost?
	Direct labour: The people who are making the bicycles – they are directly involved in the manufacturing process. Indirect labour: Those people who work in the factory but are not directly involved in the manufacturing process, e.g. cleaners, maintenance, etc.
9.10.4	Name 5 items that could be included in the Factory overhead cost account.
	Electricity, rent, indirect labour, consumables stores, depreciation, petrol, etc.
9.10.5	What GAAP principle governs that Factory overhead cost should be shown as one figure?
	Concept of materiality – not important to know the individual details in the Work-in-progress account – they are reflected in the ledger accounts. Matching concept – all overhead costs are transferred to the Factory overhead cost so that the total can be shown.
9.10.6	If the business made 450 bicycles, calculate the cost price of each bicycle.
	$R360\,000 \div 450 = R800$.
9.10.7	If the business wishes to make a profit of 50% on cost when each bicycle is sold, what would the selling price be?
	$R800 + 50\% (R400) = R1\,200$.
9.10.8	What is the difference between Finished goods and Trading stock accounts?
	Finished goods are produced by the business while Trading stock is bought for resale.
9.10.9	Why is the folio reference GJ (General Journal) used in the ledger account?
	These are transfer entries.

TASK 9.11

Bongi Sweet Manufacturers: Interpretation of a ledger account

9.11.1	Write down the letters (A) – (D) and fill in the missing details.	
	Answer	Explanation
A	R27 500	5 500 x R5
B	R3 500	Balancing figure
C	Raw materials cost	Only cost item missing
D	GJ	Transfer entries
9.11.2	Explain why the stock figure from the beginning of the year to the end of the year has decreased.	
	There are fewer goods on the production line at the end of the year than there was at the beginning of the year.	
9.11.3	At present it is taking 2.45 days for the sweets to emerge from the factory. Bongi believes that this time should be 2.1 days. Give her 3 suggestions as to how she could speed up the process without reducing the quality of the sweets.	
	Offer incentive bonuses to the staff. Training for the staff. Streamline activities – prevent duplications and waiting. Invest in better (quicker) equipment. Etc.	
9.11.4	On an average, 8% of the sweets are 'ruined' in the production process and are, therefore, sold below cost at the factory shop. This results in a loss of profits. Give Bongi 3 suggestions as to how to improve this 'spoil' rate.	
	Incentive bonuses. Introduce checkpoints. Making people personally responsible above an acceptable level. Streamline activities.	

TASK 9.12

Springbok Manufacturers: Cost calculations

9.12.1	Direct material cost per unit
	Direct material cost ÷ No. of units made $240\ 000 \div 5\ 000 = R48$
9.12.2	Direct labour cost per unit
	Direct labour cost ÷ No. of units made $180\ 000 \div 5\ 000 = R36$
9.12.3	Prime cost per unit
	Direct materials cost (DMC) + Direct labour cost (DLC) $48 + 36 = R84$
9.12.4	Factory overhead cost per unit
	Factory overhead costs (FOC) ÷ No. of units made $330\ 000 \div 5\ 000 = R66$
9.12.5	Cost of production of finished goods per unit
	Cost of production of finished goods ÷ Number of units made OR DMC per unit + DLC per unit + OR Prime cost + FOC per unit $48 + 36 + 66 = R150$

9.12.6	Selling and distribution cost per unit
Selling & distribution cost (SDC) ÷ No. of units sold 80 000 ÷ 5 000 = R16	
9.12.7	Administration cost per unit
Administration cost (AC) ÷ No. of units sold 150 000 ÷ 5 000 = R30	
9.12.8	Variable cost per unit
DMC + DLC + SDC or Prime cost + SDC 48 + 36 + 16 = R100	
9.12.9	Selling price per unit
Cost × $\frac{200}{100}$ 150 × $\frac{200}{100}$ = R300	
9.12.10	Total fixed costs
FOC + AC = R330 000 + 150 000 = R480 000	
9.12.11	Contribution per unit
SP per unit – VC per unit = 300 – 100 = R200	
9.12.12	Break-even point
$\frac{\text{Total fixed costs}}{\text{SP per unit} - \text{VC per unit}}$ $\frac{480\,000}{300 - 100} = 2\,400 \text{ units}$	

TASK 9.13 BOSS Manufacturers: Cost calculations and internal control

9.13.1	Direct material cost per unit
576 000 ÷ 18 000 = R32	
9.13.2	Direct labour cost per unit
468 000 ÷ 18 000 = R26	
9.13.3	Prime cost per unit
32 + 26 = R58	
9.13.4	Factory overhead cost per unit
342 000 ÷ 18 000 = R19	
9.13.5	Cost of production of finished goods per unit
58 + 19 = R77	
9.13.6	Selling and distribution cost per unit
270 000 ÷ 18 000 = R15	
9.13.7	Administration cost per unit
189 000 ÷ 18 000 = R10.50	
9.13.8	Variable cost per unit
32 + 26 + 15 = R73	

9.13.9	Selling price per unit
2 520 000 ÷ 18 000 = R140	
9.13.10	Total fixed costs
342 000 + 189 000 = R 531 000	
9.13.11	Contribution per unit
140 – 73 = R67	
9.13.12	Break-even point
$\frac{531\ 000}{140 - 73} = 7\ 925.4 \text{ units} = 7\ 926 \text{ units}$	
9.13.13	Management is not fully satisfied with the CONTROL over the five cost accounts during the year. Compare the costs to the previous year and give reasons (quoting comparative figures) for the changes to the following five cost accounts. Suggest ways to improve efficiency, where applicable.
<ul style="list-style-type: none"> • Direct materials cost. Decreased from R36.80 to R32. Less wastage. Economical use of raw materials. Cheaper supplier found to supply specified quality materials. Raw materials purchased in bulk – lower cost. Training of employees to use materials efficiently, etc. • Direct labour cost. Increased from R20 to R26. Increased by 30% - above the inflation rate of 6%. Annual salary increase. Increase in overtime wages to cope with the increase demand of 3 000 units. Increase in the number of workers , etc. • Factory overhead cost. Decreased from R20.50 to R19. Larger number of units made and sold, resulted in a decrease of fixed cost. Expenses well-controlled – no abuse evident, etc. • Selling and distribution cost. Increased from R13 to R15 (15.4% increase). Commission on sales increased which resulted in 3 000 more units being sold. Cost of packaging , advertising increased , etc. • Administration cost. Increased from R9.70 to R10.50 (8% increase). Increase in office expenses – electricity, salaries, petrol, etc. Could be abuse of stationery, telephone usage, vehicle used for personal use, etc. Total costs increased from R100 to R102.50. 	

TASK 9.14 CAPS Manufacturers: Interpreting ledger accounts

9.14.1

GENERAL LEDGER OF CAPS MANUFACTURERS BALANCE SHEET ACCOUNTS SECTION

Dr					RAW MATERIALS STOCK					B		Cr	
20.4					20.5								
Apr	1	Balance	b/d	30 000	Mar	31	Creditors control	CAJ				4 000	
20.5							Raw materials issued						
Mar	31	Creditors control	CJ	70 000				GJ				91 000	
		Bank	CPJ	6 500			Balance	c/d				11 500	
				<u>106 500</u>								<u>106 500</u>	
Apr	1	Balance	b/d	11 500									

WORK-IN-PROGRESS STOCK					B								
20.4					20.5								
Apr	1	Balance	b/d	32 000	Mar	31	Finished goods	GJ				431 800	
20.5							Balance	c/d				41 000	
Mar	31	Raw materials cost	GJ	91 000									
		Direct labour cost	GJ	56 000									
		Factory o/head cost	GJ	293 800									
				<u>472 800</u>								<u>472 800</u>	
Apr	1	Balance	b/d	41 000									

FINISHED GOODS STOCK					B								
20.4					20.5								
Apr	1	Balance	b/d	120 000	Mar	31	Cost of sales	GJ				500 000	
20.5							Balance	c/d				51 800	
Mar	31	Work-in-progress stock	GJ	431 800									
				<u>551 800</u>								<u>551 800</u>	
Apr	1	Balance	b/d	51 800									

FINAL ACCOUNTS / COST ACCOUNTS SECTION DIRECT LABOUR COST

C													
20.5					20.5								
Mar	31	Wages	GJ	56 000	Mar	31	Work-in-progress stock	GJ				56 000	
				<u>56 000</u>								<u>56 000</u>	

FACTORY OVERHEAD COST

C													
20.5					20.5								
Mar	31	Factory maintenance	GJ	8 000	Mar	31	Work-in-progress stock	GJ				293 800	
		Factory electricity	GJ	30 000									
		Factory rent	GJ	235 800									
		Depreciation on equip.	GJ	15 000									
		Consumable stores	GJ	5 000									
				<u>293 800</u>								<u>293 800</u>	

Dr				TRADING ACCOUNT				F		Cr	
20.5				20.5							
Mar	31	Cost of sales	GJ	500 000	Mar	31	Sales	GJ		800 000	
		Profit and loss a/c	GJ	300 000							
				800 000						800 000	

9.14.2	What is the largest factory overhead expense?
Factory rent: R235 800	
9.14.3	Suggest two ways that the expense mentioned above could be reduced or eliminated.
<ul style="list-style-type: none"> Approach the landlord and ask for reduction in annual rent. Try to obtain new premises where rent payment is cheaper. Take a loan and purchase own building – use present rental for repayment on loan. 	
9.14.4	There appears to be a big difference between the previous year's closing balance and the current year's closing balance in the finished goods stock. Give one possible reason for this. Fully explain your answer.
<p>There appears to be a big difference between the previous years' closing balance and the current years' closing balance in the finished goods stock. Give one possible reason for this. Fully explain your answer.</p> <ul style="list-style-type: none"> It is possible that industrial action negatively impacted on production process. It is possible that no planning was done last year for major national events, such as World Cup tournament or elections, which may result in many employees taking more leave than normal – thereby targets could not be met. 	
9.14.5	Explain two ways in which the amount for the gross profit (to be transferred to profit and loss) could be increased in future.
<ul style="list-style-type: none"> The first way would be to increase mark-up from 60% to 70% provided cognizance is taken of competition and other market factors. An attempt should be made to reduce direct materials cost or factory overhead cost thereby reducing cost of finished goods. Maintaining the selling price will result in increased profit. 	

TASK 9.15 ☼ SA Manufacturers (1): Calculations and problem solving

9.15.1	Calculate the unit cost of producing one Bafana Bafana T-shirt.
R14 920 000 ÷ 100 000 = R149.20	
9.15.2	Calculate the percentage gross profit that will be achieved if the order was completed as per budget with no Work-in-progress stock either at the beginning or the end of the project.
<p>Gross profit = 20 000 000 – 14 920 000 = R5 080 000</p> $\frac{5\,080\,000}{4\,920\,000} \times 100\% = 34.05\%$	
9.15.3	Do you think that the gross profit percentage is satisfactory? Give reasons for your answer.
Yes – it is a large order, and the business placing the order would expect to receive a reduced rate for bulk order such as this one.	
9.15.4	Identify TWO possible problems that the present 40 permanent workers would have with the current plans of management? Suggest a solution to the two problems that you have identified.
<p>Two possible problems:</p> <ul style="list-style-type: none"> There would be unhappiness over obvious extra payment for the additional 25 staff. It appears that only managers are to receive a bonus and not ordinary employees on the factory floor. <p>Solution:</p> <ul style="list-style-type: none"> At the very worst pay new staff at the same rate as the existing staff. In fact new staff ought to be paid slightly lower rate, during training for about two weeks and then pay the same rate as the existing staff. 	

- No bonuses to workers but generous bonuses being awarded to managers is a recipe for disaster. It is suggested that ALL workers be paid a bonus. Managers could receive a percentage higher than ordinary staff members – e.g. 20% more. Half of the R900 000 allocated be set aside for bonus and the balance set aside for staff refreshments and upgrading staff facilities such as furniture (chairs); microwave ovens; fridges; etc.

TASK 9.16 SA Manufacturers (2): Business ethics

Refer to the details described in Task 9.14.

Note to the Teacher:

Even though the answers may appear to be obvious – it is good to see how learners react to temptation. The human mind is clear on knowing what is right and what is wrong but the seat of motivation, the heart, often has mixed emotions such as sense of justice, greed, love and envy.

Allow detailed answers (together with class discussion) on this scenario and similar case studies as per media reports.

The following aspects must be mentioned in learners' responses:

1. The legality and morality of "sewing" the tag "Made in South Africa" when the T-shirt was not made in South Africa.
2. Why is it necessary to avoid paying import/custom duty? Is there fraud and bribery of officials involved?
3. The advance payment of R2 000 000 maybe part of a scam. What is the credibility of the businessman concerned? How is it possible for him to give guarantees?
4. Is it possible for one government to give guarantees to a business organisation? Should not the South African government be involved in guarantees from a foreign government?
5. If this order is sub-contracted to a foreign country, then money would be going out of the country at the expense of local citizens, such as those in Port Elizabeth. It is better to have more local people employed so as to strengthen the local economy.

TASK 9.17 Sharpe Shoe Manufacturers: Ethics & internal control

9.17.1	This is both an ethical and internal control issue. He should offer his existing staff the opportunity to earn more income if the business is doing well as it will earn their support and they might need the extra money. It is also a control issue because the temporary workers will not be as skilled as the permanent workers and the quality of the product is likely to be negatively affected. This could seriously affect the reputation of the business and affect its long-term sustainability.
9.17.2	This is an ethical matter (and a legal matter). This amounts to exploitation of his workers. Siphon cannot change the conditions of employment to make a higher profit. He must realise that happy workers will tend to be more efficient. He cannot threaten them with losing their jobs if they do not agree to unreasonable demands.
9.17.3	It is reasonable and ethical for Siphon to pass on the increased production cost to the retailers, who will pass it on to the consumers. However, Siphon must realise that the raw materials make up only part of the total cost of the product – there are also labour and overhead costs, plus he adds on a reasonable profit. For example if the raw material cost accounts for R200 out of a total price of R500 per pair of shoes, then the price should go up by only R20. On the R500 price this is only 4%.
9.17.4	This is unethical and dishonest. If he wants the support of his loyal retailers he should treat them fairly. The retailers will get wise to the fact that if the price goes up because of petrol, then the price should also go down if the petrol price decreases. If high prices are retained, this will affect demand for the product and will affect the long-term prospects (sustainability) of the business.
9.17.5	This is an internal control matter. Obviously the wages clerk or the foreman is involved in this fraud. As internal auditor you should do a full investigation and Siphon should take disciplinary action against the culprits.

9.17.6	This is an internal control matter. Either the workers are making mistakes resulting in an increased volume of off-cuts, or the quality of the raw materials is the problem. The reason must be investigated and resolved as this is effectively increasing the cost of the completed articles.
9.17.7	This is unethical and affects the quality of the shoes produced. The end-user will ultimately realise that the quality has deteriorated and will not buy the shoes in future. Siphso should discontinue the bonus as this is causing the foreman to make inappropriate decisions. Rather he should establish quality checks as the batches of shoes are completed.
9.17.8	This may be an ethical issue. His business is doing well, so it is reasonable to assume that he needs the full amount of factory space to continue the business. If he confines the workers to a smaller area, this can affect their health and their efficiency. Siphso must not be greedy and should focus on his core activity, i.e. making good shoes.
9.17.9	This is an ethical issue. Siphso should try to find another brand ambassador. The public will get wise to the fact that the famous soccer player is not wearing the shoes at all times, and this will affect the credibility of Siphso's product.
9.17.10	This is an internal control matter. The quality of the shoes is apparently deteriorating and this must be sorted out as soon as possible. Siphso must establish quality checks as the batches of shoes are completed.

TASK 9.18 **Knock-on effect of petrol prices**

9.18.1	Explain in your own words how the petrol price increases affect the components (direct materials, direct labour and factory overheads) of the cost of producing a finished good in a manufacturing business.
<p>Raw materials cost increases because of the increased cost of transporting them to the factory. Direct labour cost increases because employers will have to ultimately pay higher wages because of inflation (all goods will cost more). Factory overheads (and also selling & distribution costs) will go up directly because of the increase in motor vehicle expenses, and all overheads will increase due to the 'knock-on' effect.</p>	
9.18.2	Explain why this could also lead to a reduction in employment. What effect will this have on the country?
<p>The cost of all products will become more expensive. Consumers will 'tighten their belts' and reduce spending. Fewer products will be sold and therefore fewer products will be manufactured, which mean manufacturing businesses will cut the number of jobs they can offer.</p>	
9.18.3	Refer to the last quotation in the report above. In your opinion, will a lower fuel price towards the end of the year solve the problem? Explain.
<p>Teachers should allow debate on this, e.g. some learners might think that manufactures might be dishonest and not reduce the prices when the petrol price decreases. There might also be opinions on what manufacturers can do to minimise the impact on the consumer, e.g. find cost-savings in other areas.</p>	

TASK 9.19 Accounting equation

No.	A +	E +	D =	C +	I +	L	Reason
9.19.1	+					+	Raw materials stock increases (debit). Creditors control increases (credit).
9.19.2	+ -						Raw materials stock decreases (credit). Raw materials issued is used as a temporary account and then transferred to Direct materials cost and then to Work-in-process stock (WIPS) which is an asset (debit).
9.19.3	+					+	Creditors for wages increase (credit). Direct wages account is debited and then transferred to Direct labour cost and then to WIPS which is an asset (debit).
9.19.4		+				+	Creditors for salaries increase (credit). Administration salaries are debited (expense) and then are transferred the Administration cost account and then to the Profit & Loss account as an expense.
9.19.5	+ -						Bank decreases (credit). The factory overhead expenses are debited and then transferred to the Factory overhead cost account and then to WIPS which is an asset (debit).
9.19.6	-	+					Bank decreases (credit). The S&D costs are debited and then transferred to the Selling & distribution cost account and then to the Profit & Loss account as an expense.
9.19.7	+ -						WIPS decreases (asset, credit). Finished goods stock increases (asset, debit).
9.19.8	+				+		Debtors control increases (debit).
	-	+					Sales increases (credit). Trading stock decreases (credit). Cost of sales increases (debit).

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Distinguish between the different cost items.			
Calculate the cost of production.			
Calculate the unit cost of production.			
Calculate the break-even point.			
Make appropriate entries in the general ledger.			
Understand ethics.			

MODULE 10 BUDGETING

NOTE TO THE TEACHER:

The CAPS document still requires learners to complete a Cash Budget including the projected Debtors' collection and the projected Creditors payment schedules. However, under the new curriculum learners are also required to prepare the projected Income Statement for a sole trader business. Ethics and internal control form an integral part of these two topics as it is primarily for control purposes that businesses complete both the Cash Budget and the Projected Income Statement. Therefore it is essential that control and ethics is integrated into these Tasks as well.

TASK 10.1 ☼ Alfred (1): A personal Cash Budget

10.1.1 CASH BUDGET OF ALFRED FOR THE PERIOD 01 AUGUST – 31 OCTOBER 20.9

RECEIPTS	August	September	October	Total
Salary	10 000	10 000	10 000	30 000
Housing subsidy		500	500	1 000
Rent income			800	800
Total receipts [A]	10 000	10 500	11 300	31 800
PAYMENTS				
Rent expense	1 650	-	-	1 650
Car instalment	1 900	1 900	1 900	5 700
Municipal charges	600	750	750	2 100
Mobile phone charges	457	466	600	1 523
Insurance	750	750	750	2 250
Motor expenses	984	1 014	1 044	3 042
Other expenses	1 501	1 546	1 592	4 639
Bond repayment		2 400	2 400	4 800
Transfer fees		6 500		6 500
Total payments [B]	7 842	15 326	9 036	32 204
Cash surplus (shortfall) [A – B]	2 158	(4 826)	2 264	(404)
Bank: opening balance	15 066	17 224	12 398	15 066
Bank: closing balance	17 224	12 398	14 662	14 662

Note to the Teacher:

Rent expense falls away in September as Alfred will now live in his own house.

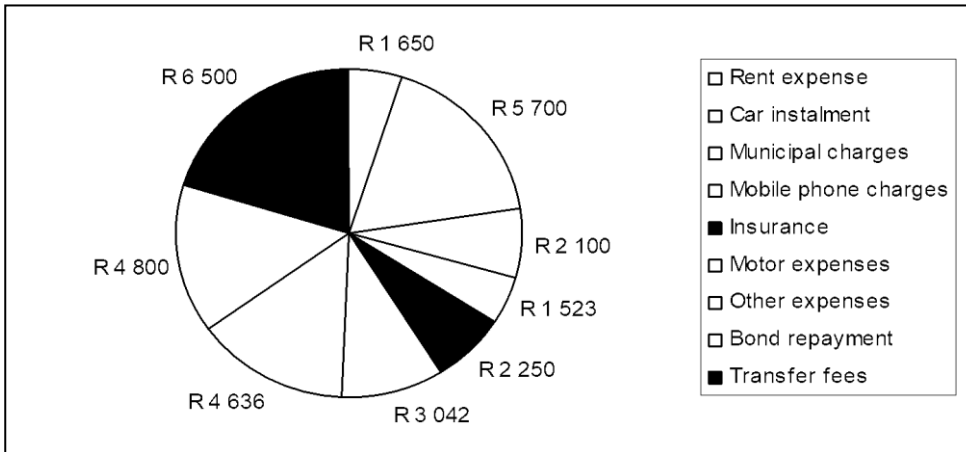
Transfer fees are payable when property is purchased. This is a once-off payment.

The opening bank balance (R15 066) is brought forward from the previous month, i.e. the end of July.

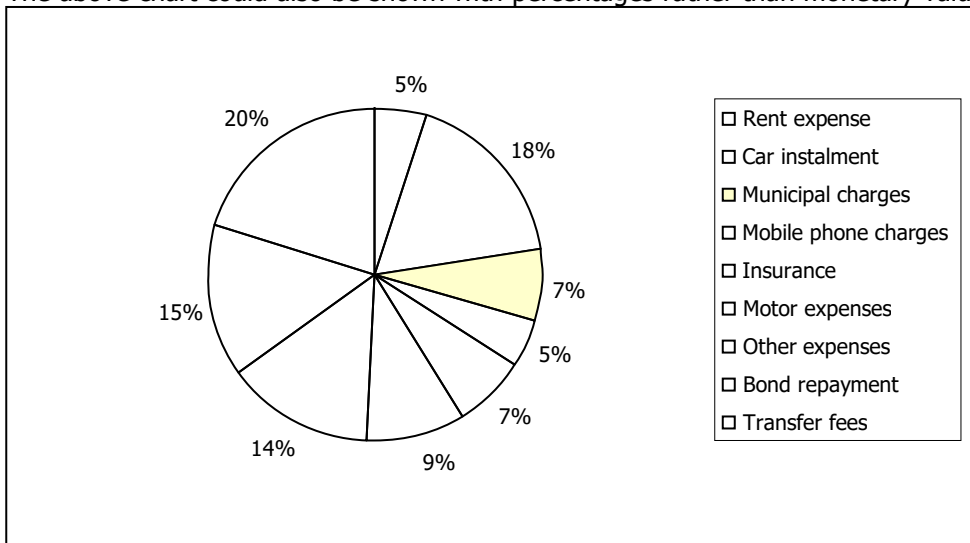
10.1.2 Teacher:

If your school (and your learners) do not have access to computers, allow them to draw pie graphs manually. Interact with the Mathematics department for assistance in this regard if necessary.

PIE-CHART SHOWING TOTAL EXPENSES ON 31 OCTOBER 20.9



The above chart could also be shown with percentages rather than monetary values:



TASK 10.2 ☼💧 Alfred (2): Analysing the personal Cash Budget

Alternate answers are possible.

10.2.1	Is Alfred's decision to buy his own house a wise one? Explain.
	Yes. He is the owner of a fixed asset – his net worth has increased substantially.
10.2.2	List two items that could be included under 'Other expenses'.
	Clothing, medication, cleaning services, etc.
10.2.3	Would you recommend that Alfred:
	(a) Invest some money in a fixed deposit? Substantiate.
	Yes. He has a fairly high bank balance. He may want to invest a portion in a fixed deposit where he can earn interest.
	(b) Invest some money on the stock exchange? Substantiate.
	Yes, provided he obtains good advice from an Investment Manager. The degree of risk should be considered.
	(c) Increase the repayment on the car? Substantiate.
	Yes, he will save on finance charges.

	(d) Increase the bond repayment? Substantiate.
Yes, he will save on interest. Paying off the bond quickly should be given top priority as this entails substantial savings.	
10.2.4	In September Alfred's payments exceeded his receipts. What caused this?
The cost of purchasing the property, i.e. the transfer fees and other charges (R6 500).	

TASK 10.3 Presenting a Cash Budget for school tour

10.3.1 SCHOOL TOUR: DURBAN TO RICHARDS BAY CASH BUDGET

RECEIPTS	
Total amount to be charged	40 300
Subsidy from school: $10\ 000 \div 2$	5 000
Total receipts	45 300
PAYMENTS	
Transport costs	10 000
Accommodation: $40 \times 150 \times 3$	18 000
Lunch and dinner: $40 \times 100 \times 3$	12 000
Entrance fees and other expenses: 40×120	4 800
Gratuity	500
Total payments	45 300

10.3.2	Calculate the total amount that would have to be paid by each learner.
$40\ 300 \div 40 = R1\ 007.50$	
10.3.3	One of the learners, Joe Smart, has an aunt who lives in Richards Bay. She will provide free lunch and dinner to Joe and two of his friends for two of the three days.
	(a) Calculate the total amount saved by Joe and his two friends in respect of meals.
$3 \times 100 \times 2 = R600.00$	
	(b) Calculate Joe's net cost of the tour.
$1\ 007.50 - 200 = R807.50$	
10.3.4	Assume that Joe Smart and his friends opt not to take the R100 for meals and instead request that the money be put back in the pool.
	(a) Calculate the total cost of the tour.
Total payments will decrease by R600, i.e. $R45\ 300 - 600 = R44\ 700$	
Total cost of the tour: $44\ 700 - 5\ 000 = R39\ 700$	
	(b) How much less would each learner pay?
Cost per learner: $39\ 700 \div 40 = R992.50$	
Difference per learner: $R1\ 007.50 - R992.50 = R15$	

TASK 10.4 Presenting a Cash Budget for school Debs Ball

Note to the Teacher:

This Task can be given as an assignment – there has to be some prior discussion.

Remember that various answers (responses) are possible depending on the learner's experience and exposure at school and in the community.

10.4.1 The letter of motivation should include a detailed break-down of start-up expenses.

10.4.2 A detailed list of expected receipts and payments is to be shown. The loan must also be paid back. The target should be a net taking higher than that of the previous year (R40 000).

Suggested marking grid:

Level 1	Level 2	Level 3	Level 4
Either the letter or the budget is included but not both	Letter of motivation which includes a budget showing most income and expense items	Good letter of motivation based on a comprehensive list of income and expense items	An excellent letter of motivation that is based on thorough, verifiable budget items

TASK 10.5 Tulani Stores: Draw up a Cash Budget of a sole trader

TULANI STORES

CASH BUDGET FOR THE PERIOD MARCH – MAY 20.8

RECEIPTS	March	April	May	Total
Cash sales [1]	270 000	297 000	311 850	878 850
Rent income	15 000	15 000	15 000	45 000
Total receipts [A]	285 000	312 000	326 850	923 850
PAYMENTS				
Cash purchases of trading stock [2]	180 000	198 000	207 900	585 900
Salaries [3]	56 000	64 400	64 400	184 800
Drawings [4]	4 000	4 000	4 800	12 800
Sundry other expenses [5]	21 000	22 050	23 153	66 203
Bond repayment [6]	14 800	16 300	16 300	47 400
New equipment	-	-	15 000	15 000
Total payments [B]	275 800	304 750	331 553	912 103
Cash surplus (shortfall) [A – B]	9 200	7 250	(4 703)	11 747
Bank: opening balance	6 800	16 000	23 250	6 800
Bank: closing balance	16 000	23 250	18 547	18 547

WORKINGS:

[1] March 270 000; April 270 000 x 110% = 297 000; May 297 000 x 105% = 311 850

[2] March sales x $\frac{150}{100}$ = 180 000

April sales x $\frac{150}{100}$ = 198 000

May sales x $\frac{150}{100}$ = 207 900

[3] Salaries 15% increase, i.e. 56 000 x 115% = 64 400

[4] Drawings increase by 20%, i.e. 4000 x 120% = 4 800

[5] 20 000 x 105% = 21 000

21 000 x 105% = 22 050

22 050 x 105% = 23 153

[6] 14 800 + 1 500 = 16 300

TASK 10.6 Amod's Corner Store: Cash Budget of a sole trader and interpretation

10.6.1 AMOD'S CORNER STORE

CASH BUDGET FOR THE PERIOD JANUARY – MARCH 20.9

RECEIPTS	January	February	March	Total
Cash sales [1]	216 000	226 800	238 140	680 940
Commission income [3]	-	-	-	-
Old equipment sold [5]			6 450	6 450
Rent income		800		800
Total receipts [A]	216 000	227 600	244 590	688 190
PAYMENTS				
Cash purchases of trading stock [2]	144 000	151 200	158 760	453 960
Salaries [4]	34 720	34 720	34 720	104 160
Deposit on vehicle		15 000		15 000
Instalment on vehicle			5 000	5 000
Drawings [6]	5 000	5 000	5 000	15 000
Sundry other expenses [7]	5 768	5 941	6 119	17 828
Total payments [B]	189 488	211 861	209 599	610 948
Cash surplus (shortfall) [A – B]	26 512	15 739	34 991	77 242
Bank: opening balance	13 020	39 532	55 271	13 020
Bank: closing balance	39 532	55 271	90 262	90 262

[1] 240 000 – 10% = R216 000
 216 000 + 5% = R226 800
 226 800 + 5% = R238 140

[2] Cost of sales = 240 000 – 80 000
 = 160 000
 Mark-up % = $\frac{80\,000}{160\,000} \times \frac{100}{1}$
 = 50%

216 000 x $\frac{100}{150}$ = R144 000

226 800 x $\frac{100}{150}$ = R151 200

238 140 x $\frac{100}{150}$ = R158 760

[3] Refer to Additional information No. 8: the arrangement with the dealer falls away from 1 January, therefore, no commission income is receivable.

[4] 31 000 + 12% = R34 720

[5] Carrying value = R7 650
 Loss on disposal = 1 200
 Selling price = R6 450

Note: A loss of R1 200 was made; the equipment had to be sold at less than carrying value.

[6] Total drawings = R9 000
 Less stock taken = 4 000
 Cash drawings = R5 000

[7] 5 600 + 3% = R5 768
 5 768 + 3% = 5 941
 5 941 + 3% = 6 119

10.6.2	Amod has eight employees who each earn the same salary. They are unhappy with the 12% increase and are demanding a further increase of 8% with effect from 1 January 20.9. The employees have the backing of their trade union.
	(a) Is Amod in a position to pay the additional 8%?
	Yes.
	(b) Should the increase be granted calculate the new bank balance on 31 March 20.9.
	Salary expense would increase to R37 200 (31 000 + 20%). He would be paying R2 480 per month (37 200 – 34 720) extra. Over the three months the extra amount will be R7 440 (2 480 x 3). The bank balance would decrease to R82 822 (90 262 – 7 440).
	(c) What effect would the payment of the additional 8% have on the net profit?
	Net profit would decrease by R7 440.
	(d) Amod decides to terminate the services of four of his employees with effect from 1 April 20.9. In their place he would employ his wife, his two sons and a nephew. His wife will receive no pay; his sons and nephew will be paid R3 000 each.
	• Calculate the new amount paid in respect of salaries in April 20.9.
	$34\,720 \div 2 = 17\,360$ OR $34\,720 \div 8 \times 4 = 17\,360$ Salaries = $17\,360 + (3 \times 3\,000)$ = $17\,360 + 9\,000$ = <u>R26 360</u>
	• What is your view on Amod's decision? Consider the legal and ethical issues and also trade union reaction.
	Various answers possible. Legal issues – dismissal of workers may be against the law – Employment Equity Act. Ethical issues – unfair dismissal; employing his wife for no pay; etc. Trade unions – employees may have grounds to object to their dismissal; the trade union can take action against Amod.

TASK 10.7 Calculation of credit sales and Debtors Collection Schedule

10.7.1 – 10.7.3

OTTO STORES

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD APRIL – SEPTEMBER 20.8

	April	May	June	July	August	September
Total sales	174 000	150 000	165 000	200 000	162 000	152 000
Cash sales [25%]	43 500	37 500	41 250	50 000	40 500	38 000
Credit sales [75%]	130 500	112 500	123 750	150 000	121 500	114 000
Debtors' collections	111 000	130 500	112 500	123 750	150 000	121 500

TASK 10.8 Interpretation of Debtors Collection Schedule

10.8.1	Does Otto Stores have an effective credit policy? Explain.
	Yes, 30 days is reasonable and debtors are paying within this time. No bad debts are being incurred.
10.8.2	Calculate the total sales for March 20.8.
	$111\,000 \times \frac{100}{75} = R148\,000$

10.8.3	The bulk of the trading is on credit. Explain ways in which Otto Traders can encourage more cash sales.
Offer discounts; award loyalty points; etc.	
10.8.4	Study the sales trend for the budget period. What are your observations?
Fairly consistent except in July when sales amount to R200 000 – it is possible that business improves during the school vacation. Alternative answers are possible.	

TASK 10.9 **Jacobus Hardware: Report on credit sales – Internal control**

Different interpretations are possible for this case study, however, the report should contain at least the following:

- A detailed analysis of the information supplied:
 - effect of the switch to credit trading on total turnover;
 - calculations which show the growth in turnover;
 - percentage credit sales;
 - percentage cash sales;
 - calculations in respect of collections from debtors;
 - calculations in respect of amounts not recovered;
- A plan of action to improve the situation:
 - Making use of credit bureaus/agencies for better screening of prospective debtors;
 - Other control measures, such as checking utility bills to verify ownership of property, banking details, employer details, setting credit limits, etc.
- A Debtors Schedule for the period April – June 20.9 showing an improved debt recovery rate.

Suggested marking grid:

Criteria	Level 1	Level 2	Level 3	Level 4
Data and information.	Very little attempt to produce the necessary data and information.	Some attempt to produce the necessary data and information.	Detailed data and information produced.	Comprehensive and thorough data and information produced.
Suggestions on how to improve the situation.	Suggestions that are not based on the data and information collected.	Some attempt to relate the suggestions to the data and information collected.	Good suggestions based on the data and information collected.	Excellent suggestions based on data and information collected showing great insight.
Debtors collection policy.	Very little attempt to produce a debtors collection policy.	Some attempt to produce a debtors collection schedule based on information given.	Good debtors collection policy based on the information given.	Excellent debtors collection policy based on insight.
Report – overall impression.	A vague report is produced.	Some attempt to produce a reasonable report.	A good report is produced.	A highly professional report is produced.

TASK 10.10 ☼ Sensation Outfitters: Debtors Collection Schedule

10.10.1 SENSATION OUTFITTERS

DEBTORS' COLLECTION SCHEDULE FOR THE PERIOD 01 APRIL TO 30 JUNE 20.9

	February	March	April	May	June
Credit sales	43 000	51 000	54 000	75 000	90 000
Debtors' collections					
February	[13%]		5 590		
March	[55%; 13%]		28 050	6 630	
April	[30%; 55%; 13%]		16 200	29 700	7 020
May	[30%; 55%]			22 500	41 250
June	[30%]				27 000
Cash receipts from debtors			49 840	58 830	75 270

10.10.2	Total outstanding debtors on 30 June 20.9
$[54\ 000 \times 2\%] + [75\ 000 \times 15\%] + [90\ 000 \times 70\%] = 1\ 080 + 11\ 250 + 63\ 000 = \underline{R75\ 330}$	

TASK 10.11 ☼ Bazuko Traders: Calculations and Debtors Collection Schedule

10.11.1	Calculate the total outstanding debtors on:
	(a) 28 February 20.8
$[20\% \times 112\ 000] + [50\% \times 84\ 000] = 22\ 400 + 42\ 000 = R64\ 400$	
	(b) 31 March 20.8
$[20\% \times 84\ 000] + [50\% \times 70\ 000] = 16\ 800 + 35\ 000 = R51\ 800$	
10.11.2	Calculate the total bad debts amount written off up to 31 March 20.8.
$[2\% \times 98\ 000] + [2\% \times 156\ 000] = 1\ 960 + 3\ 120 = R5\ 080$	
10.11.3	Calculate the total discount allowed for the period 1 January 20.8 to 31 March 20.8.
$[5\% \times 56\ 000] + [5\% \times 42\ 000] + [5\% \times 35\ 000] = 2\ 800 + 2\ 100 + 1\ 750 = R6\ 650$	
10.11.4	How does Bazuko Traders benefit from offering their customers a 5% discount for early settlement?
<p>Their cash flow is improved; the discount promotes customer loyalty – customers will probably buy more, thus increasing turnover.</p>	

10.11.5

BAZUKO TRADERS

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD 01 APRIL – 30 JUNE 20.8

	February	March	April	May	June
Total sales	210 000	175 000	150 000	130 000	160 000
Cash sales (60%)	126 000	105 000	90 000	78 000	96 000
Credit sales (40%)	84 000	70 000	60 000	52 000	64 000
Debtors' collections					
February			15 120		
March			21 000	12 600	
April			17 550	30 000	10 800
May				15 210	26 000
June					18 720
Cash receipts from debtors			53 670	57 810	55 520

TASK 10.12  **Analysis of a Debtors Collection Schedule**

DEBTORS COLLECTION SCHEDULE: OCTOBER – DECEMBER 20.9

	Credit sales	October	November	December
September	R80 000	62 400 ^[2]	-	-
October	85 000	16 150	66 300 ^[1]	-
November	82 000	-	15 580 ^[3]	63 960 ^[4]
December	120 000	-	-	22 800 ^[5]
Debtors collections		78 550	81 880	86 760

Calculations:

$16\ 150 \times \frac{100}{95} = R17\ 000$

$\frac{17\ 000}{85\ 000} \times 100\% = 20\%$ (payable in the month of the sale less 5% discount)

$80\% - 2\%$ (bad debts) = 78% is payable in the month after the sale.

^[1] $85\ 000 \times 78\% = R66\ 300$

^[2] $80\ 000 \times 78\% = R62\ 400$

^[3] $82\ 000 \times 20\% - 5\% = R15\ 580$

^[4] $82\ 000 \times 78\% = R63\ 960$

TASK 10.13  **Discussion on credit purchases**

10.13.1	What are the advantages of buying stock for cash?
The business can obtain cash discounts; the trader is not restricted to buying from one supplier – he can buy wherever he gets the better deal; freedom from debt as he has no creditors; etc.	
10.13.2	What are the advantages of buying stock on credit?
Possible improvement in cash flow as he sells stock first then pays later, etc.	
10.13.3	Wholesalers frequently advertise in newspapers.
	(a) Study a few such advertisements and make a comparison of prices of a few articles.
Various answers possible depending on the advertisements chosen.	

	(b) Calculate the unit price of a few items of your choice (the unit price is sometimes supplied in the advertisement). Compare this price (i.e. the wholesale price) with the retail price of these items. Calculate the mark-up percentage on these articles.
Various answers possible depending on the advertisements chosen.	
10.13.4	Ideally debtors should pay the trader before he (the trader) pays his creditors. Do you agree with this statement? Explain why.
Yes – working capital is eased up as payment is received for the stock sold before the trader has paid the supplier.	

TASK 10.14 ☞ Gulip CC: Creditors Payment Schedule

10.14.1 GULIP CC

CREDITORS PAYMENT SCHEDULE FOR THE PERIOD 1 JANUARY – 30 APRIL 20.8

	January	February	March	April
Total sales	60 000	70 500	64 200	61 800
Cost of sales	(40 000)	(47 000)^[2]	(42 800)	(41 200)
Gross profit	20 000	23 500	21 400	20 600
Cash purchases	10 000^[1]	11 750^[3]	10 700	10 300
Credit purchases	30 000	35 250^[4]	32 100	30 900
Payments to creditors	34 200	29 250	34 369^[5]	31 298

[1] 40 000 is cost of sales which is equal to total purchases: $40\ 000 - 30\ 000 = 10\ 000$

[2] Mark-up % = $\frac{20\ 000}{40\ 000} \times 100\% = 50\%$

$70\ 500 \times \frac{100}{150} = 47\ 000$

[3] Percentage cash purchases = $\frac{10\ 000}{40\ 000} \times 100\% = 25\%$

$47\ 000 \times 25\% = R11\ 750$

[4] $47\ 000 - 11\ 750 = R35\ 250$ OR $47\ 000 \times 75\% = R35\ 250$

[5] Discount = $30\ 000 - 29\ 250 = R750$

Percentage discount = $\frac{750}{30\ 000} \times 100\% = 2.5\%$

$35\ 250 - 2.5\% = R34\ 369$

10.14.2	Calculate the following for December 20.7.
	(a) Cost of sales
34 200 is the amount paid to creditors after the deduction of the 2,5% discount, therefore: $34\ 200 = 97.5\%$ $34\ 200 \times \frac{100}{97.5} = R35\ 077$ (credit purchases in December 20.7) $35\ 077 = 75\%$ $35\ 077 \times \frac{100}{75} = \underline{R46\ 769}$ = Total purchases = Cost of sales	
	(b) Total sales
$46\ 769 \times \frac{150}{100} = \underline{R70\ 154}$	
	(c) Gross profit
$70\ 154 - 46\ 769 = \underline{R23\ 385}$	
10.14.3	What is the outstanding creditors balance on 30 April 20.8?
R30 900	

10.14.4	Gulip CC allows their customers 60 days credit. The majority of their customers make use of this facility. It is possible that Gulip CC will experience cash flow problems. Give possible reasons for this and also provide remedial measures which can be implemented.
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Creditors/suppliers are being paid after 30 days while debtors are taking 60 days to pay. This can result in cash flow problems as the trader has to wait for 60 days for payment from debtors.

Remedial measures:

Offer incentives to debtors to settle their accounts before 60 days; negotiate with suppliers for extended credit, i.e. more than 30 days; reduce the credit terms offered to debtors, i.e. less than 60 days; etc.

TASK 10.15 ☼💧 Maggie's: Debtors Collection Schedule and Cash Budget

10.15.1

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD 1 JANUARY 20.8 – 28 FEBRUARY 20.8

	20.7	20.7	20.7	20.8	20.8
	October	November	December	January	February
Total sales	17 700	21 980	40 000	10 000	12 000
Cash sales	12 300	15 500	28 000	7 000	8 400
Credit sales	5 400	6 480	12 000	3 000	3 600
Debtors' collections					
October 20.7		[15%]		810	
November 20.7		[30%; 15%]		1 944	972
December 20.8		[50% less 5%; 30%]		5 700	3 600
January 20.8		[50% less 5%]			1 425
Cash receipts from debtors				8 454	5 997

10.15.2

MAGGIES

CASH BUDGET FOR THE PERIOD 1 JANUARY 20.8 – 28 FEBRUARY 20.8

RECEIPTS	January	February
Cash sales	7 000	8 400
Cash receipts from debtors	8 454	5 997
Loan		20 000
Total receipts [A]	15 454	34 397
PAYMENTS		
Cash payments to creditors	21 000	8 500
Salary	6 600	6 600
Rent expense ^[1]	-	2 875
General expenses ^[2]	3 290	2 770
Total payments [B]	30 890	20 745
Cash surplus (shortfall) [A – B]	(15 436)	13 652
Bank: opening balance	13 900	(1 536)
Bank: closing balance	(1 536)	12 116

^[1] During December the rent for December (R2 500); the rent for January (R2 875) was also paid in December (prepaid). Therefore the budgeted rent for January is nil.

^[2] In December general expenses (R1 300) was still owed; this is added to the January figure as it will be paid during this month.

TASK 10.16 ☹️ Alim Operations: Debtors Collection Schedule and Cash Budget

10.16.1 ALIM OPERATIONS

CASH BUDGET FOR THE PERIOD 1 JANUARY 20.8 – 28 FEBRUARY 20.8

RECEIPTS	January	February
Cash receipts from debtors	366 946	394 950
Sale of computer equipment [108 000 + 10 000]	118 000	
Capital	50 000	
Total receipts [A]	534 946	394 950
PAYMENTS		
Cash purchases of trading stock	104 500 ^[2]	87 500 ^[3]
Cash payments to creditors	135 375 ^[1]	148 913 ^[2]
Lease payment		4 200
Loan instalment	26 000	26 000
Cash operating expenses	41 500 ^[4]	45 650 ^[5]
Drawings	15 000	15 000
Total payments [B]	322 375	327 263
Cash surplus (shortfall) [A – B]	212 571	67 687
Bank: opening balance	(92 000)	120 571
Bank: closing balance	120 571	188 258

[1] Mark-up: $\frac{1\ 125\ 000}{1\ 875\ 000} \times 100/1 = 60\%$
 December purchases: $380\ 000 \times 100/160 = 237\ 500$
 Cash purchases: $40\% \times 237\ 500 = 95\ 000$
 Credit purchases: $60\% \times 237\ 500 = 142\ 500$
 Payment to creditors: $142\ 500 - 5\% = 135\ 375$

[2] January purchases: $418\ 000 \times 100/160 = 261\ 250$
 Cash purchases: $40\% \times 261\ 250 = 104\ 500$
 Credit purchases: $60\% \times 261\ 250 = 156\ 750$
 Payment to creditors: $156\ 750 - 5\% = 148\ 913$

[3] February purchases: $350\ 000 \times 100/160 = 218\ 750$
 Cash purchases: $40\% \times 218\ 750 = 87\ 500$

[4] $498\ 000 \div 12 = 41\ 500$

[5] $41\ 500 + 10\% = 45\ 650$

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD 1 JANUARY 20.8 – 28 FEBRUARY 20.8

	20.7	20.7	20.8	20.8
	November	December	January	February
Total sales (credit)	320 000	380 000	418 000	350 000
Debtors' collections				
November 20.7 [7%]			22 400	
December 20.7 [80%; 7%]			304 000	26 600
January 20.8 [10% less 3%; 80%]			40 546	334 400
February 20.8 [10% less 3%]				33 950
Cash receipts from debtors			366 946	394 950

10.16.2	Study the information below and answer the following questions:
	(a) Was the decision to lease computer equipment a wise one? Explain fully and state the impact of this decision on the cash position of the business.
<p>Yes, the sale enabled Alim Operations to pay off the R92 000 overdraft. Had the equipment not been sold the cash surplus for January would have been R94 571 (212 571 – 118 000). The lease agreement includes maintenance and insurance – these costs would otherwise have to be borne by Alim Operations. There will be no depreciation on the equipment as it does not belong to the business – the only business expense is the monthly cost of the lease (R4 200). Alternate answers are possible.</p>	
	(b) Does this business own or lease property? Provide a reason for your answer.
Own – they have a mortgage bond towards which monthly payments of R26 000 are made.	

TASK 10.17 Easup Bargain Bazaar: Debtors and Creditors Schedules and Cash Budget

10.17.1 EASUP BARGAIN BAZAAR

DEBTORS COLLECTION SCHEDULE: 1 OCTOBER 20.8 - 31 DECEMBER 20.8

	August	September	October	November	December
Total sales	90 000	80 000	75 000	110 000	150 000
Cash sales	54 000	48 000	37 500	55 000	45 000
Credit sales	36 000	32 000	37 500	55 000	105 000
Debtors' collections					
August	[20%]		7 200		
September		[35%; 20%]	11 200	6 400	
October	[40% less 2½%; 35%; 20%]		14 625	13 125	7 500
November		[40% less 2½%; 35%]		21 450	19 250
December		[40% less 2½%]			40 950
Cash receipts from debtors			33 025	40 975	67 700

CREDITORS PAYMENTS SCHEDULE: 1 OCTOBER 20.8 - 31 DECEMBER 20.8

	August	September	October	November	December
Total sales	90 000	80 000	75 000	110 000	150 000
Cost of sales [75%]	67 500	60 000	56 250	82 500	112 500
Cash purchases [40%]	27 000	24 000	22 500	33 000	45 000
Credit purchases [60%]	40 500	36 000	33 750	49 500	67 500
Payments to creditors					
August	[90% less 5%; 10%]	34 628	4 050		
September	[90% less 5%; 10%]		30 780	3 600	
October	[90% less 5%; 10%]			28 856	3 375
November	[90% less 5%]				42 323
Cash payments to creditors			34 830	32 456	45 698

10.17.2 CASH BUDGET FOR THE PERIOD 1 OCTOBER 20.8 TO 31 DECEMBER 20.8

RECEIPTS	October	November	December	Total
Cash sales	37 500	55 000	45 000	137 500
Cash receipts from debtors	33 025	40 975	67 700	141 700
Sale of old laptop computer ^[4]			5 000	5 000
Total receipts [A]	70 525	95 975	117 700	284 200
PAYMENTS				
Cash purchases of trading stock	22 500	33 000	45 000	100 500
Cash payments to creditors	34 830	32 456	45 698	112 984
Salaries	30 000	30 000	30 000	90 000
Advertising	7 250 ^[1]	3 300 ^[2]	6 000 ^[3]	16 550
Other cash operating expenses	16 000	16 000	16 000	48 000
Deposit on laptop computer		9 000		9 000
Instalment on laptop computer			4 500	4 500
Loan instalment	2 000	2 000	2 000	6 000
Cash drawings	12 000	12 000	12 000	36 000
Total payments [B]	124 580	137 756	161 198	423 534
Cash surplus (shortfall) [A – B]	(54 055)	(41 781)	(43 498)	(139 334)
Bank: opening balance	90 000	35 945	(5 836)	90 000
Bank: closing balance	35 945	(5 836)	(49 334)	(49 334)

^[1] 3% x 75 000 + 5 000 (September)

^[2] 3% x 110 000

^[3] 4% x 150 000

^[4] 6 000 – 1 000

10.17.3	Make a careful study of the budget. Prepare a report for submission to the owner identifying the main problem areas; indicate if the business has a future and explain how the situation can be improved.
<p>Different answers are possible. Some observations are stated below:</p> <ul style="list-style-type: none"> - The favourable bank balance of R90 000 becomes unfavourable after three months. - The overdraft will most probably increase further in the future as total receipts are less than total payments for all three months. - The owner does not seem to have considered interest on overdraft. <p><u>Remedial measures:</u></p> <ul style="list-style-type: none"> - Review the mark-up percentage – presently it is 33¹/₃% (Gross profit = 90 000 – 67 500 = R22 500). Mark-up is $\frac{22\,500}{67\,500} \times 100\% = 33\frac{1}{3}\%$. Profitability of this business needs to improve. - Get the debtors to pay sooner. - Obtain better credit facilities from suppliers. - Review the amounts paid in respect of salaries and cash operating expenses. - Review the monthly cash drawings made by the owner. - Etc. 	

Suggested rubric for this activity:

Criteria	Level 1	Level 2	Level 3	Level 4
Identification of problem areas.	Fails to identify problem areas.	Identifies most of the main problem areas.	Identifies problem areas beyond the obvious.	Identification of problem areas that are comprehensively discussed showing great insight.
Future prospects identified.	Very little attempt to identify future prospects.	Can identify future prospects of the business.	Can identify beyond the obvious with some discussion evident.	Excellent discussion of the future prospects of the business.
Suggestions for improvement.	Cannot make suggestions for improvement.	Make obvious suggestions for improvement.	Can make suggestions beyond the obvious with some discussion evident.	Excellent suggestions showing great insight.

TASK 10.18 Allcats Traders: Interpretation of a Cash Budget

10.18.1	Does this business sell on credit? Provide a reason for your answer.
	No – there are no collections from debtors.
10.18.2	Calculate the mark-up percentage applied by Allcats Traders.
	Total purchases (cost of sales) in December = $45\ 000 \times \frac{100}{90} = 50\ 000$ Gross profit = $100\ 000 - 50\ 000 = R50\ 000$ Mark-up = $\frac{50\ 000}{50\ 000} \times \frac{100}{1} = 100\%$
10.18.3	No loan instalment was paid in January and February. Provide a possible reason for this.
	The loan agreement probably stipulates that loan repayments be made quarterly – every three months.
10.18.4	In March a vehicle was sold.
	(a) What would the closing bank balance in March be had the vehicle not been sold?
	$-63\ 098 - 50\ 000 = -R113\ 098$ (overdraft)
	(b) A profit of R2 700 was made on the disposal. Calculate the carrying value of the vehicle.
	$50\ 000 - 2\ 700 = R47\ 300$
	(c) Does the profit of R2 700 have an effect on the closing March balance? Explain.
	No, the profit is included in the selling price of R50 000. The carrying value is R47 300; it was sold for R2 700 more than its carrying value: $47\ 300 + 2\ 700 = R50\ 000$.
10.18.5	State why depreciation is not shown in the cash budget.
	Depreciation is a calculation and no cash has been exchanged, no cash is involved.
10.18.6	Calculate the following for January 20.9.
	(a) Total purchases
	$36\ 000 \times \frac{100}{90} = R40\ 000$
	(b) Cost of sales
	$36\ 000 \times \frac{100}{90} = R40\ 000$
10.18.7	Explain the meaning of the following statement: 'A fixed base stock level is maintained'.
	The stock sold in a month is replaced by the same amount, i.e. cost price of goods sold is equal to the total purchases of stock for that month.
10.18.8	The owner of Allcats Traders maintains that her business is doing well. Explain why you disagree with her. State your observations and suggestions.
	<p><u>Observations</u></p> <p>The loan of R40 000 was used to finance expenses in January. The disposal of the vehicle reduced the shortfall in March. Total payments are higher than total receipts for the entire budget period. The overdraft would probably increase further in the subsequent months.</p> <p><u>Suggestions:</u></p> <p>Turnover needs a boost – sales promotions; mark-downs; sales; other incentives. Extended credit terms with suppliers should be applied for. The business may want to consider selling on credit – this would increase turnover and subsequently cash receipts. There is a need for more effective control over expenses – e.g. rent – obtain cheaper or smaller premises. Alternate answers/interpretations are possible.</p>

TASK 10.19 Dr Dougal: Case study to draw up a Cash Budget

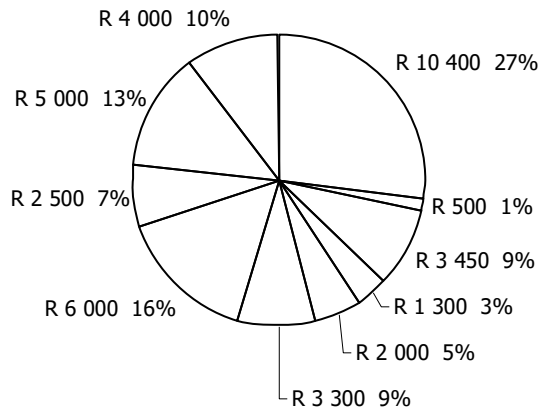
Different answers are possible as learners may want to include other items which the doctor may not have considered. The budget below is a suggested one without additional items.

CASH BUDGET OF DR DOUGAL FOR THE PERIOD 1 FEBRUARY 20.9 – 30 APRIL 20.9

	February	March	April	Total
CASH RECEIPTS				
Interest income	1 400	1 400	1 400	4 200
Lump sum benefit		350 000		350 000
Fee income	20 000	30 000	40 000	90 000
Total receipts [A]	21 400	381 400	41 400	444 200
CASH PAYMENTS				
Household expenses	10 400	10 400	10 400	31 200
School fees	500	500	500	1 500
Lease payment for car	3 450	3 450	3 450	10 350
Medical aid	1 300	1 300	2 800	5 400
Pension fund	2 000	2 000	-	4 000
Insurance	3 300	3 300	3 300	9 900
Bond repayment		300 000		300 000
Rent expense	6 000	6 000	6 000	18 000
Equipment		30 000		30 000
Payment to creditor			2 000	2 000
Salary	2 500	2 500	2 500	7 500
Medical supplies	5 000	5 000	5 000	15 000
Sundry other expenses	4 000	4 000	4 000	12 000
Total payments [B]	38 450	368 450	39 950	446 850
Cash shortfall [A - B]	(17 050)	12 950	1 450	(2 650)
Opening bank balance	17 250	200	13 150	17 250
CLOSING BANK BALANCE	200	13 150	14 600	14 600

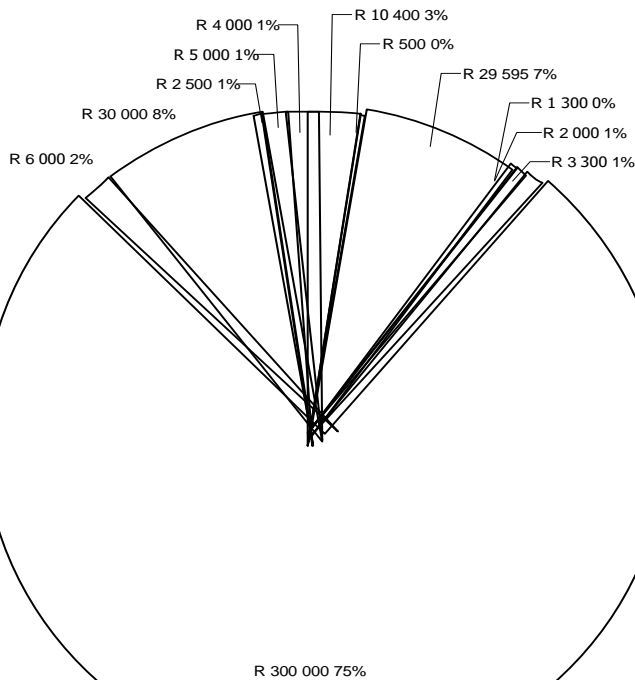
Pie-charts may be used to show monthly expenses, e.g. the monthly expenses for February is shown below.

MONTHLY EXPENSES: FEBRUARY



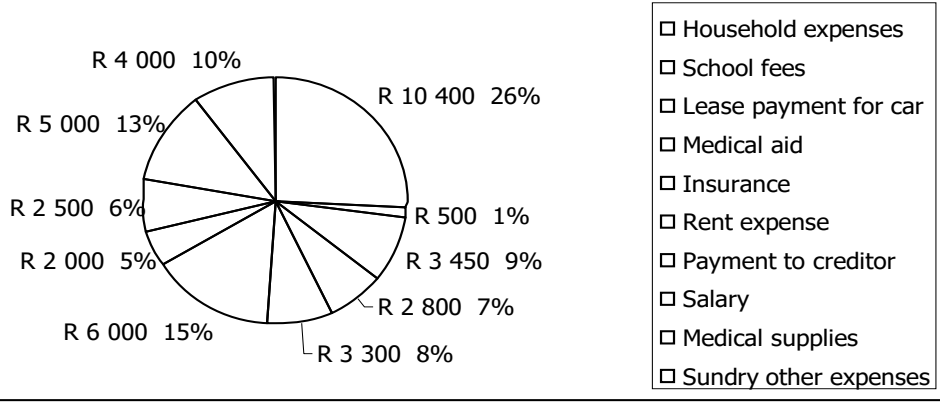
- Household expenses
- School fees
- Lease payment for car
- Medical aid
- Pension fund
- Insurance
- Rent expense
- Salary
- Medical supplies
- Sundry other expenses

MONTHLY EXPENSES: MARCH



- Household expenses
- School fees
- Lease payment for car
- Medical aid
- Pension fund
- Insurance
- Bond repayment
- Rent expense
- Equipment
- Salary
- Medical supplies
- Sundry other expenses

MONTHLY EXPENSES: APRIL



Suggested rubric for this activity:

Criteria	Level 1	Level 2	Level 3	Level 4
Budget	Displays little skill in compiling a budget.	Adequately skilled in compiling a budget that is fairly accurate.	Highly skilful in compiling a budget, well-presented and accurate.	Shows outstanding skills in compiling a budget - well-presented, accurate and contains all the relevant detail.
Report	Shows little understanding of a budget.	Shows a reasonable understanding of budgeting but needs some improvement.	Highly professional with effective suggestions / comments supplied.	Shows a high degree of professionalism with relevant and effective comments / suggestions.

PROJECTED INCOME STATEMENT:

This section was covered in Grade 12 under the NCS but under the new curriculum it is now part of the Grade 11 work.

TASK 10.20  **Viola’s Fashion Store: Projected Income Statement**

10.20.1 VIOLA’S FASHION STORE

PROJECTED INCOME STATEMENT FOR THE PERIOD 1 DECEMBER 20.8 TO 28 FEBRUARY 20.9

	Dec 20.8	January 20.9	February 20.9	Total
Sales	400 000 ^[1]	320 000 ^[2]	324 000	1 044 000
Cost of sales	(200 000) ^[3]	(160 000) ^[4]	(180 000) ^[5]	(540 000)
Gross profit	200 000	160 000	144 000	504 000
Other operating income				
Rent income	2 500	2 875 ^[11]	2 875 ^[11]	8 250
Gross operating income	202 500	162 875	146 875	512 250
Operating expenses	[123 900)	[124 620)	[124 718)	[373 238)
Salaries	102 000 ^[9]	103 680 ^[10]	103 680 ^[10]	309 360
Depreciation	3 000	3 000	3 050 ^[12]	9 050
Stationery & consumables	900	900	900	2 700
Advertisements	7 200	7 200	7 200	21 600
Bad debts	4 800 ^[6]	3 840 ^[7]	3 888 ^[8]	12 528
Insurance	1 200	1 200	1 200	3 600
Sundry expenses	4 800	4 800	4 800	14 400
Operating profit	78 600	38 255	22 157	139 012
Interest income	100	100	100	300
Net profit for the year	78 700	38 355	22 257	139 312

[1] $250\ 000 + 60\% = 400\ 000$

[2] $400\ 000 - 20\% = 320\ 000$

[3] Mark-up = $\frac{125\ 000}{125\ 000} \times \frac{100}{1}$
= 100%

$400\ 000 \times \frac{100}{200} = 200\ 000$

OR $400\ 000 \div 2 = 200\ 000$

[4] $320\ 000 \div 2 = 160\ 000$

[5] $324\ 000 \times \frac{100}{180} = 180\ 000$

[6] $400\ 000 \times 40\% \times 3\% = 4\ 800$

[7] $320\ 000 \times 40\% \times 3\% = 3\ 840$

[8] $324\ 000 \times 40\% \times 3\% = 3\ 888$

[9] $96\ 000 + [4 \times 1\ 500] = 102\ 000$

[10] $96\ 000 + 8\% = 103\ 680$

[11] $2\ 500 + 15\% = 2\ 875$

[12] $3\ 000 + [4\ 000 \times 15\% \times \frac{1}{12}] = 3\ 000 + 50 = 3\ 050$

10.20.2	Refer to the Income Statement for November 20.8. State your observations on the gross operating income and net profit. What can be done to improve the situation?
<p>Huge difference between the gross and the net profit: operating expenses are high and needs to be controlled – mainly salaries.</p> <p>Viola needs to check how effective advertising is on turnover as the amount spent on advertising is quite high.</p> <p>An increase in mark-up will result in a higher gross profit – this could also improve the situation.</p>	

10.20.3 Refer to the Projected Income Statement for the three months ending 28 February 20.9. Is there an improvement in the profitability of the business? Explain.

Yes.
The projected turnover figures results in a high gross profit.
The owner should be pleased with the profitability of the business provided the expected turnover is achieved.

TASK 10.21 ☞ Osman: Projected Income Statement and Ethics

10.21.1 Calculate his net profit for Week 1.

Sales [70 x 40]	R2 800
Cost of sales [70 x 30]	(2 100)
Gross profit	700
Expenses	(75)
Net profit	R625

10.21.2 Calculate his cash balance at the end of Week 1.

Opening balance	R20 000
Sales [70 x 40]	2 800
Stock purchases [100 x 30]	(3 000)
Expenses	(75)
Cash balance	R19 725

10.21.3 PROJECTED INCOME STATEMENT FOR WEEKS 1, 2, 3 AND 4 OF MAY

	Week 1	Week 2	Week 3	Week 4	Total
Sales ^[1]	2 800	6 000	7 200	8 400	24 400
Cost of sales ^[2]	(2 100)	(4 500)	(5 400)	(6 300)	(18 300)
Gross profit	700	1 500	1 800	2 100	6 100
Operating expenses	(75)	(325)	(625)	(625)	(1 650)
Cash operating expenses	75	75	75	75	300
Wages	-	-	300	300	600
Rental		250	250	250	750
Net profit for the year	625	1 175	1 175	1 475	4 450

^[1] Sales are calculated as follows: Number of DVD's x 40

^[2] Cost of sales is calculated as follows: Number of DVD's sold x 30

10.21.4 Many of Osman's competitors sell their DVDs for between R30 and R35 each. Reliable sources informed him that competitors sell 'fake' or 'pirate' DVDs and are making huge profits. Osman is also tempted to deal in illegal copies of DVDs because of the substantial profit potential. What is your view on this? Consider the legal and ethical issues involved.

Trading in illegal copies of DVDs is illegal – criminal action can be instituted against Osman and his competitors as this constitutes an infringement of the copyright laws.

As a rule dealing with illegal products is unethical and immoral as one enriches oneself at the expense of another.

In this case it would be the artists/singers or the producers of the film who are being cheated of their rightful earnings.

Alternate answers are possible.

TASK 10.22 Difference between Projected Income Statement and a Cash Budget

10.22.1	State the main difference between a Projected Income Statement and a Cash Budget.
<p><u>Projected Income Statement:</u> This statement shows the expected net profit; it includes all expenses paid and payable and income received and receivable.</p> <p><u>Cash budget:</u> This shows expected cash receipts/payments and the cash balance; non-cash items are excluded.</p>	
10.22.2	List two expenses that would appear in the Projected Income Statement but not in the Cash Budget.
Depreciation; Bad debts; Provision for bad debts adjustment; Stock deficits.	
10.22.3	List two items that would appear in the Cash Budget but not in the Projected Income Statement.
Receipts from debtors; Payments to creditors; Purchase/sale of asset.	

TASK 10.23 Applemash Stores: Projected Income Statement and a Cash Budget

10.23.1 APPLEMASS STORES

PROJECTED INCOME STATEMENT FOR THE PERIOD 1 MARCH - 31 AUGUST 20.9

	March	April	May	June	July	August	Total
Sales	100 000	110 000	104 500	130 625	163 281	146 953	755 359
Cost of sales	(66 667)	(73 333)	(69 667)	(87 083)	(108 854)	(97 969)	(503 573)
Gross profit	33 333	36 667	34 833	43 542	54 427	48 984	251 786
Other operating income:							
Rent income	4 000	4 000	4 000	4 000	4 400	4 400	24 800
Gross operating income	37 333	40 667	38 833	47 542	58 827	53 384	276 586
Operating expenses	(37 976)	(39 339)	(38 605)	(37 874)	(38 346)	(38 822)	(230 962)
Salaries and wages	20 000	20 000	20 000	20 000	20 000	20 000	120 000
Advertising	2 500	2 500	2 500	2 500	2 500	2 500	15 000
Bad debts ^[1]	3 300	4 500	3 600	2 700	3 000	3 300	20 400
Depreciation	4 050	4 050	4 050	4 050	4 050	4 050	24 300
Other operating expenses	8 126	8 289	8 455	8 624	8 796	8 972	51 262
Operating profit	(643)	1 328	228	9 668	20 481	14 562	45 624
Interest expense	(1 840)	(1 840)	(1 840)	(1 840)	(1 840)	(1 840)	(11 040)
Net profit for the year	(2 483)	(512)	(1 612)	7 828	18 641	12 722	34 584

[1] March: $66\ 000 \times 5\% = 3\ 300$
 April: $90\ 000 \times 5\% = 4\ 500$
 May: $72\ 000 \times 5\% = 3\ 600$
 June: $54\ 000 \times 5\% = 2\ 700$
 July: $60\ 000 \times 5\% = 3\ 000$
 August: $66\ 000 \times 5\% = 3\ 300$

10.23.2 CASH BUDGET FOR THE PERIOD 1 MARCH - 31 AUGUST 20.9

	March	April	May	June	July	August	Total
RECEIPTS							
Cash sales	40 000	44 000	41 800	52 250	65 312	58 781	302 143
Debtors collection	65 700	53 400	57 900	61 740	62 865	77 592	379 197
Rent income	4 000	4 000	4 000	4 000	4 400	4 400	24 800
Total receipts [A]	109 700	101 400	103 700	117 990	132 577	140 773	706 140
PAYMENTS							
Payments to creditors ^[1]	60 000	66 667	73 333	69 667	87 083	108 854	465 604
Salaries and wages	20 000	20 000	20 000	20 000	20 000	20 000	120 000
Advertising	15 000			15 000			30 000
Other operating expenses	7 026 ^[2]	8 289	8 455	8 624	8 796	8 972	50 162
Loan instalment ^[3]	2 500	2 500	2 500	2 500	2 500	2 500	15 000
Total payments [B]	104 526	97 456	104 288	115 791	118 379	140 326	680 766
Cash shortfall [A - B]	5 174	3 944	(588)	2 199	14 198	447	25 374
Opening bank balance	23 400	28 574	32 518	31 930	34 129	48 327	23 400
CLOSING BANK BALANCE	28 574	32 518	31 930	34 129	48 327	48 774	48 774

[1] Mark-up = $\frac{500\,000}{1\,000\,000} \times \frac{100}{1} = 50\%$
 March = $90\,000 \times \frac{100}{150} = 60\,000$

[2] $8\,126 + 1\,200 - 2\,300 = 7\,026$

[3] Interest on the loan is included in the loan instalment.

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD 1 MARCH - 31 AUGUST 20.9

	20.8		20.9							
	Nov.	Dec.	January	February	March	April	May	June	July	August
Total sales	110 000	150 000	120 000	90 000	100 000	110 000	104 500	130 625	163 281	146 953
Cash sales (40%)	44 000	60 000	48 000	36 000	40 000	44 000	41 800	52 250	65 312	58 781
Credit sales (60%)	66 000	90 000	72 000	54 000	60 000	66 000	62 700	78 375	97 969	88 172
Debtors' collections										
December 20.8 [5%]					4 500					
January 20.9 [70%; 5%]					50 400	3 600				
February 20.9 [20%; 70%; 5%]					10 800	37 800	2 700			
March 20.9 [20%; 70%; 5%]						12 000	42 000	3 000		
April 20.9 [20%; 70%; 5%]							13 200	46 200	3 300	
May 20.9 [20%; 70%; 5%]								12 540	43 890	3 135
June 20.9 [20%; 70%]									15 675	54 863
July 20.9 [20%]										19 594

Cash receipts from debtors	65 700	53 400	57 900	61 740	62 865	77 592
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TASK 10.24 Portobello Stores: Interpretation of a Projected Income Statement

PORTOBELLO STORES

PROJECTED INCOME STATEMENT FOR 3 MONTHS ENDED 31 DECEMBER 20.9

	October	November	December	Total
Turnover	86 400 ^[1]	120 600	150 300	357 300
Cost of sales	(48 000)	(67 000) ^[10]	(83 500) ^[11]	(198 500)
GROSS PROFIT	38 400	53 600	66 800	158 800
Other operating income				
Rent income	1 250 ^[2]	1 250	1 500	4 000
GROSS OPERATING INCOME	39 650	54 850	68 300	162 800
Operating expenses	(19 908)	(21 486)	(22 383)	(63 777)
Salaries and wages	11 500 ^[3]	12 075 ^[4]	12 075	35 650
Advertising	2 160	3 015 ^[5]	3 758	8 933
Insurance	800	800	800	2 400
Depreciation	1 750 ^[6]	1 750	1 750	5 250
Other operating expenses	3 698 ^[8]	3 846 ^[7]	4 000	11 544
OPERATING PROFIT	19 742	33 364	45 917	99 023
Interest expense	200 ^[9]	200	200	600
PROJECTED NET PROFIT	19 942	33 564	46 117	99 623

[1] $48\,000 \times \frac{180}{100} = 86\,400$

[2] $1\,500 \times \frac{100}{120} = 1\,250$

[3] $36\,650 = 310\% [(Oct: 100\%) + (Nov: 105\%) + (Dec: 105\%)]$
 $x = 100\%$

$x = 35\,650 \times \frac{100}{310} = 11\,500$

[4] $11\,500 + 5\% = 12\,075$

[5] $\frac{2\,160}{86\,400} \times 100\% = 2.5\%$

$2.5\% \times 120\,600 = 3\,015$

[6] $84\,000 \times 25\% \div 12 = 1\,750$

[7] $4\,000 \times \frac{100}{104} = 3\,846$

[8] $3\,846 \times \frac{100}{104} = 3\,698$

[9] $2\,400 \div 12 = 200$

[10] $120\,600 \times \frac{100}{180} = 67\,000$

[11] $66\,800 \times \frac{100}{80} = 83\,500$

TASK 10.25 Internal audit and control

Note to the Teacher:

- Learners can take any expenses and discuss these.
- You can also increase the expenses if you so desire.
- You may also want learners to comment on expenses that appear to be well-managed.

Use the following grid to summarise your concerns and suggested solution:

10.25.1	Expense 1: Telephone	Negative Variance: January : - 2000 (2000 – 4000) February: -3000 (2000 – 5000)
	Reason: <ul style="list-style-type: none"> • It appears that unauthorised personal telephone calls are being made, possibly by employees. OR • The actual budget for business telephone calls were grossly under-budgeted. 	Suggested solution: <ul style="list-style-type: none"> • There should be a register and each call must be recorded i.r.o. time; person; name; duration and reason for call. Personal calls must be charged to the account of the employees. • The management and internal auditor should sit together and rework a realistic budget for telephone.
	Expense 2: Trading stock deficit	Negative Variance: January: -15 500 (500 – 16 000) February: -11 500 (500 – 12 000)
	Reason: It appears that there is very high shrinkage (shortfall of stock). It appears that there is theft of stock in a large way.	Suggested solution: Improve security immediately. Use of visible security(officers) in the store and at all exits. Closed circuit TV and or scanners used to monitor goods not scanned leaving the store.
	Expense 3: Bad debts	Negative Variance: January: -7 000 (2 000 – 9 000) February: -9 000 (2 000 – 11 000)
	Reason: Many debtors are just not paying their debts and it appears that there is no control.	Suggested solution: <ul style="list-style-type: none"> • Debtors must be screened for credit-worthiness before authorising goods to be sold on credit. • Timeous reminders and statement of accounts must be sent to debtors. • Could make use of electronic media such as SMSs and emails as additional reminders.
10.25.2	Expense 1: Security expenses	Positive Variance: Both January and February had positive variances 5 500 (9 000 – 2 500)
	Reason: It might appear good on paper, but reality is that less money is spent on security – possibly to cut back on expenses. May not be a wise decision.	Suggested solution: Trading stock deficit is very high in both months and this can be linked to insufficient funding for security. Look at suggestions above for more “beefed up” security measures.
	Expense 2: Discount allowed	Positive Variance: Both months had no discount allowed – therefore positive variance remains at 1 500 and 2 000 for January and February.

	Reason: It appears that no debtor qualifies for discount that is traditionally allowed on early settlement of debts.	Suggested solution: After screening of debtors for creditworthiness, emphasise benefits of discount – possibly also allow competition for early payers.
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CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Can explain a budget and its use.			
Draw up a personal budget for more than one month.			
Prepare a business Cash Budget.			
Explain how credit terms affect a budget.			
Draw up a Cash Budget where goods are bought and sold on credit.			
Prepare and analyse a Debtor’s Collection Schedule.			
Describe a debtor collection policy.			
Analyse sales trends using budget information.			
Prepare a Monthly Income Forecast.			
Draw up a Projected Income Statement.			
Ability to use budgets for effective control over expenses.			

MODULE 11

INVENTORY SYSTEMS

TASK 11.1 ☼ Analysis of Perpetual stock system

NOTE TO THE TEACHER:

The emphasis in our Accounting curriculum has focussed on the perpetual stock system, as in modern day times it is generally the more likely method to be used. However, there are still businesses, particularly small businesses and sport clubs that make use of the periodic stock system. Therefore it is important that the learners are exposed to this stock system. The emphasis should be on the differences between the two systems and thus the effect this has on the internal control exercised in the operation.

11.1.1 Transaction analysis

Date	Account debit	Account credit	Assets		Owner's equity*		Liabilities	
			Dr	Cr	Dr	Cr	Dr	Cr
1	Trading stock	Bank	+2 000	-2 000				
4	Trading stock	Creditors control	+6 000					+6 000
12	Bank	Sales	+500			+500		
	Cost of sales	Trading stock		-375	-375			
15	Drawings	Trading stock		-150	-150			
21	Debtors control	Sales	+1 200			+1 200		
	Cost of sales	Trading stock		-900	-900			
23	Loss due to theft	Trading stock		-180	-180			
25	Debtors allowances	Debtors control		-52	-52			
	Trading stock	Cost of sales	+39			+39		
28	Trading stock	Bank	+80	-80				
29	Donation	Trading stock		-210	-210			
30	Creditors control	Trading stock		-290				-290

*Owner's equity is made up of Capital, Drawings and Net profit (Income – expenses).

11.1.2	Calculate the mark-up percentage on cost.
Learners can use any of the sales and cost of sales transactions for this calculation. Gross profit = 500 – 375 = R125 Mark-up % = $\frac{125}{375} \times \frac{100}{1} = 33\frac{1}{3}\%$	
11.1.3	Calculate the balance of the Trading stock account.
2 000 + 6 000 – 375 – 150 – 900 – 180 + 39 + 80 – 210 – 290 = <u>R6 014</u>	
11.1.4	Calculate the total gross profit made.
Sales = 500 + 1 200 – 52 = R1 648 Cost of sales = 375 + 900 – 39 = R1 236 Gross profit = 1 648 – 1 236 = <u>R412</u>	

11.1.5

**GENERAL LEDGER
BALANCE SHEET ACCOUNTS SECTION
TRADING STOCK**

Dr					B					Cr
20.6					20.6					
Jan	1	Bank	CPJ	2 000	Jan	12	Cost of sales	CRJ	375	
	4	Creditors control	CJ	6 000		15	Drawings	GJ	150	
	25	Cost of sales	DAJ	39		21	Cost of sales	DJ	900	
	28	Bank	CPJ	80		23	Loss due to theft	GJ	180	
						29	Donation	GJ	210	
						30	Creditors control	CAJ	290	
						31	Balance	c/d	6 014	
				8 119					8 119	
Feb	1	Balance	b/d	6 014						

NOMINAL ACCOUNTS SECTION

SALES

N

20.6					20.6				
Jan	31	Debtors allowances	GJ	52	Jan	12	Bank	CRJ	500
		Trading account	GJ	1 648		21	Debtors control	DJ	1 200
				1 700					1 700

COST OF SALES

N

20.6					20.6				
Jan	12	Trading stock	CRJ	375	Jan	25	Cost of sales	DAJ	39
	21	Trading stock	DJ	900		31	Trading account	GJ	1 236
				1 275					1 275

FINAL ACCOUNTS SECTION

TRADING ACCOUNT

F

20.6					20.6				
Jan	31	Cost of sales	GJ	1 236	Jan	31	Sales	GJ	1 648
		Profit & Loss a/c (gross profit)	GJ	412					
				1 648					1 648

TASK 11.2 ☼ **Calculations**

Calculate the number of cases which were not sold on 31 January 20.8.
$30 - 20 = \underline{10 \text{ cases}}$

TASK 11.3 ☼ **Calculations**

Calculate the number of cases which were not sold on 28 February 20.8.
$10 + 40 - 42 = \underline{8 \text{ cases}}$

TASK 11.4 ☹️💧 Calculations

11.4.1	Calculate the value of cases not sold on 31 January 20.8.
10 x 10 = R100	
11.4.2	Calculate the cost of sales on 31 January 20.8.
20 x 10 = R200	
11.4.3	Calculate the gross profit on 31 January 20.8.
Sales = 20 x 22 = R440 Cost price = R200 Gross profit = 440 – 200 = R240	
11.4.4	Calculate the value of cases not sold on 28 February 20.8.
8 x 10 = R80	
11.4.5	Calculate the cost of sales on 28 February 20.8.
Cost price = 42 x 10 = R420	
11.4.6	Calculate the gross profit on 28 February 20.8.
Selling price = 42 x 22 = R924 Cost price = R420 Gross profit = 924 – 420 = R504	

TASK 11.5 ☹️💧 Calculation of Cost of sales

11.5.1

Opening stock (1 July 20.8)	R23 000
Purchases	63 600
Carriage on purchases	4 600
Cost price of goods available for sale	91 200
Closing stock (30 June 20.9)	[35 000]
Cost of sales	56 200
Gross profit	30 400
Sales	86 600

11.5.2	The target mark-up of this business is 60%. Calculate the mark-up achieved.
$\frac{30\,400}{56\,200} \times \frac{100}{1} = \underline{54\%}$	
11.5.3	Should the owner be satisfied with the mark-up achieved? Explain why.
No, he is achieving 6% (60% - 54%) below target. Probable causes: too many discounts, mark-downs, stock losses due to theft, damage, etc., inaccurate calculations.	

Note to the Teacher:

Under the periodic stock system, theft of stock could be a reason for not achieving the mark-up percentage. However, under the perpetual stock system, as we are crediting with the cost of sales (which would not show goods stolen) this is not a reason. The Trading stock deficit gives you an indication of stock stolen.

TASK 11.6

Trading account

11.6.1

GENERAL LEDGER OF ATTILLA STORES FINAL ACCOUNTS SECTION

Dr					TRADING ACCOUNT					F1	Cr
20.8					20.8						
Feb	28	Opening stock	GJ	85 000	Feb	28	Closing stock	GJ			62 500
		Purchases ^[2]	GJ	141 250			Sales ^[1]	GJ			337 500
		Carriage on purchases	GJ	15 000							
		Customs duty	GJ	8 000							
		Profit and Loss	GJ	150 750							
				400 000							400 000

[1]

220 500 + 132 000 – 13 000 – 2 000

[2]

168 500 – 25 000 – 1 500 – 750

11.6.2 Calculate the mark-up percentage.

Cost of sales = 337 500 – 150 750 = R186 750

Gross profit = R150 750

Mark-up = $\frac{150\,750}{186\,750} \times \frac{100}{1} = 81\%$

11.6.3 The owner intends increasing his mark-up percentage by 10%. List three factors that he should consider before he implements this policy.

Effect on turnover as his price will now be higher.

Prices of competitors.

Effect on net profit.

Etc.

TASK 11.7

Calculation of Cost of sales

11.7.1 Calculation of cost of sales:

Opening stock	46 000
Purchases [100 240 + 120 650 – 2 700 + 500 – 1 200 + 1 450]	218 940
Carriage on purchases [12 450 + 420 + 590]	13 460
Customs duty	1 500
Cost price of goods available for sale	279 900
Closing stock	[56 700]
Cost of sales	223 200

11.7.2 Calculate the gross profit for the year.

Sales = 250 000 + 150 000 – 2 400 = R397 600

Cost of sales = R223 200

Gross profit = R174 400

TASK 11.8 ☼☼

Calculation of Cost of sales and ratios

11.8.1 Calculation of cost of sales:

Opening stock	15 000
Purchases [112 000 – 12 000 to suppliers]	100 000
Customs duty	4 000
Carriage on purchases	5 500
Cost price of goods available for sale	124 500
Closing stock (<i>includes customer returns</i>)	[20 000]
Cost of sales	104 500

Note to the Teacher:

Carriage on sales is a 'selling' expense and is not considered in the calculation of cost of sales. Only expenses incurred in purchases are considered in the calculation. Being a '**selling**' expense, carriage on sales will be shown in the **Profit and Loss account or Income Statement as an operating expense**.

11.8.2	Calculate the gross profit.
<p>Sales = 185 100 – 5 000 = R180 100</p> <p>Cost of sales = R104 500</p> <p>Gross profit = 180 100 – 104 500 = <u>R75 600</u></p>	
11.8.3	Calculate the mark-up achieved.
$\frac{75\,600}{104\,500} \times \frac{100}{1} = \underline{72\%}$	
11.8.4	Comment on your answer in 11.8.3 above. Should the owner be satisfied with the mark-up percentage?
<p>No, he is achieving 28% (100% - 72%) below the target.</p>	
11.8.5	Calculate how long (in days) Bro's Confectioners can expect their stock to last.
$\frac{[15\,000 + 20\,000] \div 2 \times 365}{104\,500} = \frac{17\,500 \times 365}{104\,500} = 61 \text{ days}$	
11.8.6	Comment on your answer in 11.8.5 above. Make your recommendations.
<p>61 days (about 2 months) may be a little too long for a confectioner. However, they should not run short of stock. Holding excess stock on hand may result in loss due to damage, theft, evaporation, products passing their expiry date, etc. Holding stocks for long periods may tie up working capital as stock is idle and is not being used to generate profits. On the other hand, some dealers believe in having extra stock to protect themselves against possible future price increases. Alternate answers are possible.</p>	

TASK 11.9 Analysis of the Trading stock account

11.9.1

No.	Description
[1]	Balance of stock unsold at the end of the previous month.
[2]	Stock purchased and paid for by cheque.
[3]	Stock purchases on credit.
[4]	Stock returns by debtors.
[5]	Carriage on purchases paid for by cheque charged directly to trading stock.
[6]	Cost price of stock sold for cash.
[7]	Cost price of stock sold on credit.
[8]	Stock returned to suppliers/creditors.
[9]	Stock withdrawals by the owner.
[10]	Donations of stock.
[11]	Stock unsold at the end of the current month.

11.9.2

GENERAL LEDGER BALANCE SHEET ACCOUNTS SECTION

Dr					B					Cr				
TRADING STOCK														
20.4					20.4									
June	1	Balance	b/d	18 000	June	30	Opening stock	GJ					18 000	
	30	Closing stock	GJ	34 500										

NOMINAL ACCOUNTS SECTION

PURCHASES

Dr					N				
20.4					20.4				
June	30	Bank	CPJ	35 000	June	30	Creditors control	CAJ	3 100
		Creditors control	CJ	68 000			Drawings	GJ	4 100
							Donation	GJ	900
							Trading account	GJ	94 900
				103 000					103 000

SALES

Dr					N				
20.4					20.4				
June	30	Debtors allowances ^[3]	DAJ	3 300	June	30	Bank ^[1]	CRJ	67 500
		Trading account	GJ	122 700			Debtors control ^[2]	DJ	58 500
				126 000					126 000

[1] $45\,000 \times \frac{150}{100} = R67\,500$

[2] $39\,000 \times \frac{150}{100} = R58\,500$

[3] $2\,200 \times \frac{150}{100} = R3\,300$

FINAL ACCOUNTS SECTION

TRADING ACCOUNT

Dr					F1				
20.4					20.4				
June	30	Opening stock	GJ	18 000	June	30	Closing stock	GJ	34 500
		Purchases	GJ	94 900			Sales	GJ	122 700
		Carriage	GJ	3 400					
		Profit and loss	GJ	40 900					
				157 200					157 200

TASK 11.10 Accounting Equation

Perpetual system

No.	Account debit	Account credit	A =	OE +	L
1.	Trading stock	Bank	+5 689	0	+5 689
2.	Debtors control	Sales	+8 400	+8 400	0
	Cost of sales	Trading stock	-6 000	-6 000	0
3.	Trading stock	Bank	+1 435	0	+1 435
4.	Drawings	Trading stock	-964	-964	0
5.	SARS (PAYE)	Bank	0	0	±8 234
6.	Repairs	Bank	0	-12 200	+12 200
7.	Bank	Bad debts recovered	0	+2 222	-2 222

Periodic system

No.	Account debit	Account credit	A =	OE +	L
1.	Purchases	Creditors control	0	-24 334	+24 334
2.	Bank	Sales	0	+14 400	-14 400
3.	Carriage on purchases	Bank	0	-2 333	+2 333
4.	Donation	Purchases	0	±720	0
5.	Creditors control	Purchases	0	+930	-930
6.	Bank	Rent income	0	+900	-900
7.	Debtors allowances	Debtors control	-684*	-684	0

*513 x $\frac{133\frac{1}{3}}{100}$

TASK 11.11 Different businesses

Note: This is an open-ended question; alternate answers will apply.

Trader	Main line of business	Annual turnover	System	Reason
Trader A	Computer equipment and accessories	R1 200 000	Perpetual	Turnover is high to warrant the expenditure on scanning/barcode equipment.
Trader B	Bakery	240 000	Periodic	Difficult to calculate cost price of products, e.g. flour.
Trader C	Hardware	2 000 000	Perpetual	Better control over stock as this business carries a large variety of stock. Screws, nails, etc. should be pre-packed, e.g. in units of tens.
Trader D	Supermarket	50 000 000	Perpetual	High turnover warrants the expenditure on scanning and barcode equipment.
Trader E	Superette	700 000	Periodic	Smaller business which probably carries less stock.
Trader F	Florist	80 000	Periodic	May sometimes be unfeasible to calculate cost price of single items.
Trader G	Restaurant	180 000	Periodic	Smaller type of business which carries less stock.
Trader H	Fruit and vegetables	1 500 000	Periodic	May sometimes be difficult to calculate cost price of single products.
Trader I	Bookstore	4 000 000	Perpetual	Better control over stock is exercised.
Trader J	Butcher	3 500 000	Periodic	May sometimes be difficult to calculate cost price of individual items.

TASK 11.12 Accounting Equation

11.12.1	Describe each transaction in date order.
Date	Transaction
1	Owner deposited capital into the banking account.
3	Stock purchases paid for by cheque.
9	Stock purchases on credit.
12	Stock returned to suppliers/creditors.
15	Cash sales.
19	Stock withdrawals by the owner.
21	Carriage on purchases paid for by cheque.
28	Credit sales.
30	Stock returned by debtors.
31	Value of stock on hand (unsold) at month-end.
11.12.2	Calculate the net change in owner's equity in January.
R20 900 – 20 000 capital at the beginning = R900 increase in net worth.	
11.12.3	Calculate the cost of sales.
$2\ 000 + 8\ 000 - 200 - 900 + 300 - 5\ 600 = R3\ 600$	
11.12.4	Calculate the mark-up achieved.
Sales = $3\ 000 + 2\ 500 - 100 = R5\ 400$	
Cost of sales = R3 600	
Gross profit = $5\ 400 - 3\ 600 = R1\ 800$	
Mark-up = $\frac{1\ 800}{3\ 600} \times \frac{100}{1} = 50\%$	
11.12.5	Indicate why the net change in owner's equity is not the same as the gross profit.
Refer to the transaction on the 19 th . This transaction has no effect on owner's equity – it increases and decreases by R900, however, the transaction decreases purchases by R900. An expense is being credited which implies an increase in profit. The net effect on owner's equity is R900 while the gross profit is R1 800.	
11.12.6	Show how the closing stock figure of R5 600 was arrived at.
$2\ 000 + 8\ 000 - 200 - 2\ 000^{[1]} - 900 + 300 - 1\ 667^{[2]} + 67^{[3]} = \underline{R5\ 600}$	
[1] $3\ 000 \times \frac{100}{150}$	
[2] $2\ 500 \times \frac{100}{150}$	
[3] $100 \times \frac{100}{150}$	

TASK 11.13 Accounting Equation

Day	Transaction	Amount	Account debited	Account credited	A =	OE +	L
1	Capital contribution	R50 000	Bank	Capital	+50 000	+50 000	0
4	Bought merchandise for cash	15 000	Purchases	Bank	-15 000	-15 000	0
9	Paid the monthly rent	1 500	Rent expense	Bank	-1 500	-1 500	0
15	Purchased stock on credit	18 000	Purchases	Creditors control	0	-18 000	+18 000
16	Donated merchandise	400	Donation	Purchases	0	±400	0
19	Stock withdrawals by the owner	1 300	Drawings	Purchases	0	±1 300	0
24	Credit sales	15 000	Debtors control	Sales	+15 000	+15 000	0
26	Cash sales	9 000	Bank	Sales	+9 000	+9 000	0
27	Returns of stock by debtors	600	Debtors allowances	Debtors control	-600	-600	0
28	Paid carriage on purchases	1 200	Carriage on purchases	Bank	-1 200	-1 200	0
	Paid sundry expenses	4 000	Sundry expenses	Bank	-4 000	-4 000	0
	Closing stock	16 900	Trading stock	Closing stock	+16 900	+16 900	0
					+68 600	+50 600	+18 000
Profit [50 600 – 50 000]					R600		

^[1] Calculation of closing stock:

$$15\,000 + 18\,000 - 400 - 1\,300 - 10\,000^* - 6\,000^* + 400^* + 1\,200 = R16\,900$$

*Selling price $\times \frac{100}{150}$

EXTRA TASK

This Task is not in the Learner's Book but you can use it for extra practice or for a test.

Required:

Analyse the transactions below according to the headings supplied. The periodic system is in use, the bank balance is favourable for all the transactions.

No.	Journal	Account debit	Account credit	A =	OE +	L

Transactions:

- The owner took merchandise for his own use R430.
- Made a donation by cheque to the local school R200.
- Donated merchandise of R600 to the local school.
- The owner returned some of the merchandise which he had previously taken for his own use R80.
- Sold stock on credit R2 000.
- Purchased merchandise and paid for it by cheque R4 900.
- A credit customer returned damaged goods of R110. A credit note was issued.
- A cheque for R1 500 previously received from a debtor was returned by the bank due to insufficient funds. A discount of R60 had been allowed to him.
- Paid customs duty by cheque for R320 on stock imported from overseas.
- Stock bought and paid for by cheque R2 220 was incorrectly posted to the Equipment account. The error must be corrected.
- Bought trading stock on credit R5 400.
- Returned damaged merchandise to the supplier R320.
- Stock sold for cash R800.
- The bank charges as per the bank statement amounted to R340.
- The stock on hand as per physical stock-take at year-end amounted to R24 000.



Solution:

No.	Journal	Account debit	Account credit	A =	OE +	L
1.	GJ	Drawings	Purchases	0	±430	0
2.	CPJ	Donation	Bank	-200	-200	0
3.	GJ	Donation	Purchases	0	±600	0
4.	GJ	Purchases	Drawings	0	±80	0
5.	DJ	Debtors control	Sales	+2 000	+2 000	0
6.	CPJ	Purchases	Bank	-4 900	-4 900	0
7.	DAJ	Debtors allowances	Debtors control	-110	-110	0
8.	CPJ	Debtors control	Bank	±1 500	0	0
	GJ	Debtors control	Discount allowed	+60	+60	0
9.	CPJ	Customs duty	Bank	-320	-320	0
10.	GJ	Purchases	Equipment	-2 220	-2 220	0
11.	CJ	Purchases	Creditors control	0	-5 400	+5 400
12.	CAJ	Creditors control	Purchases		+320	-320
13.	CRJ	Bank	Sales	+800	+800	0
14.	B/S	Bank charges	Bank	-340	-340	0
15.	GJ	Trading stock	Closing stock	+24 000	+24 000	0

TASK 11.14  **Ledger and Trial Balance**

**GENERAL LEDGER OF MANACKS STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					CAPITAL			B1		Cr	
20.9					20.9						
Jan	31	Balance	c/d	520 000	Jan	1	Balance	b/d		500 000	
						30	Bank	CRJ3		20 000	
				520 000						520 000	
					Feb	1	Balance	b/d		520 000	

DRAWINGS					B2									
20.9					20.9									
Jan	1	Balance	b/d	20 000	Jan	31	Balance	c/d				21 500		
	21	Purchases	GJ1	1 500										
				21 500								21 500		
Feb	1	Balance	b/d	21 500										

LAND AND BUILDINGS					B3									
20.9														
Jan	1	Balance	b/d	250 000										

VEHICLES					B4									
20.9														
Jan	1	Balance	b/d	120 000										

Dr					EQUIPMENT					B5		Cr	
20.9					20.9								
Jan	1	Balance	b/d	45 000	Jan	31	Balance	c/d				46 676	
	12	Creditors control	CJ3	1 676									
				46 676									46 676
Feb	1	Balance	b/d	46 676									

DEBTORS CONTROL					B6								
20.9					20.9								
Jan	1	Balance	b/d	23 122	Jan	31	Bank	CRJ3				20 485	
	20	Bank (r/d)	CPJ3	14 345			Discount allowed	CRJ3				1 028	
	31	Sales	DJ3	13 149			Debtors allowances	DAJ3				499	
		Sundry accounts	GJ3	887			Balance	c/d				29 491	
				51 503									51 503
Feb	1	Balance	b/d	29 491									

BANK					B7								
20.9					20.9								
Jan	1	Balance	b/d	76 231	Jan	31	Sundry accounts	CPJ3				88 490	
	31	Sundry accounts	CRJ3	131 278			Balance	c/d				119 019	
				207 509									207 509
Feb	1	Balance	b/d	119 019									

CASH FLOAT					B8								
20.9													
Jan	1	Balance	b/d	2 500									

CREDITORS CONTROL					B9								
20.9					20.9								
Jan	31	Bank	CPJ3	23 088	Jan	1	Balance	b/d				23 592	
		Discount received	CPJ3	659		31	Sundry accounts	CJ3				38 596	
		Sundry accounts	CAJ3	1 877									
		Balance	c/d	36 564									
				62 188									62 188
					Feb	1	Balance	b/d				36 564	

CREDITORS FOR SALARIES					B10								
20.9					20.9								
Jan	25	Bank	CPJ3	24 817	Jan	31	Salaries	SJ3				24 817	

UIF					B11								
20.9					20.9								
Jan	25	Bank	CPJ3	648	Jan	31	Salaries	SJ3				324	
							UIF (Contribution)	SJ3				324	
				648									648

Dr					PENSION FUND					B12		Cr
20.9					20.9							
Jan	25	Bank	CPJ3	6 498	Jan	31	Salaries	SJ3			3 249	
							Pension contribution	SJ3			3 249	
				6 498							6 498	

					SKILLS LEVY					B13		
20.9					20.9							
Jan	25	Bank	CPJ3	324	Jan	31	Salaries	SJ3			324	

					SARS (PAYE)					B14		
					20.9							
					Jan	31	Salaries	SJ3			4 100	

NOMINAL ACCOUNTS SECTION												
					SALES					N1		
					20.9							
					Jan	1	Total	b/f			177 250	
						31	Bank	CRJ3			84 393	
							Debtors control	DJ3			13 149	
											<i>274 792</i>	

					DEBTORS ALLOWANCES					N2		
20.9												
Jan	1	Total	b/f	12 444								
	31	Debtors control	DAJ3	499								
				<i>12 943</i>								

					PURCHASES					N3		
20.9					20.9							
Jan	1	Total	b/f	58 923	Jan	21	Drawings	GJ3			1 500	
	31	Bank	CPJ3	11 322		31	Creditors control	CAJ3			1 759	
		Creditors control	CJ3	34 628								
				<i>104 873</i>							<i>3 259</i>	

					CARRIAGE ON PURCHASES					N4		
20.9												
Jan	1	Total	b/f	4 567								
	8	Bank	CPJ3	1 987								
				<i>6 554</i>								

					SALARIES					N5		
20.9												
Jan	1	Total	b/f	64 980								
	31	Sundry accounts	SJ3	32 490								
				<i>97 470</i>								

Dr					CONSUMABLES					N6		Cr
20.9					20.9							
Jan	1	Total	b/f	2 358	Jan	31	Creditors control	CAJ3			118	
	31	Bank	CPJ3	977								
		Creditors control	CJ3	1 838								
				<u>5 173</u>								<u>118</u>

					TELEPHONE					N7		
20.9												
Jan	1	Total	b/f	1 297								
	27	Bank	CPJ3	2 345								
				<u>3 642</u>								

					BANK CHARGES					N8		
20.9												
Jan	1	Total	b/f	907								
	28	Bank	CPJ3	348								
				<u>1 255</u>								

					DISCOUNT ALLOWED					N9		
20.9					20.9							
Jan	1	Total	b/f	670	Jan	20	Debtors control	GJ3			757	
	31	Debtors control	CRJ3	1 028								
				<u>1 698</u>								<u>757</u>

					DISCOUNT RECEIVED					N10		
					20.9							
					Jan	1	Total	b/f			1 341	
						31	Creditors control	CPJ3			659	
											<u>2 000</u>	

					RENT INCOME					N11		
					20.9							
					Jan	1	Total	b/f			5 000	
						5	Bank	CRJ3			2 500	
						25	Bank	CRJ3			2 500	
											<u>10 000</u>	

					WATER, RATES AND LIGHTS					N12		
20.9												
Jan	1	Total	b/f	1 235								
	25	Bank	CPJ3	1 112								
				<u>2 347</u>								

Dr		PENSION CONTRIBUTION				N13		Cr
20.9								
Jan	1	Total	b/f	12 996				
	31	Salaries	SJ3	3 249				
				<u>16 245</u>				

		UIF CONTRIBUTION				N14		
20.9								
Jan	1	Total	b/f	1 300				
	31	Salaries	SJ3	324				
				<u>1 624</u>				

		SUNDRY EXPENSES				N15		
20.9								
Jan	1	Total	b/f	8 653				

		BAD DEBTS RECOVERED				N16		
					20.9			
					Jan	30	Bank	
							CRJ3	
							1 400	

		STATIONERY				N17		
20.9								
Jan	23	Bank	CPJ3	679				
	31	Creditors control	CJ3	454				
				<u>1 133</u>				

		SKILLS LEVY CONTRIBUTION				N18		
20.9								
Jan	31	Salaries	SJ3	324				

		INTEREST INCOME				N19		
					20.9			
					Jan	1	Debtors control	
							GJ3	
							130	

DEBTORS LEDGER

R. Rocky

DL1

Date		Details	Fol	Debit	Credit	Balance
20.9						
Jan	1	Balance	b/d			15 102
		Interest income	GJ3	130		15 232
	7	Inv 234	DJ3	5 678		20 910
	8	C/N 110	DAJ3		89	20 821
	15	Rec 14	CRJ3		14 345	6 476
		Discount allowed	CRJ3		757	5 719
	20	R/d cheque	CPJ3	14 345		20 064
		Discount allowed	GJ3	757		20 821
	24	Inv 237	DJ3	2 349		23 170

S. Stony**DL2**

Date	Details	Fol	Debit	Credit	Balance
20.9					
Jan	1 Balance	b/d			5 411
	17 Inv 235	DJ3	3 124		8 535
	18 C/N 112	DAJ3		346	8 189
	25 Rec 15	CRJ3		5 140	3 049
	Discount allowed	CRJ3		271	2 778

G. Grassy**DL3**

Date	Details	Fol	Debit	Credit	Balance
20.9					
Jan	1 Balance	b/d			2 609
	10 Rec 13	CRJ3		1 000	1 609
	19 Inv 236	DJ3	1 998		3 607
	22 C/N 113	DAJ3		64	3 543

DEBTORS LIST ON 31 JANUARY 20.9

Debtor	Fol	Amount
R. Rocky	DL1	23 170
S. Stony	DL2	2 778
G. Grassy	DL3	3 543
		29 491

CREDITORS LEDGER**WEN CC****CL1**

Date	Details	Fol	Debit	Credit	Balance
20.9					
Jan	1 Balance	b/d			2 697
	12 Cheq 15	CPJ3	2 697		0
	19 Inv 766	CJ3		4 337	4 337
	D/N 032	CAJ3	189		4 148

BABCO LTD**CL2**

Date	Details	Fol	Debit	Credit	Balance
20.9					
Jan	1 Balance	b/d			15 220
	19 Cheq 16	CPJ3	10 000		5 220
	Discount received	CPJ3	250		4 970
	25 Inv V50	CJ3		14 591	19 561
	27 Cheq 26	CPJ3	5 000		14 561
	Discount received	CPJ3	125		14 436
	28 Inv V91	CJ3		7 796	22 232
	D/N 033	CAJ3	930		21 302

ALCO LTD

CL3

Date	Details	Fol	Debit	Credit	Balance
20.9					
Jan 1	Balance	b/d			5 675
12	Inv 120	CJ3		9 875	15 550
14	D/N 031	CAJ3	758		14 792
20	Cheq 17	CPJ3	5 391		9 401
	Discount received	CPJ3	284		9 117
24	Inv A21	CJ3		1 997	11 114

CREDITORS LIST ON 31 JANUARY 20.9

Creditor	Fol	Amount
Wen CC	CL1	4 148
Babco Ltd	CL2	21 302
Alco Ltd	CL3	11 114
		36 564

TRIAL BALANCE ON 31 JANUARY 20.9

BALANCE SHEET ACCOUNTS SECTION	Fol	DEBIT	CREDIT
Capital	B1		520 000
Drawings	B2	21 500	
Land and buildings	B3	250 000	
Vehicles	B4	120 000	
Equipment	B5	46 676	
Debtors control	B6	29 491	
Bank	B7	119 019	
Cash float	B8	2 500	
Creditors control	B9		36 564
SARS (PAYE)	B14		4 100
NOMINAL ACCOUNTS SECTION			
Sales	N1		274 792
Debtors allowances	N2	12 943	
Purchases	N3	101 614	
Carriage on purchases	N4	6 554	
Salaries	N5	97 470	
Consumables	N6	5 055	
Telephone	N7	3 642	
Bank charges	N8	1 255	
Discount allowed	N9	941	
Discount received	N10		2 000
Rent income	N11		10 000
Water, rates and lights	N12	2 347	
Pension contribution	N13	16 245	
UIF contribution	N14	1 624	
Sundry expenses	N15	8 653	
Bad debts recovered	N16		1 400
Stationery	N17	1 133	
Skills levy (contribution)	N18	324	
Interest income	N19		130
		848 986	848 986

TASK 11.15 Journals, Ledger and Trial Balance

HUBERS STORES

CASH RECEIPTS JOURNAL FOR JUNE 20.9

CRJ1

Doc. No.	D	Details	Fol	Analysis of receipts	Bank	Sales	Debtors control		Sundry accounts			
							Receipts	Discount allowed	Amount	Fol	Details	
CRT1	4	Sales		24 450		24 450						
R19		MJ Springer		1 400	25 850				1 400	N11	Bad debts recovered	
R20	5	DJ Cool	DL1	14 000	14 000		14 000	400				
CRT2	12	Sales		23 560		23 560						
R21		DB Swerve	DL3	1 440	25 000		1 440	100				
CRT3	18	Sales		21 450	21 450	21 450						
CRT4	24	Sales		24 440	24 440	24 440						
R22	25	B. Bartoq		9 000	9 000				9 000	N7	Rent income	
R23	27	DJ Cool	DL1	4 000	4 000		4 000	-				
B/S		One-Stop Bank			400				400	N12	Interest income	
CRT5	28	Sales		20 030		20 030						
R24		LT Powers*	DL2	7 505	27 535		7 505	395				
					151 675	113 930	26 945	895	10 800			
					B8	N1	B6	N8 B6				

* $8\,560 + 6\,530 + 800 = 90 = 15\,800$

$15\,800 \div 2 = 7\,900$

$7\,900 \times 5\% = 395$

HUBERS STORES: CASH PAYMENTS JOURNAL FOR JUNE 20.9
CPJ1

Doc. No.	D	Details	Fol	Bank	Purchases	Sundry expenses	Consumables	Creditors control		Sundry accounts		
								Payments	Discount received	Amount	Fol	Details
008	3	Guzz Wholesalers	CL1	31 317				31 317	803			
010	5	A4 Paper Suppliers		430			430					
011	10	DD Suppliers		5 420	4 550	690				180	N4	Carriage on purchases
012		Mr Hubers		1 330						1 330	B2	Drawings
013	14	ASBA Bank		20 000						20 000	B9	Fixed deposit
B/S	16	DB Swerve (r/d cheque)	DL3	1 440						1 440	B6	Debtors control
014	18	ASBA Insurers		1 400		1 400						
015		Vermaak Handelaars	CL3	14 820				14 820	380			
016	25	Scarpo Suppliers		3 330	2 550		780					
B/S		Sundry employees		31 800						31 800	B10	Creditors for salaries
017	26	DD Suppliers	CL2	25 000				25 000	1 200			
B/S	27	One-Stop Bank		210		210						
018	28	Municipality		1 500		1 500						
019		MacBikes		1 100						1 100	B4	Vehicles
020	29	TelCell		2 400		2 400						
B/S	30	SARS		6 750						6 750	B11	SARS (PAYE)
B/S		Care Medical Aid		12 000						12 000	B12	Medical aid fund
B/S		UIF		900						900	B13	UIF
B/S		AS Pension fund		7 000						7 000	B14	Pension fund
				168 147	7 100	6 200	1 210	71 137	2 383	82 500		
				B8	N3	N10	N6	B7	B7 N9			

DEBTORS JOURNAL – JUNE 20.9
DJ1

Inv. No.	D	Debtor	Fol	Sales
14	9	DJ Cool	DL1	7 640
15	12	DJ Cool	DL1	2 140
16	21	LT Powers	DL2	6 530
17	24	DB Swerve	DL3	1 110
18	25	LT Powers	DL2	800
				18 220

B6 N1

HUBERS STORES

DEBTORS ALLOWANCES JOURNAL – JUNE 20.9

DAJ1

C/N No.	D	Debtor	Fol	Debtors allowances
5	10	DJ Cool	DL1	640
6	25	DB Swerve	DL3	40
7	25	LT Powers	DL2	90
				770

N2 B6

HUBERS STORES

CREDITORS JOURNAL – JUNE 20.9

CJ1

Inv no	D	Creditor	Fol	Creditors control	Purchases	Equip-ment	Consum-ables	Sundry accounts		
								Amount	Fol	Details
V21	2	DD Suppliers	CL2	10 510	7 890	2 170		450	N4	Carriage
S8	9	Vermaak Handelaars	CL3	6 660	4 560	1 120	980			
M2	18	DD Suppliers	CL2	9 140	8 900			240	N10	Sundry expenses
99	20	Guzz Wholesalers	CL1	6 040	5 550		490			
Y3	24	Guzz Wholesalers	CL1	3 420	3 420					
				35 770	30 320	3 290	1 470	690		

B7

N3

B5

N6

HUBERS STORES

CREDITORS ALLOWANCES JOURNAL – JUNE 20.9

CAJ1

Inv no	D	Creditor	Fol	Creditors control	Purchases	Equip-ment	Consum-ables	Sundry accounts		
								Amount	Fol	Details
24	10	Vermaak Handelaars	CL3	100	60		40			
25	20	Guzz Wholesalers	CL1	170	140		30			
26		DD Suppliers	CL2	230	190			40	N10	Sundry expenses
				500	390		70	40		

B7

N3

N6

**HUBERS STORES
GENERAL JOURNAL – JUNE 20.9**

GJ1

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
01	5	DJ Cool	DL1	720		720			
		Interest income	N12		720				
		Interest charges on overdue account							
02	14	Drawings	B2	740					
		Purchases	N3		560				
		Consumables	N6		180				
		Items taken for own use							
03	16	DB Swerve	DL3	100		100			
		Discount allowed	N8		100				
		Discount on r/d cheque cancelled							
04	28	Sundry expenses	N10	500					
		Purchases	N3		500				
		Merchandise donated to charity							
						820	-	-	-
						B6			

**GENERAL LEDGER OF HUBERS STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					CAPITAL			B1		Cr
					20.9					
					June	1	Balance	b/d		540 000

DRAWINGS					B2						
20.9					20.9						
June	1	Balance	b/d	80 000	June	30	Balance	c/d		82 070	
	10	Bank	CPJ1	1 330							
	14	Purchases	GJ1	560							
		Consumables	GJ1	180							
				82 070						82 070	
July	1	Balance	b/d	82 070							

LAND AND BUILDINGS					B3						
20.9											
June	1	Balance	b/d	250 000							

VEHICLES					B4						
20.9					20.9						
June	1	Balance	b/d	180 000	June	30	Balance	c/d		181 100	
	28	Bank	CPJ1	1 100							
				181 100						181 100	
July	1	Balance	b/d	181 100							

Dr					EQUIPMENT					B5		Cr	
20.9					20.9								
June	1	Balance	b/d	96 000	June	30	Balance	c/d				99 290	
	30	Creditors control	CJ1	3 290									
				99 290									99 290
July	1	Balance	b/d	99 290									

DEBTORS CONTROL					B6								
20.9					20.9								
June	1	Balance	b/d	24 500	June	30	Bank	CRJ1				26 945	
	16	Bank (r/d)	CPJ1	1 440			Discount allowed	CRJ1				895	
	30	Sales	DJ1	18 220			Debtors allowances	DAJ1				770	
		Sundry accounts	GJ1	820			Balance	c/d				16 370	
				44 980									44 980
July	1	Balance	b/d	16 370									

CREDITORS CONTROL					B7								
20.9					20.9								
June	30	Bank	CPJ1	71 137	June	1	Balance	b/d				65 420	
		Discount received	CPJ1	2 383		30	Sundry accounts	CJ				35 770	
		Sundry accounts	CAJ1	500									
		Balance	c/d	27 170									
				101 190									101 190
					July	1	Balance	b/d				27 170	

BANK					B8								
20.9					20.9								
June	1	Balance	b/d	65 770	June	30	Sundry accounts	CPJ1				168 147	
	30	Sundry accounts	CRJ1	151 675			Balance	c/d				49 298	
				217 445									217 445
July	1	Balance	b/d	49 298									

FIXED DEPOSIT					B9								
20.9													
June	14	Bank	CPJ1	20 000									

CREDITORS FOR SALARIES					B10								
20.9					20.9								
June	25	Bank	CPJ1	31 800	June	25	Salaries	SJ1				31 800	

SARS (PAYE)					B11								
20.9					20.9								
June	30	Bank	CPJ1	6 750	June	25	Salaries	SJ1				6 750	

Dr					MEDICAL AID FUND					B12		Cr
20.9					20.9							
June	30	Bank	CPJ1	12 000	June	25	Salaries	SJ1			6 000	
							Medical aid contrib.	SJ1			6 000	
				12 000							12 000	

UIF					B13							
20.9					20.9							
June	30	Bank	CPJ1	900	June	25	Salaries	SJ1			450	
							UIF Contribution	SJ1			450	
				900							900	

PENSION FUND					B14							
20.9					20.9							
June	30	Bank	CPJ1	7 000	June	25	Salaries	SJ1			7 000	

NOMINAL ACCOUNTS SECTION

SALES

N1

					20.9							
					June	1	Total	b/f			290 000	
						30	Bank	CRJ1			113 930	
							Debtors control	DJ1			18 220	
											422 150	

DEBTORS ALLOWANCES

N2

20.9												
June	1	Total	b/f	2 340								
	30	Debtors control	DAJ1	770								
				3 110								

PURCHASES

N3

20.9					20.9							
June	1	Total	b/f	89 760	June	30	Creditors control	CAJ1			390	
	30	Bank	CPJ1	7 100			Drawings	GJ1			560	
		Creditors control	CJ1	30 320			Sundry expenses	GJ1			500	
				127 180							1 450	

CARRIAGE ON PURCHASES

N4

20.9												
June	1	Total	b/f	18 560								
	2	Creditors control	CJ1	450								
	10	Bank	CPJ1	180								
				19 190								

Dr		SALARIES			N5		Cr
20.9							
June	1	Total	b/f	90 000			
	3	Sundry accounts	SJ1	45 000			
				<i>135 000</i>			

				CONSUMABLES		N6			
20.9					20.9				
June	1	Total	b/f	5 220	June	30	Creditors control	CAJ1	70
	30	Bank	CPJ1	1 210			Drawings	GJ1	180
		Creditors control	CJ1	1 470					
				<i>7 900</i>					<i>250</i>

				RENT INCOME		N7			
					20.9				
					June	1	Total	b/f	18 000
						25	Bank	CRJ1	9 000
									<i>27 000</i>

				DISCOUNT ALLOWED		N8			
20.9					20.9				
June	1	Total	b/f	2 340	June	16	Debtors control	GJ1	100
	30	Debtors control	CRJ1	895					
				<i>3 235</i>					<i>100</i>

				DISCOUNT RECEIVED		N9			
					20.9				
					June	1	Total	b/f	5 620
						30	Creditors control	CPJ1	2 383
									<i>8 003</i>

				SUNDRY EXPENSES		N10			
20.9					20.9				
June	1	Total	b/f	14 550	June	26	Creditors control	CAJ1	40
	18	Creditors control	CJ1	240					
	28	Purchases	GJ1	500					
	30	Bank	CPJ1	6 200					
				<i>21 490</i>					<i>40</i>

				BAD DEBTS RECOVERED		N11			
					20.9				
					June	4	Bank	CRJ1	1 400

				INTEREST INCOME		N12			
					20.9				
					June	5	Debtors control	GJ1	720
						27	Bank	CRJ1	400
									<i>1 120</i>

Dr		MEDICAL AID CONTRIBUTION				N13		Cr
20.9								
June	25	Salaries	SJ1	6 000				

		UIF CONTRIBUTION				N14		
20.9								
June	25	Salaries	SJ1	450				

		PENSION CONTRIBUTION				N15		
20.9								
June	25	Salaries	SJ1	7 000				

DEBTORS LEDGER

DJ Cool

DL1

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			14 400
	5	Interest income	GJ1	720		15 120
		Rec R20	CRJ1		14 000	1 120
		Discount allowed	CRJ1		400	720
	9	Inv 14	DJ1	7 640		8 360
	10	C/N 5	DAJ1		640	7 720
	12	Inv 15	DJ1	2 140		9 860
	27	Rec R23	CRJ1		4 000	5 860

LT Powers

DL2

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			8 560
	21	Inv 16	DJ1	6 530		15 090
	25	Inv 18	DJ1	800		15 890
		C/N 7	DAJ1		90	15 800
	28	Rec 24	CRJ1		7 505	8 295
		Discount allowed	CRJ1		395	7 900

DB Swerve

DL3

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			1 540
	12	Rec 21	CRJ1		1 440	100
		Discount allowed	CRJ1		100	0
	16	R/d cheque	CPJ1	1 440		1 440
		Discount allowed	GJ1	100		1 540
	24	Inv 17	DJ1	1 110		2 650
	25	C/N 5	DAJ1		40	2 610

DEBTORS LIST ON 30 JUNE 20.9

Debtor	Fol	Amount
DJ Cool	DL1	5 860
LT Powers	DL2	7 900
DB Swerve	DL3	2 610
		16 370

CREDITORS LEDGER**Guzz Wholesalers****CL1**

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			32 120
	3	Cheq 008	CPJ1	31 317		803
		Discount received	CPJ1	803		0
	20	Inv 99	CJ1		6 040	6 040
		D/N 25	CAJ1	170		5 870
	24	Inv Y3	CJ1		3 420	9 290

DD Suppliers**CL2**

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			15 430
	2	Inv V21	CJ1		10 510	25 940
	18	Inv M2	CJ1		9 140	35 080
	20	D/N 25	CAJ1	230		34 850
	26	Cheq 017	CPJ1	25 000		9 850
		Discount received	CPJ1	1 200		8 650

Vermaak Handelaars**CL3**

Date		Details	Fol	Debit	Credit	Balance
20.9						
June	1	Balance	b/d			17 870
	9	Inv S8	CJ1		6 660	24 530
	10	D/N 24	CAJ1	100		24 430
	18	Cheq 015	CPJ1	14 820		9 610
		Discount received	CPJ1	380		9 230

CREDITORS LIST ON 30 JUNE 20.9

Creditor	Fol	Amount
Guzz Wholesalers	CL1	9 290
DD Suppliers	CL2	8 650
Vermaak Handelaars	CL3	9 230
		27 170

TRIAL BALANCE ON 30 JUNE 20.9

BALANCE SHEET ACCOUNTS SECTION	Fol	DEBIT	CREDIT
Capital	B1		540 000
Drawings	B2	82 070	
Land and buildings	B3	250 000	
Vehicles	B4	181 100	
Equipment	B5	99 290	
Debtors control	B6	16 370	
Creditors control	B7		27 170
Bank	B8	49 298	
Fixed deposit	B9	20 000	
NOMINAL ACCOUNTS SECTION			
Sales	N1		422 150
Debtors allowances	N2	3 110	
Purchases	N3	125 730	
Carriage on purchases	N4	19 190	
Salaries	N5	135 000	
Consumables	N6	7 650	
Rent income	N7		27 000
Discount allowed	N8	3 135	
Discount received	N9		8 003
Sundry expenses	N10	21 450	
Bad debts recovered	N11		1 400
Interest income	N12		1 120
Medical aid contribution	N13	6 000	
UIF contribution	N14	450	
Pension contribution	N15	7 000	
		1 026 843	1 026 843

TASK 11.16  **Profitability**

Report on profitability.	
Different views and interpretations are possible. Some suggestions are given below:	
- The mark-up should be calculated and commented on. A comparison should be made between the gross profit and mark-up.	
Cost price	= 144 500 – 88 320
	= R56 180
Gross profit	= R88 320
Mark-up	= $\frac{88\,320}{56\,180} \times \frac{100}{1}$
	= <u>157%</u>
- The loss of the rent income of R24 000 will decrease the net profit to R3 090 (27 090 – 24 000). This future loss of income will, therefore, have a drastic effect on the profitability.	
- Drawings are R45 800 while the net profit is R27 090. He is drawing out more than the net earnings of the business resulting in a negative capital growth - capital has decreased from R90 000 to R71 290.	
- Other areas that need to be looked at: expenses need to be curtailed; mark-up may have to be increased – since the target mark-up is not known, it is not possible to comment on whether the mark-up percentage has improved or deteriorated; etc.	

TASK 11.17

Journals, Ledger and Trial Balance

11.17.1

GENERAL LEDGER OF AAREE DEALERS BALANCE SHEET ACCOUNTS SECTION

Dr					CAPITAL					B1		Cr		
20.8					20.8					20.8				
Dec	31	Balance	c/d	349 820	Dec	31	Balance	b/d	320 000					
							Profit and loss a/c	GJ	29 820					
				349 820					349 820					
					20.9									
					Jan	1	Balance	b/d	349 820					

					LOAN FROM BEEBUZZ BANK					B2				
					20.8					20.8				
					Dec	31	Balance	b/d	80 000					

					LAND AND BUILDINGS					B3				
20.8														
Dec	31	Balance	b/d	310 000										

					VEHICLES					B4				
20.8														
Dec	31	Balance	b/d	180 000										

					ACCUMULATED DEPRECIATION ON VEHICLES					B5				
20.8					20.8					20.8				
Dec	31	Balance	c/d	68 000	Jan	1	Balance	b/d	40 000					
					Dec	31	Depreciation	GJ	28 000					
				68 000					68 000					
					20.9									
					Jan	1	Balance	b/d	68 000					

					EQUIPMENT					B6				
20.8														
Dec	31	Balance	b/d	40 000										

					ACCUMULATED DEPRECIATION ON EQUIPMENT					B7				
20.8					20.8					20.8				
Dec	31	Balance	c/d	29 500	Jan	1	Balance	b/d	24 000					
					Dec	31	Depreciation	GJ	5 500					
				29 500					29 500					
					20.9									
					Jan	1	Balance	b/d	29 500					

Dr					DEBTORS CONTROL					B8		Cr	
20.8					20.8								
Dec	31	Balance	b/d	25 600	Dec	31	Sundry accounts	GJ				260	
							Balance	c/d				25 340	
				25 600								25 600	
20.9													
Jan	1	Balance	b/d	25 340									

					PROVISION FOR BAD DEBTS					B9			
20.8					20.8								
Dec	31	Prov. for b/d adjust.	GJ	60	Dec	31	Balance	b/d				2 560	
		Balance	c/d	2 500								2 560	
				2 560									
					20.9								
					Jan	1	Balance	b/d				2 500	

					BANK					B10			
20.8													
Dec	31	Balance	b/d	14 770									

					PETTY CASH					B11			
20.8													
Dec	31	Balance	b/d	2 000									

					CASH FLOAT					B12			
20.8													
Dec	31	Balance	b/d	1 500									

					CREDITORS CONTROL					B13			
					20.8								
					Dec	31	Balance	b/d				76 230	

					SARS (PAYE)					B14			
					20.8								
					Dec	31	Balance	b/d				2 800	

					PENSION FUND					B15			
					20.8								
					Dec	31	Balance	b/d				1 140	

					ACCRUED EXPENSES/EXPENSES PAYABLE					B16			
20.8					20.8								
Dec	31	Balance	c/d	1 810	Dec	31	Carriage on purchase	GJ				210	
							Interest on loan	GJ				1 600	
				1 810								1 810	
					20.9								
					Jan	1	Balance	b/d				1 810	

Dr		TRADING STOCK				B17		Cr	
20.8									
Dec	31	Closing stock	GJ	42 000					

		CONSUMABLES ON HAND				B18			
20.8									
Dec	31	Consumables	GJ	90					

		DEFERRED INCOME/INCOME RECEIVED IN ADVANCE				B19			
					20.8				
					Dec	31	Rent income	GJ	6 000

		PREPAID EXPENSES				B20			
20.8									
Dec	31	Sundry operating ex- penses	GJ	2 100					

**NOMINAL ACCOUNTS SECTION
OPENING STOCK**

						N1			
20.8					20.8				
Dec	31	Total	b/f	45 670	Dec	31	Trading account	GJ	45 670

		PURCHASES				N2			
20.8					20.8				
Dec	31	Total	b/f	120 000	Dec	31	Trading account	GJ	120 000

		CARRIAGE ON PURCHASES				N3			
20.8					20.8				
Dec	31	Total	b/f	21 000	Dec	31	Trading account	GJ	21 210
		Accrued expenses	GJ	210					
				21 210					21 210

		SALES				N4			
20.8					20.8				
Dec	31	Debtors allowances	GJ	28 000	Dec	31	Total	b/f	450 110
		Trading account	GJ	422 110					
				450 110					450 110

		DEBTORS ALLOWANCES				N5			
20.8					20.8				
Dec	31	Total	b/f	28 000	Dec	31	Sales	GJ	28 000

		SALARIES AND WAGES				N6			
20.8					20.8				
Dec	31	Total	b/f	178 400	Dec	31	Profit and loss a/c	GJ	178 400

Dr					PENSION CONTRIBUTION				N7		Cr	
20.8					20.8							
Dec	31	Total	b/f	13 720	Dec	31	Profit and loss a/c	GJ			13 720	

					BANK CHARGES				N8			
20.8					20.8							
Dec	31	Total	b/f	3 600	Dec	31	Profit and loss a/c	GJ			3 600	

					BAD DEBTS				N9			
20.8					20.8							
Dec	31	Total	b/f	1 440	Dec	31	Profit and loss a/c	GJ			1 700	
		Debtors control	GJ	260								
				1 700							1 700	

					RENT INCOME				N10			
20.8					20.8							
Dec	31	Deferred income	GJ	6 000	Dec	31	Total	b/f			42 000	
		Profit and loss a/c	GJ	36 000								
				42 000							42 000	

					CONSUMABLE STORES				N11			
20.8					20.8							
Dec	31	Total	b/f	890	Dec	31	Consumables on hand	GJ			90	
							Profit and loss a/c	GJ			800	
				890							890	

					INTEREST ON CURRENT BANK ACCOUNT				N12			
20.8					20.8							
Dec	31	Profit and loss a/c	GJ	150	Dec	31	Total	b/f			150	

					INTEREST ON LOAN				N13			
20.8					20.8							
Dec	31	Total	b/f	7 200	Dec	31	Profit and loss a/c	GJ			8 800	
		Accrued expenses	GJ	1 600								
				8 800							8 800	

					SUNDRY OPERATING EXPENSES				N14			
20.8					20.8							
Dec	31	Total	b/f	45 200	Dec	31	Prepaid expenses				2 100	
							Profit and loss a/c	GJ			43 100	
				45 200							45 200	

					CLOSING STOCK				N15			
20.8					20.8							
Dec	31	Trading account	GJ	42 000	Dec	31	Trading stock	GJ			42 000	

Dr				PROVISION FOR BAD DEBTS ADJUSTMENT				N16		Cr	
20.8					20.8						
Dec	31	Profit and loss a/c	GJ	60	Dec	31	Prov. for bad debts adj	GJ			60

DEPRECIATION				N17							
20.8					20.8						
Dec	31	Acc dep on vehicles	GJ	28 000	Dec	31	Profit and loss a/c	GJ			33 500
		Acc dep on equipment	GJ	5 500							
				33 500							33 500

FINAL ACCOUNTS SECTION											
TRADING ACCOUNT						F1					
20.8					20.8						
Dec	31	Opening stock	GJ	45 670	Dec	31	Sales	GJ			422 110
		Purchases	GJ	120 000			Closing stock	GJ			42 000
		Carriage on purchases	GJ	21 210							
		Profit and loss a/c	GJ	277 230							
				464 110							464 110

PROFIT AND LOSS ACCOUNT						F2					
20.8					20.8						
Dec	31	Salaries and wages	GJ	178 400	Dec	31	Trading account	GJ			277 230
		Pension contribution	GJ	13 720			Rent income	GJ			36 000
		Bank charges	GJ	3 600			Interest on bank a/c	GJ			150
		Bad debts	GJ	1 700			Prov. for b/d adjust.	GJ			60
		Consumable stores	GJ	800							
		Interest on loan	GJ	8 800							
		Sundry expenses	GJ	43 100							
		Depreciation	GJ	33 500							
		Capital (net profit)	GJ	29 820							
				313 440							313 440

11.17.2 GENERAL JOURNAL – DECEMBER 20.8

GJ											
No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control			
						Debit	Credit	Debit	Credit		
01	31	Carriage on purchases	N3	210							
		Accrued expenses	B16		210						
		Account not yet paid									
02		Trading stock	B17	42 000							
		Closing stock	N15		42 000						
		Stock on hand at year-end									
		Consumables on hand	B18	90							
03		Consumables	N11		90						
		Stock on hand at year-end									
		Interest on loan	N13	1 600							
04		Accrued expenses	B16		1 600						
		Interest on loan due									
05		Rent income	N10	6 000							
		Deferred income	B19		6 000						
		Rent received in advance									

GENERAL JOURNAL – DECEMBER 20.8 (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
06		Bad debts Mr Slowpay Bad debts written off	N9	260					
07		Provision for bad debts Provision for bad debts adjustment Decrease in provision	B9 N16	60	60				
08		Prepaid expenses Sundry operating expenses Amount paid in advance	B20 N14	2 100	2 100				
09		Depreciation Acc dep on vehicles Acc dep on equipment (5 250 + 250) Depreciation on vehicles and equipment	N17 B5 B7	33 500	28 000 5 500				
						-	260	-	-
							B8		

11.17.4 GENERAL JOURNAL – DECEMBER 20.8: CLOSING ENTRIES

GJ

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
31		Trading account	F1	186 880					
		Opening stock	N1		45 670				
		Purchases	N2		120 000				
		Carriage on purchases	N3		21 210				
		Closing entries							
		Sales	N4	28 000					
		Debtors allowances	N5		28 000				
		Closing transfer							
		Sales	N4	422 110					
		Closing stock	N15	42 000					
		Trading account			464 110				
		Closing entries							
		Trading account	F1	277 230					
		Profit and loss a/c	F2		277 230				
		Gross profit transferred							
		Profit and loss a/c	F2	283 620					
		Salaries and wages	N6		178 400				
		Pension contribution	N7		13 720				
		Bank charges	N8		3 600				
		Bad debts	N9		1 700				
		Consumable stores	N11		800				
		Interest on loan	N13		8 800				
		Sundry expenses	N14		43 100				
		Depreciation	N17		33 500				
		Closing entries							
		Rent income	N10	36 000					
		Interest on bank account	N12	150					
		Prov. for b/debts adjustment	N16	60					
		Profit and loss account	F2		36 210				
		Closing entries							

GENERAL JOURNAL – DECEMBER 20.8: CLOSING ENTRIES (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
		Profit and loss a/c	F2	29 820					
		Capital	B1		29 820				
		Net profit transferred							

11.17.5 AAREE DEALERS
POST-ADJUSTMENT/POST-CLOSING TRIAL BALANCE ON 31 DECEMBER 20.8

BALANCE SHEET ACCOUNTS SECTION	Fol	Post-adjustment		Post-closing	
		Debit	Credit	Debit	Credit
Capital	B1		320 000		349 820
Loan from BeeBuzz Bank	B2		80 000		80 000
Land and buildings	B3	310 000		310 000	
Vehicles	B4	180 000		180 000	
Accumulated depreciation on vehicles	B5		68 000		68 000
Equipment	B6	40 000		40 000	
Accumulated depreciation on equipment	B7		29 500		29 500
Debtors control	B8	25 340		25 340	
Provision for bad debts	B9		2 500		2 500
Bank	B10	14 770		14 770	
Petty cash	B11	2 000		2 000	
Cash float	B12	1 500		1 500	
Creditors control	B13		76 230		76 230
SARS (PAYE)	B14		2 800		2 800
Pension fund	B15		1 140		1 140
Accrued expenses/Expenses payable	B16		1 810		1 810
Trading stock	B17	42 000		42 000	
Consumables on hand	B18	90		90	
Income received in advance	B19		6 000		6 000
Prepaid expenses	B20	2 100		2 100	
NOMINAL ACCOUNTS SECTION					
Opening stock	N1	45 670			
Purchases	N2	120 000			
Carriage on purchases	N3	21 210			
Sales	N4		450 110		
Debtors allowances	N5	28 000			
Salaries and wages	N6	178 400			
Pension contribution	N7	13 720			
Bank charges	N8	3 600			
Bad debts	N9	1 700			
Rent income	N10		36 000		
Consumable stores	N11	800			
Interest on current bank account	N12		150		
Interest on loan	N13	8 800			
Sundry operating expenses	N14	43 100			
Closing stock	N15		42 000		
Provision for bad debts adjustment	N16		60		
Depreciation	N17	33 500			
		1 116 300	1 116 300	617 800	617 800

11.17.6	Identify the reversal entries required on the first day of the next financial period. Write down the adjustment numbers only.
Numbers 1, 2, 3, 4, 5, 8	
11.17.7	Explain to Mary:
	<ul style="list-style-type: none"> Why has Mr Aaree been putting his personal expenses through the business?
He is increasing the expenses of the businesses and thus reducing the tax that has to be paid.	
	<ul style="list-style-type: none"> Whether this is ethical or not?
No. This is unethical.	
	<ul style="list-style-type: none"> What could the consequences be to both Mr Aaree and Mary?
Both Mr Aaree and Mary face heavy fines and possible jail sentences for defrauding SARS.	

TASK 11.18 ☼☼☼ Internal control

Allow the learners to interact with each other and ensure that they justify their advice to Mrs Jones.

TASK 11.19 ☼☼☼ Differences in the 2 stock systems

The learners must draw on their Accounting knowledge, and apply it, in order to complete this Task successfully. Refer to the table at the beginning of the Module for the differences between the two stock systems.

TASK 11.20 ☼☼☼ Ledger and Internal control

11.20.1

	5-Star Superette	Freshever Florists	Bully's Butchery
Opening stock (1 March 20.7)	34 566	1 455	12 345
Purchases	98 543	25 602	60 000
Carriage on purchases	9 995	990	12 235
Cost of goods available for sale	143 104	28 047	84 580
Closing stock (28 February 20.8)	[46 345]	[999]	[24 500]
Cost of sales	96 759	27 048	60 080
Gross profit	46 454	14 444	41 000
Sales	143 213	41 492	101 080

11.20.2/11.20.4

GENERAL LEDGER OF 5-STAR SUPERETTE BALANCE SHEET ACCOUNTS SECTION

Dr				TRADING STOCK				B5		Cr	
20.8					20.8						
Feb	28	Closing stock	GJ1	46 345	Mar	1	Opening stock	GJ1		46 345	

NOMINAL ACCOUNTS SECTION OPENING STOCK

								N1			
20.7					20.8						
Mar	1	Trading stock	GJ	34 566	Feb	28	Trading account	GJ1		34 566	
20.8											
Mar	1	Trading stock	GJ1	46 345							

Dr				PURCHASES				N2		Cr	
20.8						20.8					
Feb	28	Total	b/f	98 543	Feb	28	Trading account	GJ1	98 543		

				CARRIAGE ON PURCHASES				N3			
20.8						20.8					
Feb	28	Total	b/f	9 995	Feb	28	Trading account	GJ1	9 995		

				CLOSING STOCK				N4			
20.8						20.8					
Feb	28	Trading account	GJ1	46 345	Feb	28	Trading stock	GJ1	46 345		

				SALES				N5			
20.8						20.8					
Feb	28	Trading account	GJ1	143 213	Feb	28	Total	b/f	143 213		

FINAL ACCOUNTS SECTION											
TRADING ACCOUNT						F1					
20.8						20.8					
Feb	28	Opening stock	GJ1	34 566	Feb	28	Closing stock	GJ1	46 345		
		Purchases	GJ1	98 543			Sales	GJ1	143 213		
		Carriage on purchases	GJ1	9 995							
		Profit and Loss	GJ1	46 454							
				189 558					189 558		

11.20.3 GENERAL JOURNAL OF 5-STAR SUPERETTE: FEBRUARY 20.8

GJ1

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	28	Trading stock	B5	46 345					
		Closing stock	N4		46 345				
		Stock on hand at year-end as per count							
		CLOSING ENTRIES							
		Trading account	F1	143 104					
		Opening stock	N1		34 566				
		Purchases	N2		98 543				
		Carriage on purchases	N3		9 995				
		Closing entries							
		Closing stock	N4	46 345					
		Sales	N5	143 213					
		Trading account	F1		189 558				
		Closing entries							
		Trading account	F1	46 454					
		Profit and Loss a/c	F2		46 454				
		Gross profit transferred to profit and loss account							

GENERAL JOURNAL OF 5-STAR SUPERETTE: FEBRUARY 20.8 (Contd)

No	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
		REVERSAL ENTRY: 01 MARCH 20.8							
	1	Opening stock	N1	46 345					
		Trading stock	B5		46 345				
		Reversal entry							

11.20.5	Case studies
	<p>(a) The owner of 5-Star Superette (Ms Beazle) maintains that she has an effective stock control policy. Do you agree with her? Make use of a suitable calculation to substantiate your answer. Her target mark-up is 50%.</p> <p>Mark-up achieved = $\frac{46\,454}{96\,759} \times \frac{100}{1} = 48\%$</p> <p>She should be satisfied as this is only 2% below the target. On the other hand, she may not be satisfied. It could be that the previous year's achieved mark-up was better. A conclusion cannot be drawn as the previous year's figures are not available. Answers may, therefore, differ on account of subjectivity – what may be good for one individual may be totally unacceptable to the other.</p>
	<p>(b) Ms Beazle intends installing scanning and bar coding equipment in her superette. Will it still be necessary for her to continue using the periodic system? Explain how the change will affect her business in the future. Also mention the advantages/disadvantages of the two types of stock systems.</p> <p>Answers may differ on account of subjectivity. The one approach is to advise her to change to the perpetual system as stock control will be improved via barcodes and scanning. Stock figures are updated at the point of sale – she is able to do stock analyses more effectively, e.g. she would be in a better position to identify slow moving stock; when to place her orders; theft /leakages are easily detected; etc. The investment in the additional equipment may pay dividends in the future as almost all products are barcoded by manufacturers thus facilitating internal stock control. The other approach is to advise her to remain with the periodic system. This system seems to be working well as her mark-up achieved is almost equal to the target mark-up. The additional investment in sophisticated equipment may, therefore, not be warranted. Refer to the Learner's Book for information on the main features/advantages/disadvantages of the two systems.</p>
	<p>(c) Freshever Florists feel that they are paying too much for carriage on purchases. They are deciding whether to use their own vehicle to pick up stocks from their various suppliers. In this way, they would no longer have to pay for carriage. What is your view on this? Write a report on this.</p> <p>Alternate answers are possible. Some suggestions are provided: The elimination of carriage would result in a better gross profit but net profit may be negatively affected as vehicle expenses (fuel, depreciation, repairs) may possibly increase. The driver (if he has one) of the vehicle may demand a higher wage as he may have to work longer hours and subsequently do more driving. Suppliers of flowers may be located in remote areas – this is a factor which needs to be considered, arrival of fresh stocks may be delayed. Etc.</p>

(d) The target mark-up of Bully's Butchery is 80%. The owner, Mr Bully, is very concerned about the mark-up being achieved. What internal control measures can be implemented to improve the situation?

$$\text{Mark-up achieved} = \frac{41\,000}{60\,080} \times \frac{100}{1} = \underline{68\%}$$

His butchery is operating at 12% (80% - 68%) below the target mark-up.

The previous year's achieved mark-up is not supplied so it cannot be established if there has been an improvement or not. However, a 12% deficit is an area of concern which requires attention.

Some internal control measures are suggested:

A more effective stock control need to be put into place to eliminate or reduce theft by staff and shoppers, e.g. cameras may be installed.

Discounts and mark-downs need to be reduced.

Check on wastage and damage to products – better packaging of products may be introduced.

Etc.

CHECKLIST

Skills	Yes – proficient	Requires more attention	Completed
Calculate cost of sales and mark-up using the perpetual stock system.			
Make the necessary entries in the journals and ledger accounts using the perpetual stock system.			
Show the effect on the Accounting equation according to both systems.			
Explain perpetual inventory systems.			
Explain periodic inventory systems.			
Discuss the difference between the two systems.			
Make the necessary entries in the journals and ledger accounts using the periodic stock system.			
Calculate the cost of sales according to the periodic inventory system.			
Calculate opening and closing stock according to the periodic inventory system.			
Draw up the Trading account according to the periodic inventory system.			

MODULE 12

VALUE ADDED TAX (VAT)

NOTE TO THE TEACHER:

The principles of VAT were introduced and discussed in Grade 10. Before proceeding with this Module you need to assess the learners' prior knowledge to ensure that they have the basic skills and knowledge to continue with Grade 11 work.

Therefore, the first Task is a baseline assessment and this will give you the required information as to whether you can continue with the Grade 11 work or go back to the Grade 10 book to cover missing skills and knowledge.

Take note that learners are not required to complete VAT entries in the journals, and the ledger accounts are only covered in Grade 12. Grade 10 was an introduction and this year, the emphasis is on the calculations using the invoice basis.

TASK 12.1  **SARS and VAT: Baseline assessment**

We suggest that you divide learners into pairs and allow them to role-play an interview in which they each give answers to the questions listed below. Allow them to assess each other to determine the prior knowledge.

Peer Assessment Form

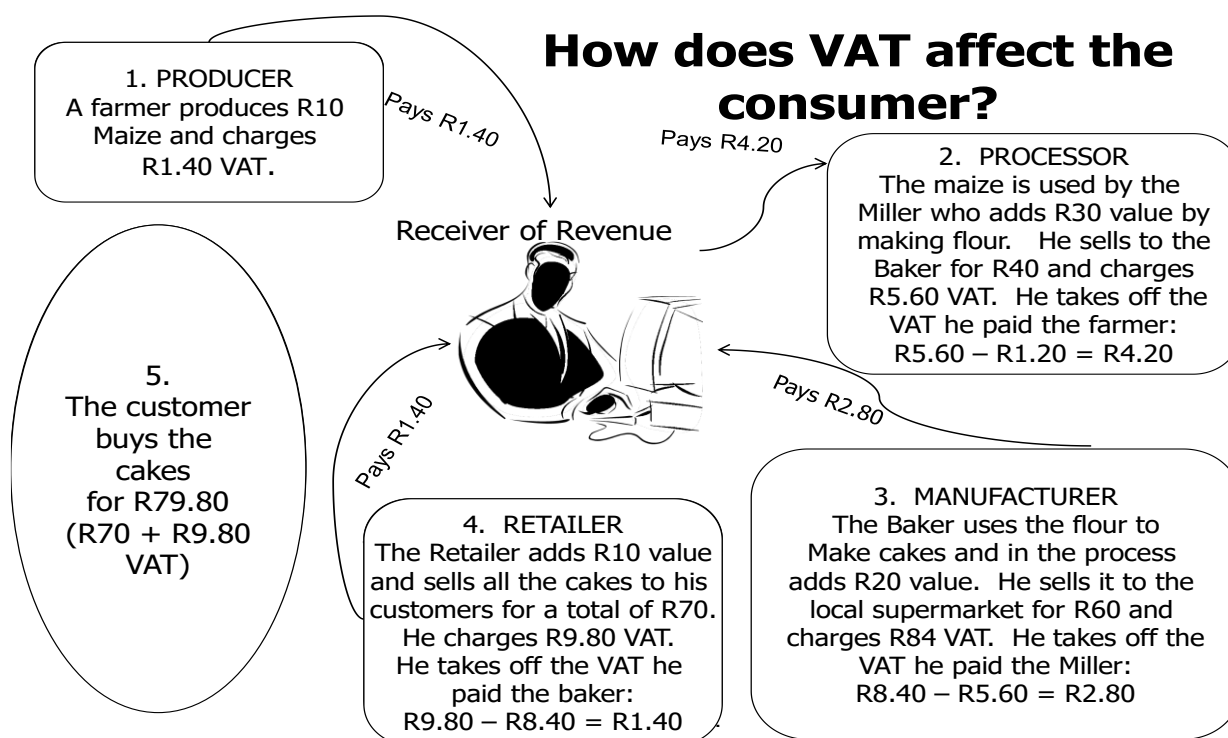
Each learner is to assess their partner based on the fact whether they understand the explanations given to them.

CRITERIA	YES – shows understanding	NO – lacks knowledge
Reasons why the South African government levies taxes.		
Name and briefly discuss at least 5 different forms of tax levied in South Africa.		
Understands that VAT is levied on goods and services in this country.		
Understands that VAT is recorded against all sales.		
Understands that VAT is recorded against most purchases.		
Understands that the amount paid to SARS or refunded is a difference between VAT on sales and purchases.		
Can distinguish between standard, zero-rated and exempted items.		
Understands which vendors have to register as a VAT trader.		
Understands that some vendors might voluntary register for VAT.		

Note to Teacher:

Learners should use their own assessment form to fill in the missing details in their knowledge and / or skills—they can be referred back to the Grade 10 book or you might have to re-teach all or some aspects, depending on the class's responses to the assessment Task.

How does VAT affect the consumer?



THE GENERAL PRINCIPLES OF VALUE-ADDED TAX



Suggestion: Photostat the following examples of financial statements, enlarging them to A3 size and pin them up on your classroom wall.

VAT CALCULATIONS:

Learners have always experienced difficulties with calculations, particularly those that involve working backwards. It is vital that they can calculate the amount of VAT whether the prices are quoted as exclusive or inclusive. Extracting VAT from an inclusive amount is the same calculation that is used when calculating cost of sales when given the sales figure.

It is important that you spend some time on these calculations and ensure that the learners are happy with the procedure so that in Grade 12 they can focus on the ledger accounts and the VAT return.



Suggestion: You may wish to get one or all of the groups to design their own chart – using any product (maize – flour – bread) or (cotton – mill – dye – T-shirt) to show how the VAT is determined at each stage. You could link with the Life Orientation department to do a shared project on this subject.

TASK 12.2 ☞ Add VAT to cost price and mark-up

No.	Cost Price	Mark-up	Exclusive: Selling Price	VAT (14%)	Inclusive: Selling Price
12.2.1	R25	R20	R45	R6.30	R51.30
12.2.2	R110	R25	R135	R18.90	R153.90
12.2.3	R280	10%	R308	R43.12	R351.12
12.2.4	R540	R108	R648	R90.72	R738.72
12.2.5	R700	25%	R875	R122.50	R997.50

TASK 12.3 ☼💧

Calculate VAT from VAT inclusive amount

No.	Exclusive: Selling Price	VAT (14%)	Inclusive: Selling Price
12.3.1	R491.23	R68.77	R560
12.3.2	R719.30	R100.70	R820
12.3.3	R52.63	R7.37	R60
12.3.4	R793.86	R111.14	R905
12.3.5	R416.67	R58.33	R475

TASK 12.4 ☼💧💧

Calculate VAT from VAT inclusive and exclusive amount

No.	Cost Price	Mark-up	Exclusive Selling Price	VAT (14%)	Inclusive Selling Price
12.4.1	R432	15%	<i>R496.80</i>	R69.55	R566.35
12.4.2	R393.85	30%	R512	R71.68	R583.68
12.4.3	R668.86	R401.32 (60%)	R1 070.18	R149.82	R1 220
12.4.4	R728.40	R66.60	R795	R111.30	R906.30
12.4.5	R1 103.56	R264.86	R1 368.42	R191.58	R1 560

TASK 12.5 💧💧💧

VAT calculations and interpretation

12.5.1	List three other forms of taxes levied in South Africa.
	Personal income tax (PAYE). Company tax. Customs and excise duty. Estate duty. Capital gains tax. Any other taxes applicable in South Africa.
12.5.2	What is the current rate of VAT in South Africa?
	14%
12.5.3	Which Ministry of the Government has the authority to adjust the rate of VAT?
	Ministry of Finance – it is normally adjusted by the Minister of Finance during his budget speech in parliament during February of each year.
12.5.4	Briefly explain the following concepts in respect of VAT.
	<ul style="list-style-type: none"> • Standard rated items <p>These goods and services attract VAT at a rate of 14%. It is paid by all who require these goods and services.</p>
	<ul style="list-style-type: none"> • Zero-rated items <p>These goods and services attract VAT at a rate of 0%. These goods and services are zero-rated so that they are affordable to the poorer members of the population. (The Minister of Finance may change zero-rated products to standard rated or vice versa).</p>
	<ul style="list-style-type: none"> • VAT exempted items <p>These are goods and services on which no VAT is charged.</p>

12.5.5	Indicate in the table below whether the following are standard rated, zero-rated or VAT exempted. Place an X in the relevant columns.																																														
	<table border="1"> <thead> <tr> <th>GOODS/SERVICES</th> <th>Standard rated</th> <th>Zero-rated</th> <th>VAT exempted</th> </tr> </thead> <tbody> <tr> <td>Rent paid on an outbuilding for domestic use</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>Hotel accommodation</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>White bread</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Rice</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>Mealie rice</td> <td></td> <td>X</td> <td></td> </tr> <tr> <td>School fees</td> <td></td> <td></td> <td>X</td> </tr> <tr> <td>Water and electricity</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Interest on loan</td> <td></td> <td></td> <td>X</td> </tr> <tr> <td>Baked beans</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Fruit</td> <td></td> <td>X</td> <td></td> </tr> </tbody> </table>	GOODS/SERVICES	Standard rated	Zero-rated	VAT exempted	Rent paid on an outbuilding for domestic use		X		Hotel accommodation	X			White bread	X			Rice		X		Mealie rice		X		School fees			X	Water and electricity	X			Interest on loan			X	Baked beans	X			Fruit		X			
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Interest on loan			X																																												
Baked beans	X																																														
Fruit		X																																													
12.5.6	Explain the following VAT related concepts:																																														
	<ul style="list-style-type: none"> Input VAT 																																														
	This refers to VAT that is paid by the business on goods and services purchased. The VAT is paid to the business's suppliers.																																														
	<ul style="list-style-type: none"> Output VAT 																																														
	This refers to VAT that is collected from the customers of the business for goods and/or services rendered.																																														
12.5.7	Complete the following table. Assume that all goods and services are subject to VAT at 14%.																																														
	<table border="1"> <thead> <tr> <th>TRANSACTION</th> <th>Value exclusive of VAT</th> <th>VAT amount</th> <th>VALUE INCLUSIVE OF VAT</th> </tr> </thead> <tbody> <tr> <td>Credit sales</td> <td>16 200</td> <td>2 268</td> <td>18 468</td> </tr> <tr> <td>Cash sales</td> <td>32 400</td> <td>4 536</td> <td>36 936</td> </tr> <tr> <td>Cash purchases of trading stock</td> <td>22 700</td> <td>3 178</td> <td>25 878</td> </tr> <tr> <td>Credit purchases of trading stock</td> <td>18 100</td> <td>2 534</td> <td>20 634</td> </tr> <tr> <td>Goods taken by the owner for personal use</td> <td>2 000</td> <td>280</td> <td>2 280</td> </tr> <tr> <td>Goods returned to suppliers</td> <td>1 800</td> <td>252</td> <td>2 052</td> </tr> <tr> <td>Goods returned by customers</td> <td>600</td> <td>84</td> <td>684</td> </tr> <tr> <td>Account of a debtor written off</td> <td>400</td> <td>56</td> <td>456</td> </tr> <tr> <td>Discount allowed on credit sales</td> <td>300</td> <td>42</td> <td>342</td> </tr> </tbody> </table>	TRANSACTION	Value exclusive of VAT	VAT amount	VALUE INCLUSIVE OF VAT	Credit sales	16 200	2 268	18 468	Cash sales	32 400	4 536	36 936	Cash purchases of trading stock	22 700	3 178	25 878	Credit purchases of trading stock	18 100	2 534	20 634	Goods taken by the owner for personal use	2 000	280	2 280	Goods returned to suppliers	1 800	252	2 052	Goods returned by customers	600	84	684	Account of a debtor written off	400	56	456	Discount allowed on credit sales	300	42	342						
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12.5.8	12.5.8.1 Is Mona's Supermarket a VAT registered vendor? Give a reason for your answer.																																														
	Yes. The supermarket has a VAT registration number.																																														
	12.5.8.2 Calculate the amounts that should be indicated at:																																														
	<ul style="list-style-type: none"> A 																																														
	R108.32																																														
	<ul style="list-style-type: none"> B 																																														
	$(8.55 + 9.69 + 31.92 + 13.68) = 63.84 \times \frac{14}{114} = R7.84$																																														
	12.5.8.3 Calculate the selling price of the washing powder exclusive of VAT.																																														
	$R31.92 \times \frac{100}{114} = R28.00$																																														
	12.5.8.4 Calculate the change that the cashier would have handed to you.																																														
	$R120.00 - R108.32 = R11.68$																																														

Note to Teacher:

Ensure that learners understand the method used when paying VAT to SARS. Remember that the Invoice basis is the norm and if no instructions are given to the contrary, this is the method to be used.

BAD DEBTS AND ETHICS

Ensure that the learners appreciate that this is not a way of committing fraud against SARS but that they will have to give proof that the debt is genuinely a bad debt.

NOTE:

It is customary for businesses to process entries into the VAT Input and VAT Output accounts and then to transfer the respective amounts to the VAT control account at the end of the two month period. However, it is also possible to process all entries directly into the VAT control account

TASK 12.6  **Durban Traders (1): Bad debts and ethics**

12.6.1	The amount that had to be written off the account of B. Botha.
R13 680 less R9 120 = R4 560	
12.6.2	The adjusted amount of VAT that Durban Traders is liable to pay SARS in respect of this sales invoice no DB 143.
Amount of original sale was R13 680 (inclusive of VAT) VAT payable on sale = $R13\ 680 \times \frac{14}{114} = R1\ 680$ Amount to be written off equals R4560 (inclusive of VAT) VAT on amount to be written off = $R4\ 560 \times \frac{14}{114} = R560$ VAT liability to SARS on inv. no. DB 143 = R1 680 less R560 = R1 120	

TASK 12.7  **Durban Traders (2): Transaction analysis on Bad debts and VAT**

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	Credited	Assets	Owners Equity	Liabilities
12.7.1	Debtors control	Sales	+12 000	+12 000	0
	Debtors control	Output VAT	+1 680	0	+1 680
	Cost of sales	Trading stock	-6 000	-6 000	0
12.7.2	Bank	Debtors control	±9 120	0	0
12.7.3	Bad debts	Debtors control	-4 000	-4 000	0
	Output VAT	Debtors control	-560	0	-560

TASK 12.8  **Eshowe Wholesalers: Difference between trade discount and discount for prompt cash payment**

12.8.1	Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 25 September 20.1.
The following amounts will be reflected on the invoice issued on 18 July 20.1: <ul style="list-style-type: none"> • Value of goods R40 000 • LESS: Trade discount R12 000 • Net amount payable R28 000 Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit. Since Tulani Retailers settled the account after 30 days no further discount is applicable.	

12.8.2	Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 15 August 20.1.
<p>The following amounts will be reflected on the invoice issued on 18 July 20.1:</p> <ul style="list-style-type: none"> • Value of goods R40 000 • LESS: Trade discount R12 000 • Net amount payable R28 000 <p>Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit.</p> <p>Since Tulani Retailers settled the account within 30 days a further discount of 10% is applicable. Therefore Tulani Retailers pays an amount of R25 200 in full settlement of debt of R28 000. R25 200 = R28 000 less R2 800 (10% of R28 000).</p>	
12.8.3	Calculate the third and final amount that Tulani Retailers will pay Eshowe Wholesalers on 18 December 20.1 if they had made two payments on the following dates:
<ul style="list-style-type: none"> • A first payment of R15 000 on 29 July 20.1. • A second payment of R8 000 on 31 August 20.1. <p>The following amounts will be reflected on the invoice issued on 18 July 20.1:</p> <ul style="list-style-type: none"> • Value of goods R40 000 • LESS: Trade discount R12 000 • Net amount payable R28 000 <p>Tulani Retailers is allowed a trade discount of 30% because of being a trader who buys in bulk in order to resell at profit.</p> <p>However, Tulani Retailers failed to settle their total debt within the 90 day period. An amount of R23 000 (R15 000 + R8 000) was settled at 90 days, i.e. 18 October 20.1. An amount of R5 000 (R28 000 less R23 000) was owing for two additional months. Interest payable for 2 months amounts to R200 (R5 000 x 24% for $\frac{2}{12}$). Total payable on 18 December is R5 200 (R5 000 + R200).</p>	

TASK 12.9 Smit Traders: VAT and Sales returns

GENERAL LEDGER OF SMIT TRADERS

Dr					DEBTORS CONTROL					B	Cr
20.1					20.1						
Jan	1	Balance	b/d	25 000	Jan	8	Debtors allowances				1 500
							VAT Output				210

DEBTORS ALLOWANCES					N												
20.1																	
Jan	1	Total	b/f	2 100													
	8	Debtors control		1 500													

VAT OUTPUT					B												
20.1					20.1												
Jan	8	Debtors control		210	Jan	1	Balance	b/d									4 000

Workings:

$$\begin{aligned} \text{VAT} &= R1\,710 \times \frac{14}{114} = R210 \\ \text{Sales returns} &= R1\,710 - R210 = R1\,500 \end{aligned}$$

TASK 12.10 ☼ Ixopo Traders: VAT and purchases returns

GENERAL LEDGER OF IXOPO TRADERS

Dr					CREDITORS CONTROL					B	Cr
20.1					20.1						
Aug	2	Trading stock		2 200	Aug	1	Balance	b/d		38 000	
		VAT Input		308							

TRADING STOCK					N						
20.1					20.1						
Aug	1	Balance	b/d	18 800	Aug	2	Creditors control			2 200	

VAT INPUT					B						
20.1					20.1						
Aug	1	Balance	b/d	9 000	Aug	2	Creditors control			308	

Workings:

$$\text{VAT} = \text{R}2\,508 \times \frac{14}{114} = \text{R}308$$

$$\text{Purchases returns} = \text{R}2\,508 - \text{R}308 = \text{R}2\,200$$

TASK 12.11 ☼💧 Transaction Analysis on returns and VAT

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	Credited	Assets	Owners Equity	Liabilities
12.11.1	Debtors control	Sales	+3 000	+3 000	0
	Debtors control	VAT Output	+420	0	+420
	Cost of sales	Trading stock	-2 000	-2 000	0
12.11.2	Debtors allowances	Debtors control	-900	- 900	0
	VAT Output	Debtors control	-126	0	-126
	Trading stock	Cost of sales	+600	+600	0
12.11.3	Trading stock	Creditors control	+16 000	0	+16 000
	VAT Input	Creditors control	+2 240	0	+2 240
12.11.4	Creditors control	Trading stock	-2 500	0	-2 500
	Creditors control	VAT Input	-350	0	-350

TASK 12.12 Soweto Traders: Calculation of balance in VAT control account

NOTE TO TEACHER:

Ensure that learners understand the effect of increasing liability or decreasing liability to SARS i.r.o. VAT. For learners who are still finding it a challenge - explain the double entry and the journal. This Task makes use of the VAT Control account instead of separate VAT Input and VAT Output accounts.

GENERAL LEDGER OF SOWETO TRADERS

Dr					VAT CONTROL ACCOUNT					B		Cr	
20.1					20.1								
Mar	31	Creditors control (credit purchase of goods)		4 060	Mar	1	Balance	b/d				3 500	
		Bank (cash purchase of goods)		2 940		31	Debtors control (credit sales)					3 920	
		Bank (payment to SARS for VAT)		7 200			Bank (cash sales of goods)					7 280	
		Debtors control (returns of goods)		504			Creditors control (returns of goods)					672	
		Debtors control (bad debts)		406			Creditors control (discount received)					490	
		Debtors control (discount allowed)		616									
		Balance	cd	136									
				15 862								15 862	
					Apr	1	Balance	Bd				136	

Amount Payable: R136

TASK 12.13 Bad debts and ethics

The purpose of this Task is to allow the learners an opportunity to engage in an ethical argument. Try to focus on the fact that the accountant is a person of high repute and is of the belief that you cannot be caught. You also are in need of extra cash at the moment.

Try to use examples that many people will say that they would not be unethical but when faced with situations often react differently. For example, how many people do not try to cheat SARS by manipulating information, take their families out to supper and claim it as a business expense, take stationery home that becomes a tax-deductible expense to the business?

Allow learners time to discuss the ethical issues. If possible, use case studies or information that is relevant in your community or at this present time.

PENALTIES FOR TAX EVASION AND FRAUD

Learners need to be aware that severe penalties exist if the VAT laws are infringed in any way. Try to keep up-to-date with any new legislation in this regard. Visit the SARS web page for updated information.

TASK 12.14 Ethics and fraud

Allow learners time to read and discuss these articles. If possible, try to add extra articles from your local area.

Suggested answers to the discussion:

	<p>Why do you think people commit fraud?</p> <ul style="list-style-type: none"> - We live in a world that is rapidly changing in all aspects and, unfortunately, when people live at a fast pace ethics are often forgotten. - Materialism and greed are prevalent in our society. We are constantly bombarded with media reports, peers and society in general about the value of acquiring material possessions, and the desire to acquire these material possessions often supersedes our value systems. - We live in a world of constant competition, peer pressure, self-centredness that again means we forget our 'values'. - Unfortunately, many leaders in all aspects of life are not good role models – how many business people, politicians and celebrities get involved in unethical behaviour? Open any newspaper and you will be inundated with examples.
	<p>How do they manage to defraud (cheat) SARS?</p> <ul style="list-style-type: none"> - Incorrect recordings. - Incorrect documents. - Failure to disclose all information. - False information. - Etc.
	<p>Discuss the following slogan as portrayed by SARS "Your tax quenches the nation's thirst" and the effect of fraud on the country.</p> <p>Tax money is used for the country, e.g. education, police force, defence, hospitals, roads, emergency situations, etc.</p> <p>If SARS is defrauded, it means they do not collect all the money and this will impact on the government's delivery of services.</p>

TASK 12.15 Case study: Interpretation and tax fraud

12.15.1	<p>Write out the full name for the following acronyms (abbreviations).</p> <ul style="list-style-type: none"> • SARS South African Revenue Services • VAT Value Added Tax • SAICA South African Institute of Chartered Accountants • SAIPA South African Institute of Professional Accountants
12.15.2	<p>Briefly explain ONE function of SAICA.</p> <p>Set standards for those entering the Accounting profession and monitor whether accountants conform to the code of conduct and work ethics of these professionals.</p>
12.15.3	<p>Explain who or what a VAT vendor is.</p> <p>A business registered for VAT with SARS. This business pays VAT to suppliers when it buys goods and charges its own customers VAT when selling goods to them. It then subtracts the VAT paid from the VAT received and remits the difference to SARS.</p>

12.15.4	What is the minimum annual turnover for compulsory VAT registration?																
R1 million																	
12.15.5	How much does SARS pay out monthly for VAT claims?																
R20 to R30 billion per month																	
12.15.6	Explain briefly what you understand by the term "biometric verification".																
This is "fingerprint scanning". A VAT vendor (the owner or manager) must have his fingerprints recorded at SARS and they can verify the real person by physically checking the finger prints.																	
12.15.7	According to Gugu Smit what is South Africa's tax system based on? State at least THREE elements.																
"South Africa's tax system is based on self-declaration and depends to a large extent on the integrity of tax payers to make full, accurate and honest disclosure and pay all the tax that is due."																	
12.15.8	According to the article how do businesses commit VAT fraud?																
Small businesses giving fake details and addresses to claim VAT from SARS. Show less sales to reduce VAT output. Inflate purchases to claim higher VAT input.																	
12.15.9	How did SARS detect fraud in the case of Dr. Tulani Colin Khan?																
The VAT audit conducted by SARS revealed the fraud. This included checking the bank statements.																	
12.15.10	Do you agree with the punishment given? Give ONE reason for your answer.																
Yes. He committed fraud which is illegal but he is paying back R1.5 million to SARS and doing 1 000 hours of community service at a hospital in Durban dealing with HIV. OR No If you commit the crime then you should at least serve part of the sentence of 10 years – should not be wholly suspended.																	
12.15.11	Do you think that newspapers should be allowed to publish details of court cases of fraud and corruption committed by private individuals, business people and government officials?																
<table border="1"> <thead> <tr> <th>No.</th> <th>Fraud by</th> <th>Yes / No</th> <th>Reason</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>Private Individual</td> <td>Yes</td> <td>It will inform many people about fraud committed by him / her – so people will be aware.</td> </tr> <tr> <td>B</td> <td>Business people</td> <td>Yes</td> <td>Business is there to make a profit. The customer is paying for a service and customer must get TRUE value for his money.</td> </tr> <tr> <td>C</td> <td>Government officials</td> <td>Yes</td> <td>Government officials really work for the people – paid by taxpayers' money. The taxpayer expects these officials to be honest. Therefore, if there is corruption then the taxpayer must know about it.</td> </tr> </tbody> </table>		No.	Fraud by	Yes / No	Reason	A	Private Individual	Yes	It will inform many people about fraud committed by him / her – so people will be aware.	B	Business people	Yes	Business is there to make a profit. The customer is paying for a service and customer must get TRUE value for his money.	C	Government officials	Yes	Government officials really work for the people – paid by taxpayers' money. The taxpayer expects these officials to be honest. Therefore, if there is corruption then the taxpayer must know about it.
No.	Fraud by	Yes / No	Reason														
A	Private Individual	Yes	It will inform many people about fraud committed by him / her – so people will be aware.														
B	Business people	Yes	Business is there to make a profit. The customer is paying for a service and customer must get TRUE value for his money.														
C	Government officials	Yes	Government officials really work for the people – paid by taxpayers' money. The taxpayer expects these officials to be honest. Therefore, if there is corruption then the taxpayer must know about it.														

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Understands the need for taxes.			
Understands how VAT works.			
Can calculate the amount of VAT if the price quoted is exclusive.			
Can calculate the amount of VAT if the price quoted is inclusive.			
Understands the difference between invoice and receipt base for the payment of VAT.			
Appreciates the penalties attached to fraud and evasion.			
Appreciates the effect on the economy if tax evasion takes place.			

MODULE 13 REVISION

BANK RECONCILIATION

TASK 13.1 Spears Dealers: Cash journals, Bank account & Bank Reconciliation Statement

13.1.1 SPEARS DEALERS

CASH RECEIPTS JOURNAL FOR MAY 20.8

CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	25 300	25 300		
B/S		H. Xaba		278	278		Bad debts recovered
176		BN Sellers (stale cheque)		340	340		Consumables
278		Jojo Wholesalers (overstated)		60	60		Creditors control
				25 978	25 978		

B

CASH PAYMENTS JOURNAL FOR MAY 20.8

CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	15 412	15 412		
B/S		V. Shakie (r/d cheque)		450	450		Debtors control
B/S		FirstPlus Bank		221	98		Bank charges
					123		Interest on o/d
B/S		Assure Insurance Co.		412	412		Insurance
265		BN Sellers		340	340		Consumables
268		BooHoo Suppliers (understated)		18	18		Trading stock
B/S		P. Waylaid (r/d cheque)		723	723		Debtors control
286		Hootie Suppliers		1 440	1 440		Trading stock
				19 016	19 016		

B

13.1.2

GENERAL LEDGER OF SPEARS DEALERS BALANCE SHEET ACCOUNTS SECTION

Dr				BANK				B				Cr			
20.8								20.8							
May	31	Sundry accounts	CRJ	25 978				May	1	Balance ^[1]	b/d			1 840	
									31	Sundry accounts	CPJ			19 016	
										Balance	c/d			5 122	
				25 978									25 978		
June	1	Balance	b/d	5 122											

^[1] 1 545 + 340 + 515 + 2 101 + 258 – 469 – 2 450

13.1.3 BANK RECONCILIATION STATEMENT AT 31 MAY 20.8

	Debit	Credit
Balance as per bank account	5 122	
Outstanding deposit		2 460
Outstanding cheques: No. 205	2 101	
No. 257	3 480	
No. 263	2 460	
No. 264	297	
No. 265	340	
No. 286	1 440	
Balance as per bank statement*		12 780
	15 240	15 240

*Balancing figure.

TASK 13.2 Yougo Traders: Calculations, Bank Reconciliation Statement

13.2.1

No.	CASH JOURNAL	
	CRJ	CPJ
Totals	6 420	5 170
1 (a)	900	
1 (b)	140	140
1 (c)	90	
1 (d)	699	
2 (b)		360
2 (d)		2 000
2 (f)		300
2 (g)	200	
2 (h)		900
	8 449	8 870

13.2.2 Calculation of bank account balance:

Opening balance	R4 931
(4 200 + 3 100 – 900 – 140 – 430 – 200 – 699)	
CRJ total:	8 449
	13 380
CPJ total:	(8 870)
Favourable bank balance (Dr)	R4 510

13.2.3 BANK RECONCILIATION STATEMENT OF YUGO TRADERS AT 31 MAY 20.9

	Debit	Credit
Balance as per bank account	4 510	
Outstanding deposit		2 100
Outstanding cheques: No. 94	200	
No. 98	140	
No. 109	700	
No. 112	2 000	
Balance as per bank statement		5 450
	7 550	7 550

TASK 13.3

Orpheus Stores: Cash journals, Bank account, Bank Reconciliation Statement

13.3.1 ORPHEUS STORES

CASH RECEIPTS JOURNAL FOR AUGUST 20.7

CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	41 630	41 630		
341		Mukstar Shop Suppliers (stop payment)		2 500	2 500		Equipment
364		Steyn Motors (overstated)		180	180		Drawings
B/S		Mamoo & Co.		2 200	2 200		Rent income
359		Pinewood Seniors (lost cheque)		300	300		Donation
				46 810	46 810		

B

CASH PAYMENTS JOURNAL FOR AUGUST 20.7

CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	31	Totals	b/f	49 920	49 920		
367		Printpak (understated)		200	200		Stationery
B/S		V. Badboy (r/d cheque)		700	700		Debtors control
B/S		Great Bank		637	245		Interest on o/d
					392		Bank charges
B/S		City Council		326	326		Municipal rates
B/S		Luton Brokers		110	110		Insurance
387		Pinewood Seniors		300	300		Donation
391		PS Wholesalers		1 200	1 200		Creditors control
				53 393	53 393		

B

13.3.2

GENERAL LEDGER OF ORPHEUS STORES BALANCE SHEET ACCOUNTS SECTION

Dr				BANK				B				Cr			
20.7								20.8							
Aug	31	Sundry accounts	CRJ	46 810				Aug	1	Balance ^[1]		b/d		10 812	
		Balance	c/d	17 395					31	Sundry accounts		CPJ		53 393	
				64 205									64 205		
								Sept	1	Balance		b/d		17 395	

^[1] 3 675 + 7 070 – 2 500 – 4 860 – 8 620 – 5 577

13.3.3 BANK RECONCILIATION STATEMENT AT 31 AUGUST 20.7

	Debit	Credit
Balance as per bank statement	11 346	
Outstanding deposit		8 765
Outstanding cheques: No. 366	8 620	
No. 384	854	
No. 386	3 840	
No. 387	300	
No. 391	1 200	
Balance as per bank account		17 395
	26 160	26 160

TASK 13.4 Completion of table

NO.	DETAILS	Cash Journal		Bank Reconciliation		No Entry
		CRJ	CPJ	DR	CR	
1.	Cheques not yet presented for payment.			X		
2.	Dishonoured cheques as indicated on the B/S.		X			
3.	Discounts on dishonoured cheques (see No. 2).					X
4.	Bank charges as per B/S.		X			
5.	Deposit not yet credited by the bank.				X	
6.	Electronic payments made by the business.		X			
7.	Electronic transfers made in favour of the business.	X				
8.	Cash deposit fees as per B/S.		X			
9.	Post-dated cheques received from customers.					X
10.	Post-dated cheques issued to suppliers. No entry has been made.		X	X		
11.	Bank statement balance on the 1 st day of the month (favourable).					X
12.	Bank statement balance on the last day of the month (unfavourable).			X		
13.	Bank account balance on the 1 st day of the month (favourable).					X
14.	Bank account balance on the last day of the month (unfavourable).				X	
15.	Interest on overdraft as per B/S.		X			
16.	Interest earned on current banking account as per the bank statement.	X				
17.	Stop orders as per B/S.		X			
18.	Debit orders as per B/S.		X			
19.	Service fees as per B/S.		X			
20.	Loan instalment paid by debit order as per B/S.		X			

EXTRA BANK RECONCILIATION STATEMENT TASKS

The following Tasks do not appear in the Learner's textbook but can be used for extra Tasks or tests.

EXTRA TASK 1

Information:

During February 20.9, a trader had issued and recorded the following cheques in her books. The bank balance was overdrawn by R5 400 (before any adjustments) on 28 February 20.9. The following have not yet been considered:

- R500 to FiveUp Dealers for merchandise, dated 3 March 20.9.
- R830 to VIP Builders for the erection of a retaining wall around the car park, dated 5 March 20.9.
- R460 to GB Finance towards a loan repayment, dated 12 February 20.9.
- R555 to Plump Wholesalers in settlement of a debt of R580, dated 1 March 20.9.
- R95 from Alberto in settlement of his debt of R100. The cheque was dated 3 March 20.9.
- R1 500 from tenant, Ms Cutie's Salon. The cheque was dated 28 February 20.9.
- Bank charges as per bank statement R314.
- Interest on overdraft as per bank statement R982.

Required:

1. Under the headings below, show how the above will be dealt with on 28 February 20.9, the end of the financial year. If no entry is required place an 'X' in the 'NO ENTRY' column. Indicate an increase with a '+', a decrease with '-' and no effect with '0'.

No.	Name of account in General Ledger		A =	OE +	L	No entry	Reason
	Account debit	Account credit					

2. Calculate the new bank balance after taking into account the adjustments. Indicate whether the bank balance is favourable or unfavourable.

SOLUTION: EXTRA TASK 1

1.

No.	Name of account in General Ledger		A =	OE +	L	No entry	Reason
	Account debit	Account credit					
(a)	Trading stock	Bank	+500		+500		Trading stock is an asset which increases on the Dr side; Bank is a liability which increases on the Cr side.
(b)	Land & buildings	Bank	+830		+830		Land & buildings is an asset which increases on the Dr side; Bank is a liability which increases on the Cr side.
(c)	Loan: GB Finance	Bank			±460		Loan is a liability which decreases on the Dr side; Bank is a liability which increases on the Cr side.
(d)	Creditors control	Bank			±555		Creditors control is a liability which decreases on the Dr side; Bank is a liability which increases on the Cr side.
	Creditors control	Discount received		+25	-25		Creditors control is a liability which decreases on the Dr side; Discount received is an income which increases on the Cr side (OE+).
(e)						X	Post-dated cheques are only recorded on the due date.
(f)	Bank	Rent income		+1 500	-1 500		Bank is a liability which decreases on the Dr side; Rent income is an income which increases on the Cr side (OE+).
(g)	Bank charges	Bank		-314	+314		Bank charges is an expense which increases on the Dr side (OE-); Bank is a liability which increases on the Cr side.
(h)	Interest on o/d	Bank		-982	+982		Interest on o/d is an expense which increases on the Dr side (OE-); Bank is a liability which increases on the Cr side.

2. New bank balance

Debits	Credits
1 500	5 400
	500
	830
	460
	555
	314
	982
1 500	9 041

Unfavourable bank balance = R9 041 – 1 500 = **R7 541**

EXTRA TASK 2

Required:

1. Complete the Cash Journals of Sipilo Stores.
2. Post to the Bank account only.
3. Prepare the Bank Reconciliation Statement on 30 April 20.9.

Note:

Sipilo Stores has a current account with Sharper Bank.

Information:

Bank Reconciliation Statement on 31 March 20.9

Favourable balance as per bank statement	R315
Outstanding deposit	12 600
Outstanding cheques:	
No. 0155	2 444
No. 0178	6 498
No. 0189	992
No. 0198	500
No. 0204	530
Balance as per bank account	?

Notes on March Bank Reconciliation Statement:

- The outstanding deposit that consisted of cash sales duly appeared on the April bank statement.
- On investigation, it was established that cheque no. 0155 had been mislaid. It had been paid to a supplier, Morteck Suppliers. Sipilo Stores have an account with them. Cheque no. 0234 was hand-delivered to them on 27 April 20.9. Morteck Suppliers have not yet deposited the cheque.
- Cheque no. 0178 was issued to DK Dealers for trading stock bought. This cheque does not appear on the April bank statement. DK Dealers claim that they never received the cheque and requested a new cheque. They refused to grant the cash discount of 5%, which had been originally received from them. Cheque no. 0239 was issued on 29 April 20.9. The cheque was dated 1 May 20.9.
- Cheque no. 0189 had been issued to Omar's Shop for wrapping materials appeared on the April bank statement but the amount shown was R929. On investigation, it was found that the bank statement was correct.
- Cheque no. 0198 had been presented to the bank on 21 April 20.9. It had been issued to Stein's Auctioneers for antique furniture bought for the beach cottage of Mr Sipilo (the owner).
- Cheque no. 0204 did not appear on the April bank statement. It was issued on 30 March 20.9 to GeeBee Ltd for trading stock and dated 3 May 20.9.

Additional information:

1. Provisional totals in the Cash Journals:
 Cash Receipts Journal R18 760
 Cash Payments Journal R13 647
2. The bank statement showed a direct deposit of R3 560 received from Fulham Stores for commission earned. This did not appear in the Cash Journal.

3. The following stop/debit orders appeared on the bank statement only:
- (a) R890: paid to SurePlus Insurance Brokers for shop insurance;
 - (b) R620: paid to SurePlus Insurance Brokers for Mr Sipilo's car insurance (the car belongs to the business);
 - (c) R400: paid to Mobile Phones Ltd for Mrs Sipilo's personal cell phone.
 - (d) R210: paid to Rep Booksellers for financial magazine subscriptions (Mr Sipilo encourages the reading of these magazines by the management staff).
 - (e) The following appear on the bank statement:

Service fee	R244
Interest on credit balance	45
Cash deposit fee	79
Interest on overdraft	198
Credit card levies	120
4. A debtor, P. Noble, for R250 whose account had previously been written off in February 20.9 re-appeared. He transferred the amount owing electronically into the bank account of Sipilo Stores on 15 April 20.9.
5. Cheque no. 0243 for R2 108 received from credit customer, M. Alfonso, was dishonoured because of insufficient funds.
6. A cheque (no. 0260) was shown on the bank statement as R117 whilst the Cash Journal reflected the same cheque as R71. The bank statement figure is correct. The cheque had been issued to Dewars for trading merchandise bought.
7. A deposit for R13 120 being the sales takings appeared in the Cash Receipts Journal only.
8. The following cheques appeared in the Cash Payments Journal only:
- (a) Cheque no. 0267 for R310 issued to Mantro for merchandise dated 29 April 20.9.
 - (b) Cheque no. 0271 for R3 222 issued to Didco Ltd, a creditor, dated 25 April 20.9.
 - (c) Cheque no. 0275 for R2 500 issued to M. Mortar for extensions to the buildings dated 30 June 20.9.
9. A cheque for R55 dated 15 May 20.9 had been received from a client, M. Guffy, on 10 April 20.9. The cheque does not appear in the Cash Journal or the bank statement.
10. The bank statement showed a balance of R? on 30 April 20.9.

SOLUTION: EXTRA TASK 2

1. SIPILO STORES

CASH RECEIPTS JOURNAL FOR APRIL 20.9

CRJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	30	Totals	b/f	18 760	18 760		
0155		Morteck Suppliers (misaid cheq.)		2 444	2 444		Creditors control
0178		DK Dealers (cheque cancelled)		6 498	6 498		Trading stock
0189		Omar's Shop (overstated)		63	63		Consumable stores
B/S		Fulham Stores		3 560	3 560		Commission income
B/S		Sharper Bank		45	45		Interest income
B/S		P. Noble		250	250		Bad debts recovered
				31 620	31 620		

B

CASH PAYMENTS JOURNAL FOR APRIL 20.9
CPJ

Doc. no.	D	Details	Fol	Bank	Sundry accounts		
					Amount	Fol	Details
	30	Totals	b/f	13 647	13 647		
0234		Morteck Suppliers		2 444	2 444		Creditors control
0239		DK Dealers		6 840*	6 840		Trading stock
B/S		SurePlus		1 510	1 510		Insurance
B/S		Mobile Phones Ltd		400	400		Drawings
B/S		Rep Booksellers		210	210		Stationery
B/S		Sharper Bank		641	443		Bank charges
					198		Interest on o/d
B/S		M. Alfonso (bad cheque)		2 108	2 108		Debtors control
0260		Dewars (understated)		46	46		Trading stock
				27 846	27 846		

B

 *6 498 x ¹⁰⁰/₉₅
**2. GENERAL LEDGER OF SIPILO STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					BANK		B		Cr	
20.9					20.8					
April	1	Balance ^[1]	b/d	1 951	Aug	31	Sundry accounts	CPJ		27 846
	30	Sundry accounts	CRJ	31 620			Balance	c/d		5 725
				33 571						33 571
May	1	Balance	b/d	5 725						

^[1]315 + 12 600 – 2 444 – 6 498 – 992 – 500 – 530

3. BANK RECONCILIATION STATEMENT AT 30 APRIL 20.9

	Debit	Credit
Balance as per bank account	5 725	
Outstanding deposit		13 120
Outstanding cheques: No. 0234	2 444	
No. 0239	6 840	
No. 0204	530	
No. 0267	310	
No. 0271	3 222	
No. 0275	2 500	
Balance as per bank statement		8 451
	21 571	21 571

EXTRA TASK 3

The information below relates to the books of Silvano Dealers.

Required:

Use the relevant information to prepare the following:

1. The Bank account in the General Ledger, properly balanced on 30 June 20.8.
2. The Bank Reconciliation Statement as at 30 June 20.8.

Information:

Favourable balance of bank account on 1 June 20.8	R6 700
Unfavourable bank statement balance 1 June 20.8	1 300
Favourable bank statement balance 30 June 20.8	9 090
Cheques drawn but not yet presented for payment after comparison with June 20.8 bank statement:	
No. A1235 in favour of Velima CC	890
No. A1245 in favour of OnTop Wholesalers	1 430
No. A1251 in favour of Sanpehle Co. Ltd.	2 220
Deposits not yet credited by the bank after comparison with June 20.8 bank statement:	
Deposit on 27 June 20.8	2 310
Deposit on 28 June 20.8	1 990
Total of bank column of the CRJ before updating with June 20.8 bank statement	24 560
Total of bank column of the CRJ after updating with June 20.8 bank statement	27 150
Total of bank column of the CPJ before updating with June 20.8 bank statement	13 640
Total of bank column of the CPJ after updating with June 20.8 bank statement	25 000

SOLUTION: EXTRA TASK 3

**1. GENERAL LEDGER OF SILVANO DEALERS
BALANCE SHEET ACCOUNTS SECTION**

Dr				BANK				B		Cr
20.8				20.8						
June	1	Balance	b/d	6 700	June	30	Sundry accounts	CPJ	25 000	
	30	Sundry accounts	CRJ	27 150			Balance	c/d	8 850	
				33 850					33 850	
July	1	Balance	b/d	8 850						

2. BANK RECONCILIATION STATEMENT AT 30 JUNE 20.8

	Debit	Credit
Balance as per bank statement		9 090
Outstanding deposit [2 310 + 1 990]		4 300
Outstanding cheques: No. A1235	890	
No. A1245	1 430	
No. A1251	2 220	
Balance as per bank account	8 850	
	13 390	13 390

EXTRA TASK 4

The inexperienced bookkeeper of Money Penny Stores closed off the cash journals for March 20.8 before comparing the bank statement.

Required:

Enter all the necessary transactions to update the records directly into the Bank account and prepare a Bank Reconciliation Statement on 31 March 20.8.

Note:

The contra accounts (contra references) for the individual entries must be clearly indicated when preparing the Bank account.

Information:

1. The Bank account is given below:

Dr		BANK			B5		Cr		
20.8					20.8				
Mar	31	Total receipts	CRJ	64 321	Mar	1	Balance	b/d	9 671
						31	Total payments	CPJ	78 442

2. The following items appeared on the bank statement for March 20.8 and were not ticked off:
- Service fees R245; cash deposit fee R68; interest on debit balance R255.
 - Unpaid cheque:
 - A cheque received from G. Buntie for R540 in settlement of his account was dishonoured due to insufficient funds.
 - Deposits:
 - An electronic payment made by the tenant R3 000.
 - An electronic payment made by a debtor, U. Opius, R350. His account had been previously written off.
 - Cheque no. 0961 for R2 690 for merchandise. This had been entered into the Cash Payments Journal as R1 690. The bank statement is correct.
 - Debit orders:
 - In favour of BeeQue Brokers for insurance R1 245.
 - In favour of the local municipality to pay the monthly utility bill in respect of lights, water and rates R1 988.
 - In favour of TMN to pay the monthly cellphone charges of the business R1 774.
 - In favour of TMN to pay the monthly cellphone charges of the owner's daughter R1 991.
3. The following items appeared in the cash journals but not on the bank statement:
- Outstanding deposit R1 445.
 - Cheques:
 - No. 0061: R1 200 (15 September 20.7)
 - No. 0081: 245 (6 January 20.8)
 - No. 0861: 2 555 (8 February 20.8)
 - No. 1141: 987 (15 March 20.8)
 - No. 1175: 432 (15 April 20.8)

Note:

- Cheque no. 0061 was issued to Tavco Wholesalers for goods which had been delivered in September. The cheque is stale.
- Cheque no. 0081 had been lost in transit. It was issued to Dino's for repairs. The cheque will be replaced during April 20.8.

SOLUTION: EXTRA TASK 4

**1. GENERAL LEDGER OF MONEY PENNY STORES
BALANCE SHEET SECTION**

Dr		BANK			B		Cr		
20.8					20.8				
Mar	31	Total receipts	CRJ	64 321	Mar	1	Balance	b/d	9 671
		Rent income		3 000		31	Total payments	CPJ	78 442
		Bad debts recovered		350			Bank charges		313
		Trading stock		1 200			Interest on o/d		255
		Repairs		245			Debtors control		540
		Balance	c/d	28 103			Trading stock		1 000
							Insurance		1 245
							Utility bill		1 988
							Cell phone charges		1 774
							Drawings		1 991
				97 219					97 219
					April	1	Balance	b/d	28 103

BANK RECONCILIATION STATEMENT AT 31 MARCH 20.8

	Debit	Credit
Balance as per bank account		28 103
Outstanding deposit		1 445
Outstanding cheques: No. 0861	2 555	
No. 1141	987	
No. 1175	432	
Balance as per bank statement	25 574	
	29 548	29 548

CREDITORS RECONCILIATION STATEMENT**TASK 13.5  Celeb Stores: Creditors Reconciliation Statement**

13.5.1	Calculate the correct balance of Coprox Wholesalers in the Creditors Ledger.
16 330 + 900 = R17 230	

Explanation:

The bookkeeper (Rihanna) overstated the discount by R900. It is, therefore, necessary to add back R900 to the creditor's balance.

13.5.2 Creditors Reconciliation Statement on 30 June 20.8

	Debit	Credit
Balance as per Statement of account	30 314	
Correction of error on 20 th – Inv. 5780		9 880
Invoice 6011 not reflected on statement	6 771	
Payment not reflected on statement		9 500
Discount not reflected on statement		475
Balance as per Creditors Ledger		17 230
	37 085	37 085

Alternate format:

Balance as per Statement of account	30 314
Correction of error on 20 th – Inv. 5780	(9 880)
Invoice 6011 not reflected on statement	6 771
Payment not reflected on statement	(9 500)
Discount not reflected on statement	(475)
Balance as per Creditors Ledger	17 230

Explanation:

- The Statement of account balance is entered on the debit side. From the point of view of Coprox Wholesalers this amount (R30 314) is owing to them. It should be noted, that you can start with the balance in the Creditors Ledger and then end with the Statement of account balance.
- Error on the 20th: this is shown as a credit as Celeb Stores were erroneously debited with a purchase made by another business.
- Invoice 6011: this purchase has not been recorded by Coprox Wholesalers as this transaction took place after the 25th. The Statement of account reflects transactions up to and including 25 June 20.8.
- Payment and the discount: these do not appear on the Statement as the transaction took place after the 25th.

TASK 13.6 Tuscon CC: Creditors Reconciliation Statement

13.6.1 CREDITORS LEDGER OF ADLIB OUTFITTERS

Tuscon CC

Tuscon CC					CL	
Date		Details	Fol	Debit	Credit	Balance
20.8						
Aug	1	Account rendered/Balance	b/d			1 499
	4	Cheque 115	CPJ	1 000*		499
		Discount	CPJ	25*		474
	10	Invoice X321	CJ		899	1 373*
	12	D/N 118	CAJ	99		1 274*
	19	Invoice X391	CJ		275*	1 549
	28	Cheque 131	CPJ	400		1 149*
	29	Invoice X432	CJ		196*	1 345
	31	Correction of error on invoice X391	GJ		99	1 444

13.6.2 Creditors Reconciliation Statement on 31 August 20.8

Balance as per Statement of account	1 648
Payment not reflected on statement	(400)
Invoice not reflected on statement	196
Balance as per Creditors Ledger	1 444

13.6.3	The owner of this business needs to know how soon suppliers (creditors) are being paid. Use the relevant information below to calculate the creditors' payment period in days.
<p>Average creditors $\times 365$ Credit purchases $\frac{1}{2}(50\ 000 + 64\ 000) \times 365$ 416 100 $\frac{57\ 000}{416\ 100} \times 365 = 50$ days</p>	
13.6.4	The debtors collection period on 28 February 20.8 is 90 days. State your observations on the debtors collection and creditors payment periods. Suggest ways in which the situation can be improved.
<p>Creditors are been paid in 50 days which is 40 days before the debtors are paying their accounts (90 days). Besides this the business has to also sell the stock and only then collect the money from the debtors some 90 days later. The business thus has to pay out money before it has been collected. This will mean the business needs more working capital. The ideal situation is to sell the stock, collect the money from the debtors and only then pay the creditors.</p>	

TASK 13.7 **Billyboo Traders: Analysis of the Creditors' Reconciliation Statement**

13.7.1	Mention two advantages of preparing a Creditors Reconciliation Statement.										
	<ul style="list-style-type: none"> Update your creditors account. Check for errors and outstanding amounts on the creditor's statement. Internal control to ensure that your books and those of the creditor agree. 										
13.7.2	Apart from showing the amount owing to the supplier what are the other purposes of a statement of account?										
	Shows purchases for the month, payments made, discounts that may have been received, returns, etc.										
13.7.3	Provide a reason for the stock returns not appearing on the statement.										
	<ul style="list-style-type: none"> The business has not received the stock yet. The business has not accepted the returns. 										
13.7.4	Calculate the balance as per Creditors Ledger.										
	$4\ 320 - 240 + 1\ 800 - 3\ 120 - 180 = R2\ 580$										
13.7.5	Refer to the 2nd item in the Creditors Reconciliation Statement. Why has this amount been subtracted?										
	<p>The supplier may have overstated an invoice by R240.</p> <p>Other possible answers, e.g. incorrect addition, a return may have been understated by R240, creditor may have charged for goods that this business did not purchase, etc.</p> <p>The incorrect plus will have to be cancelled by subtracting the amount.</p>										
13.7.6	Calculate the balance of the creditors account.										
	<table border="1"> <tr> <td>Balance as per ledger account</td> <td>R2 340</td> </tr> <tr> <td>Correction of incorrect debit</td> <td>40</td> </tr> <tr> <td>Correction of incorrect payment</td> <td>(720)</td> </tr> <tr> <td>Correction of invoice not recorded</td> <td>920</td> </tr> <tr> <td>Balance as per reconciliation statement</td> <td>R2 580</td> </tr> </table>	Balance as per ledger account	R2 340	Correction of incorrect debit	40	Correction of incorrect payment	(720)	Correction of invoice not recorded	920	Balance as per reconciliation statement	R2 580
Balance as per ledger account	R2 340										
Correction of incorrect debit	40										
Correction of incorrect payment	(720)										
Correction of invoice not recorded	920										
Balance as per reconciliation statement	R2 580										

TASK 13.8 **Mila Stores: Creditors Reconciliation Statement**

13.8.1	Refer to Additional information number 3. Give a possible reason for this payment not being reflected on the statement.
	Zinkwa Wholesalers closed off their accounts before the 30th.

13.8.2 Creditors Reconciliation Statement on 30 June 20.8

Balance as per Statement of account	7 380
Correction of error on invoice 1011 (R800 x 2)	(1 600)
Correction of overcharge on invoice 1032	(222)
Payment not reflected on statement	(3 500)
Correction of overcharge on invoice 987	(180)
Balance as per Creditors Ledger	R1 878

FIXED ASSETS

TASK 13.9 Ishmail & Sons: Recording of depreciation

13.9.1 GENERAL JOURNAL OF ISHMAIL & SONS – JUNE 20.7

GJ

No	D	Details	F	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
01	30	Depreciation	N19	117 010					
		Acc. depreciation on vehicles ^[1]	B8		54 210				
		Acc. depreciation on equipment ^[2]	B9		37 000				
		Acc. depreciation on computers ^[3]	B10		25 800				
		Depreciation on vehicles at 25% p.a. on carrying value, equipment at 20% p.a. on cost, computers at 30% p.a. on cost							

Calculations:

^[1] Vehicles	$510\,000 - 60\,000 - 258\,160 \times 25\% = R47\,960$ $60\,000 \times 25\% \times 5 \text{ months } (\frac{5}{12}) = R6\,250$ $R47\,960 + 6\,250 = \mathbf{R54\,210}$
^[2] Equipment	$171\,500 \times 20\% = R34\,300$ $40\,500 \times 20\% \times \frac{4}{12} \text{ months} = R2\,700$ $R34\,300 + R2\,700 = \mathbf{R37\,000}$
^[3] Computers	$R85\,000 \times 30\% = R25\,500$ $1\,500 \times 30\% \times \frac{8}{12} \text{ months} = R300$ $R25\,500 + 300 = \mathbf{R25\,800}$

13.9.2

GENERAL LEDGER OF ISHMAIL & SONS BALANCE SHEET ACCOUNTS SECTION

Dr					VEHICLES					B5	Cr		
20.6					20.7								
July	1	Balance	b/d	450 000	June	30	Balance	c/d			510 000		
20.7													
Feb	1	Bank/Creditors control		60 000									
				510 000								510 000	
20.7													
July	1	Balance	b/d	510 000									

					EQUIPMENT					B6			
20.6					20.7								
July	1	Balance	b/d	171 500	June	30	Balance	c/d			212 000		
20.7													
Feb	28	Bank/Creditors control		40 500									
				212 000								212 000	
20.7													
July	1	Balance	b/d	212 000									

Dr					COMPUTER					B7					Cr				
20.6					20.7					20.6					20.7				
July	1	Balance	b/d	85 000	June	30	Balance	c/d	86 500										
Nov	30	Bank/Creditors control		1 500															
				86 500															86 500
20.7																			
July	1	Balance	b/d	86 500															

ACCUMULATED DEPRECIATION ON VEHICLES					B8														
20.7					20.6					20.6					20.7				
June	30	Balance	c/d	312 370	July	1	Balance	b/d	258 160	July	1	Balance	b/d	258 160	20.7				
										20.7					June	30	Depreciation	GJ	54 210
				312 370															312 370
					20.7					20.7									
					July	1	Balance	b/d	312 370	July	1	Balance	b/d	312 370					

ACCUMULATED DEPRECIATION ON EQUIPMENT					B9														
20.7					20.6					20.6					20.7				
June	30	Balance	c/d	132 120	July	1	Balance	b/d	95 120	July	1	Balance	b/d	95 120	20.7				
										20.7					June	30	Depreciation	GJ	37 000
				132 120															132 120
					20.7					20.7									
					July	1	Balance	b/d	132 120	July	1	Balance	b/d	132 120					

ACCUMULATED DEPRECIATION ON COMPUTERS					B10														
20.7					20.6					20.6					20.7				
June	30	Balance	c/d	80 000	July	1	Balance	b/d	54 200	July	1	Balance	b/d	54 200	20.7				
										20.7					June	30	Depreciation	GJ	25 800
				80 000															80 000
					20.7					20.7									
					July	1	Balance	b/d	80 000	July	1	Balance	b/d	80 000					

NOMINAL ACCOUNTS SECTION					DEPRECIATION					N19									
20.7																			
June	30	Accumulated dep. on vehicles ^[1]	GJ1	54 210															
		Accumulated dep. on equipment ^[2]	GJ1	37 000															
		Accumulated dep. on computers ^[3]	GJ1	25 800															

[1] $[510\ 000 - 60\ 000 - 258\ 610 \times 25\% = 47\ 960] + [60\ 000 \times 25\% \times \frac{5}{12} = 6\ 250] = 54\ 210$

[2] $[171\ 500 - 40\ 500 \times 20\% = 34\ 300] + [40\ 500 \times 20\% \times \frac{4}{12} = 2\ 700] = 37\ 000$

[3] $[85\ 000 \times 30\% = 25\ 500] + [1\ 500 \times 30\% \times \frac{8}{12} = 300] = 25\ 800$

13.9.3	Answer the following questions:
	(a) Why do you think this business maintains a separate account for computers?
	Different rate of depreciation. Concept of materiality – they want to keep separate records. Any other feasible answer.
	(b) What concept of GAAP is applicable to the depreciation of Fixed/Tangible assets?
	Prudence concept – being realistic, assets lose value over time.
	(c) What effect does depreciation have on Owner’s Equity?
	Decrease; depreciation is an expense.

TASK 13.10 J. Lavine: Recording of depreciation, Asset disposal

13.10.1 GENERAL JOURNAL OF J. LAVINE

GJ1

Date	Details	Fol	Debit	Credit	Debtors control		Creditors control	
					Debit	Credit	Debit	Credit
20.4 Aug 31	Depreciation ^[1] Accum. dep. on equipment	B6	540	540				
	Depreciation on equipment sold at 10% p.a. on cost							
	Asset disposal Equipment	N17 B5	5 400	5 400				
	Cost price of equipment transferred							
	Accum. dep. on equipment ^[2] Asset disposal	B6 N17	3 780	3 780				
	Accumulated depreciation transferred to asset disposal							
	K. Alex Asset disposal	DL1 N17	1 800	1 800	1 800			
	Equipment sold on credit							
	Asset disposal Profit on sale of asset	N17 N18	180	180				
	Profit on disposal of asset							
20.5 Feb 28	Depreciation ^[3] Accum. dep. on equipment	B6	24 680	24 680				
	Depreciation at 10% p.a. on cost							
					1 800	-	-	-

^[1] $R5\,400 \times 20\% \times \frac{6}{12} = R540$

^[2] $1 \text{ March } 20.1 - 31 \text{ Aug } 20.4 = 42 \text{ months} / 3\frac{1}{2} \text{ years}$
 $5\,400 \times 20\% \times \frac{42}{12} = R3\,780$

^[3] $128\,800 - 5\,400 \times 20\% = R24\,680$

13.10.2

**GENERAL LEDGER OF J. LAVINE
BALANCE SHEET ACCOUNTS SECTION**

Dr					EQUIPMENT					B5		Cr	
20.4	Mar	1	Balance	b/d	128 800	20.4	Aug	31	Asset disposal	GJ1	5 400		
						20.5	Feb	28	Balance	c/d	123 400		
					128 800						128 800		
20.5	Mar	1	Balance	b/d	123 400								

ACCUMULATED DEPRECIATION ON EQUIPMENT

					B6								
20.4	Aug	31	Asset disposal	GJ1	3 780	20.4	Mar	1	Balance	b/d	20 160		
20.5	Feb	28	Balance	c/d	41 600	20.5	Aug	31	Depreciation	GJ1	540		
					45 380	20.5	Feb	28	Depreciation	GJ1	24 680		
											45 380		
						Mar	1	Balance	b/d		41 600		

**NOMINAL ACCOUNTS SECTION
ASSET DISPOSAL**

					N17								
20.4	Aug	31	Equipment	GJ1	5 400	20.4	Aug	31	Acc dep on equip	GJ1	3 780		
			Profit on sale of asset	GJ1	180				Debtors control	GJ1	1 800		
					5 580						5 580		

PROFIT ON SALE OF ASSET

					N18								
					20.4	Aug	31	Asset disposal	GJ1	180			

13.10.3 FIXED ASSETS REGISTER

ITEM	Office desk	DATE PURCHASED	1 March 20.1			
		DEPRECIATION	10% p.a. on cost			
RECORD OF DEPRECIATION						
Date	Details	Amount	Cost price	Accum. depreciation	Book value	Remarks
20.8						
March 1	Balance	b/d	5 400	3 240	2 160	
Aug 31	Depreciation at 20%p.a. for 6 months		540	3 780	1 620	
	Sold to K. Alex		1 800			R180 profit on sale

TASK 13.11 Oakley: Asset disposal account, Fixed Assets note

13.11.1

GENERAL LEDGER OF OAKLEY NOMINAL ACCOUNTS SECTION

Dr					ASSET DISPOSAL					N		Cr	
20.3					20.3								
Dec	31	Equipment	GJ	40 000	Dec	31	Acc dep on equip*	GJ	15 000				
							Bank	CRJ	25 000				
				40 000								40 000	

* 30 June 20.1 – 31 Dec 20.3 = 30 months/2½ years
 $40\,000 \times 15\% \times \frac{30}{12} = 15\,000$

NOTE TO THE FINANCIAL STATEMENTS

13.11.2 Fixed/Tangible Assets

	Land and Buildings	Equipment
Carrying value at beginning of year	4 139 000	165 000
Cost	4 139 000	300 000
Accumulated depreciation	0	(135 000)
Movements	(1 375 000)	83 000
Additions at cost	0	160 000
Disposals at carrying value ^[1]	(1 375 000)	(25 000)
Depreciation ^[2]	0	(52 000)
Carrying value at end of year	2 764 000	248 000
Cost	2 764 000	420 000
Accumulated depreciation	0	(172 000)

[1] $40\,000 - 15\,000 = 25\,000$

[2] Sold: $40\,000 \times 15\% \times \frac{6}{12} = 3\,000$

Remaining: $300\,000 - 40\,000 \times 15\% = 39\,000$

New: $160\,000 \times 15\% \times \frac{5}{12} = 10\,000$

13.11.3	Discuss 4 measures that the owner could introduce to ensure that the new equipment brings in a profit when it is sold in the future.
	<ul style="list-style-type: none"> • Ensure that the equipment is serviced whenever necessary to maximise the life span. • Buy equipment of good quality so that it lasts and has a higher re-sale value. • Should consider selling the equipment earlier before it loses too much value. • Control personal use of the equipment.

TASK 13.12 Flowers: Asset disposal account, Fixed Assets note

FLOWERS:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 20.9

13.12.1 Fixed/Tangible Assets

	Land & buildings	Vehicles	Equipment
Carrying value at beginning	1 260 000	235 000	150 000
Cost	1 260 000	360 000	240 000
Accumulated depreciation	0	(125 000)	(90 000)
Movements	190 000	90 400	78 000
Additions at cost	190 000	204 000	^[2] 120 000
Disposals at carrying value	0	(34 000)	0
Depreciation	0	(79 600)	^[1] (42 000)
Carrying value at end	1 450 000	325 400	228 000
Cost	1 450 000	474 000	360 000
Accumulated depreciation	0	(148 600)	(132 000)

^[1] 132 000 – 90 000 = 42 000

^[2] 12 000 x $100/10$ = 120 000

CALCULATION OF DEPRECIATION:

On vehicles:

Sold: 90 000 x 20% x $8/12$ = R12 000

Remaining: 360 000 – 90 000 x 20% = R54 000

204 000 x 20% x $4/12$ = R13 600

Total: 12 000 + 54 000 + 13 600 = R79 600

On equipment:

150 000 x 20% = R30 000

120 000 x 20% x $6/12$ = R12 000

Total: 30 000 + 12 000 = R42 000

13.12.2

GENERAL LEDGER OF FLOWERS NOMINAL ACCOUNTS SECTION

Dr					ASSET DISPOSAL					N		Cr	
20.9					20.9								
Jan	31	Vehicle	GJ	*90 000	Jan	31	Acc dep on vehicle	GJ			56 000		
							Creditors control	GJ			25 000		
							Loss on sale of asset	GJ			9 000		
				90 000							90 000		

*360 000 + 204 000 – 474 000 = 90 000

TASK 13.13 Recording of Asset disposal account, Fixed Assets note

REMINGTON

13.13.1 NOTE TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.8

FIXED ASSETS

	Land & buildings	Vehicles	Equipment	Computers
Carrying value at beginning	450 000	540 000	240 000	9 000
Cost	450 000	800 000	510 000	88 000
Accumulated depreciation		(260 000)	(270 000)	(79 000)
Movements	0	84 500	37 000	(4 750)
Additions at cost	44 000	210 000	140 000	18 000
Disposals at carrying value	44 000	0	(22 000)	0
Depreciation	0	(129 000)	(81 000)	(9 749)
Carrying value at end	494 000	621 000	277 000	17 251
Cost	494 000	1 010 000	570 000	106 000
Accumulated depreciation	0	(389 000)	(293 000)	(88 749)

13.13.2

GENERAL LEDGER OF REMINGTON BALANCE SHEET ACCOUNTS SECTION

Dr				EQUIPMENT				B		Cr	
20.7					20.7						
Mar	1	Balance	b/d	510 000	Sept	1	Asset disposal	GJ		80 000	
Sept	1	Creditors control	CJ	140 000	20.8						
					Feb	28	Balance	c/d		570 000	
				650 000						650 000	
20.8											
Mar	1	Balance	b/d	570 000							

ACCUMULATED DEPRECIATION ON EQUIPMENT

								B			
20.7					20.7						
Sept	1	Asset disposal	GJ	58 000	Mar	1	Balance	b/d		270 000	
20.8					Sept	1	Depreciation	GJ		6 000	
Feb	28	Balance	c/d	293 000	20.8						
					Feb	28	Depreciation	GJ		75 000	
				351 000						351 000	
					Mar	1	Balance	b/d		293 000	

NOMINAL ACCOUNTS SECTION ASSET DISPOSAL

								N			
20.7					20.7						
Sept	1	Equipment	GJ	80 000	Sept	1	Acc dep on equipment	GJ		58 000	
							Creditors control	GJ		*19 000	
							Loss on sale of asset	GJ		3 000	
				80 000						80 000	

*140 000 – 121 000 = 19 000

CALCULATIONS:**VEHICLES**

$540\,000 \times 20\% = 108\,000$

$210\,000 \times 20\% \times \frac{6}{12} = 21\,000$

Total: $108\,000 + 21\,000 = R129\,000$

EQUIPMENT

Sold: $80\,000 \times 15\% \times \frac{6}{12} = 6\,000$

Remaining: $510\,000 - 80\,000 \times 15\% = 64\,500$

New: $140\,000 \times 15\% \times \frac{6}{12} = 10\,500$

Total: $6\,000 + 64\,500 + 10\,500 = R81\,000$

COMPUTERS

$88\,000 \times 25\% = 8\,999$ (the book value is only R9 000)

$18\,000 \times 25\% \times \frac{2}{12} = 750$

Total: $8\,999 + 750 = R9\,749$

PARTNERSHIPS**TASK 13.14**  **T&Y General Stores: Capital & Current accounts****13.14.1 Notes to the financial statements on 28 February 20.6**

Capital	T. Thando	Y. Yenzo	TOTAL
Balance at beginning of the year	160 000	180 000	340 000
Contributions during the financial year	20 000	-	20 000
Withdrawals during the financial year	-	(20 000)	(20 000)
Balance at end of the year	180 000	160 000	340 000
Current accounts			
Profit per the Income Statement	171 700	128 300	300 000
Salary ^[1]	122 000	97 600	219 600
Bonus	20 000	-	20 000
Interest on capital ^[2]	25 500	26 500	52 000
Primary division of profits	167 500	124 100	291 600
Final division of profits	4 200	4 200	8 400
Drawings	(129 000)	(125 280)	(254 280)
Retained income for the year	42 700	3 020	45 720
Retained income at beginning of year	2 000	(2 500)	(500)
Retained income at end of the year	44 700	520	45 220

[1] Calculation of Salary:

Thando: $(10\,000 \times 10) + (11\,000 \times 2) = 100\,000 + 22\,000 = 122\,000$

Yenzo: $(8\,000 \times 10) + (8\,800 \times 2) = 80\,000 + 17\,600 = 97\,600$

[2] Calculation of Interest on capital:

Thando: $(160\,000 \times 15\% \times \frac{6}{12}) + (180\,000 \times 15\% \times \frac{6}{12}) = 12\,000 + 13\,500 = 25\,500$

Yenzo: $(180\,000 \times 15\% \times \frac{10}{12}) + (160\,000 \times 15\% \times \frac{2}{12}) = 22\,500 + 4\,000 = 26\,500$

(a)	Explain two major shortcomings (disadvantages) of a partnership business.																				
<p>Partners need to be able to trust each other in the mutual running of the business (they each need to pull their weight; this is not always the case and this leads to disagreements).</p> <p>Partners might want to raise more capital than the amount they can jointly provide.</p> <p>Partners are jointly and severally liable for the debts of the business (if one partner cannot assist in settling debts when necessary, the other partner's will have to assume a greater responsibility).</p> <p>If one partner dies or retires, the partnership agreement has to be renegotiated and the business might have to close down in its present form.</p>																					
(b)	Refer to the notes prepared above. Should the partners be happy with their business? Supply two reasons.																				
<p>Returns on average equity are as follows:</p> <p>Business: $\frac{300\ 000}{362\ 360} \times 100 = 82.8\%$</p> <p>Thando: $\frac{171\ 700}{193\ 350} \times 100 = 88.8\%$</p> <p>Yenzo: $\frac{178\ 300}{169\ 010} \times 100 = 75.9\%$</p> <p>Yes, the partners should be very happy.</p> <p>The business as a whole and the partners individually are earning exceptional returns (see above).</p> <p>The profit earned in one year is almost equal to the capital they have invested.</p> <p>They are withdrawing approximately 85% of the profit earned ($\frac{254\ 280}{300\ 000} \times 100$) so they are not reinvesting very much of the profits they earned, which is a negative point.</p>																					
(c)	State whether the following statements are TRUE or FALSE:																				
<table border="1" data-bbox="236 927 507 1263"> <tr><td>(i)</td><td>False</td></tr> <tr><td>(ii)</td><td>True</td></tr> <tr><td>(iii)</td><td>True</td></tr> <tr><td>(iv)</td><td>True</td></tr> <tr><td>(v)</td><td>False</td></tr> <tr><td>(vi)</td><td>True</td></tr> <tr><td>(vii)</td><td>False</td></tr> <tr><td>(viii)</td><td>False</td></tr> <tr><td>(ix)</td><td>True</td></tr> <tr><td>(x)</td><td>False</td></tr> </table>		(i)	False	(ii)	True	(iii)	True	(iv)	True	(v)	False	(vi)	True	(vii)	False	(viii)	False	(ix)	True	(x)	False
(i)	False																				
(ii)	True																				
(iii)	True																				
(iv)	True																				
(v)	False																				
(vi)	True																				
(vii)	False																				
(viii)	False																				
(ix)	True																				
(x)	False																				

TASK 13.15 Zululand Carpets: Year-end procedures, Ledger accounts, Financial statements

13.15.1 GENERAL JOURNAL OF ZULULAND CARPETS – 28 FEBRUARY 20.2 GJ8

Doc	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
01	28	Donation		2 310					
		Trading stock	B12		2 310				
		Carpets donated to SPCA							
02		Loss due to theft		8 640					
		Trading stock	B12		8 640				
		Items missing at year-end							
03		Consumable stores on hand		5 850					
		Consumable stores			3 900				
		Packing materials			1 950				
		Items on hand at year-end							
04		Debtors allowances		2 625					
		Fee income		690					
		D. Davids			3 315		3 315		
		Credit note issued							
06		Depreciation		28 050					
		Accum. depreciation on vehicles			28 050				
		Depreciation on vehicle sold							
		Asset disposal	N15	153 000					
		Vehicles			153 000				
		Cost of vehicle transferred							
		Accum. depreciation on vehicle		103 650					
		Asset disposal	N15		103 650				
		Accum. depreciation on asset sold							
		E. Egan		48 000		48 000			
		Asset disposal	N15		48 000				
		Vehicle sold on credit							
		Loss on disposal of asset		1 350					
		Asset disposal	N15		1 350				
		Vehicle sold at a loss							
07		Depreciation		40 200					
		Accum. dep. on vehicles			30 600				
		Accum. dep. on equipment			9 600				
		Depreciation on fixed assets							
08		B. Luyt		156		156			
		Interest on overdue account			156				
		Interest charged on debtor							
09		Income receivable		960					
		Interest on fixed deposit			960				
		Amount owing at year-end							
10		Rent expense		2 400					
		Expenses payable			2 400				
		Adjustment i.r.o. repairs done							
11		Interest on loan		9 550					
		Expenses payable			9 550				
		Interest owing at year-end							

GENERAL JOURNAL OF ZULULAND CARPETS (Continued)

Doc	D	Details	Fol	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
12		Prepaid expenses		1 320					
		Insurance			1 320				
		Premium paid in advance							
13		G. Gewers		1 920				1 920	
		G. Gewers			1 920		1 920		
		Transfer to debtors ledger							
14		Prov. for bad debts adjustment		3 750					
		Prov. for bad debts			3 750				
		Increase in provision							
15		Salary: Andile		216 000					
		Salary: Bryan		144 000					
		Current a/c: Andile	B3		216 000				
		Current a/c: Bryan	B4		144 000				
		Salary allowance to partners							
		Bonus: Bryan		20 000					
		Current a/c: Bryan	B4		20 000				
		Bonus due to Bryan							
		Interest on capital		39 750					
		Current a/c: Andile	B3		24 750				
		Current a/c: Bryan	B4		15 000				
		Interest on capital at 10%							
		Current a/c: Andile	B3	42 375					
		Current a/c: Bryan	B4	42 374					
		Appropriation	F3		84 749				
		Share in remaining loss							
						48 156	4 235	1 920	-

WORKING:

Rent:

$(6\ 600 \times 11) = 72\ 600$; Repairs = $76\ 800 - 72\ 600 = 4\ 200$; Feb rent to pay = $R6\ 600 - 4\ 200 = R2\ 400$

Interest on loan:

$(280\ 000 \times 13\% \times \frac{6}{12}) + (250\ 000 \times 13\% \times \frac{6}{12}) = 18\ 200 + 16\ 250 = R34\ 450$

Interest on capital: Andile

$(240\ 000 \times 10\% \times \frac{9}{12}) + (270\ 000 \times 10\% \times \frac{3}{12}) = 18\ 000 + 6\ 750 = R24\ 750$

Interest on capital: Bryan

$150\ 000 \times 10\% = R15\ 000$

13.15.2 ZULULAND CARPETS: TRIAL BALANCE ON 28 FEBRUARY 20.2

Balance Sheet account section	POST-ADJUSTMENT		POST-CLOSING	
	Debit	Credit	Debit	Credit
Capital: Andile		270 000		270 000
Capital: Bryan		150 000		150 000
Current a/c: Andile [15 900 + 216 000 + 24 750]		256 650		34 875
Current a/c: Bryan [16 800 + 144 000 + 20 000 + 15 000]		195 800		55 026
Drawings: Andile	192 000		-	
Drawings: Bryan	111 000		-	
Loan from SBDC (18% p.a.)		250 000		250 000
Delivery vehicles [306 000 – 153 000]	153 000		153 000	
Acc. dep. on vehicles [151 200 + 28 050 – 103 650 + 30 600]		106 200		106 200
Equipment	96 000		96 000	
Accum dep. on equipment [28 800 + 9 600]		38 400		38 400
Trading stock [481 000 – 2 310 – 8 640]	470 050		470 050	
Debtors control [55 500 – 2 625 - 690 + 48 000 + 156 – 1 920]	98 421		98 421	
Provision for bad debts [2 250 + 3 750]		6 000		6 000
Creditors control [56 700 – 1 920]		54 780		54 780
Fixed deposit	124 000		124 000	
Savings account	18 000		18 000	
Bank	15 630		15 630	
Petty cash	900		900	
SARS – PAYE		6 900		6 900
Consumable stores on hand [3 900 + 1 950]	5 850		5 850	
Income receivable	960		960	
Expenses payable [2 400 + 9 550]		11 950		11 950
Prepaid expenses	1 320		1 320	
			984 131	984 131
Nominal accounts section				
Sales		1 762 800		
Debtors allowances [60 000 + 2 625]	62 625			
Cost of sales	924 000			
Fee income [274 900 – 690]		274 210		
Rent expense [76 800 + 2 400]	79 200			
Interest on loan [24 900 + 9 550]	34 450			
Advertising	13 500			
Packing materials [9 900 – 1 950]	7 950			
Consumable stores [76 800 – 3 900]	72 900			
Salaries and wages	342 000			
Insurance [5 640 – 1 320]	4 320			
Interest on fixed deposit [3 540 + 960]		4 500		
Interest on savings a/c		1 980		
Sundry expenses	58 200			
Donation	2 310			
Loss due to theft	8 640			
Depreciation [28 050 + 30 600 + 9 600]	68 250			
Loss on disposal of asset [153 000 – 103 650 – 48 000]	1 350			
Interest on overdue account		156		
Provision for bad debts adjustment	3 750			
Salary: Andile	216 000			
Salary: Bryan	144 000			
Bonus: Bryan	20 000			
Interest on capital	39 750			
	3 390 326	3 390 326		

13.15.3

**GENERAL LEDGER OF ZULULAND CARPETS
BALANCE SHEET ACCOUNTS SECTION**

Dr		CURRENT ACCOUNT: ANDILE				B3		Cr	
20.2					20.1				
Feb	28	Drawings: Andile		192 000	Mar	1	Balance	b/d	15 900
		Appropriation	GJ8	29 775	20.2				
		Balance	c/d	34 875	Feb	28	Salary: Andile	GJ8	216 000
							Interest on capital	GJ8	24 750
				256 650					256 650
					Mar	1	Balance	b/d	34 875

		CURRENT ACCOUNT: BRYAN				B4			
20.2					20.1				
Feb	28	Drawings: Bryan		111 000	Mar	1	Balance	b/d	16 800
		Appropriation	GJ8	29 774	20.2				
		Balance	c/d	55 026	Feb	28	Salary: Bryan	GJ8	144 000
							Interest on capital	GJ8	15 000
				195 800			Bonus: Bryan	GJ8	20 000
									195 800
					Mar	1	Balance	b/d	55 026

**NOMINAL ACCOUNTS SECTION
ASSET DISPOSAL**

						N15			
20.2					20.2				
Jan	31	Vehicle	GJ8	153 000	Jan	31	Acc dep on vehicles	GJ8	103 650
							Debtors control	GJ8	48 000
							Loss on disposal of as- set	GJ8	1 350
				153 000					153 000

**FINAL ACCOUNTS SECTION
TRADING ACCOUNT**

						F1			
20.2					20.2				
Feb	28	Cost of sales		924 000	Feb	28	Sales		1 700 175
		Profit and loss account		776 175			[1 762 800 – 62 625]		
				1 700 175					1 700 175

Dr				PROFIT AND LOSS ACCOUNT				F2		Cr	
20.2					20.2						
Feb	28	Rent expense		79 200	Feb	28	Trading account			776 175	
		Interest on loan		34 450			Fee income			274 210	
		Advertising		13 500			Int. on fixed deposit			4 500	
		Packing materials		7 950			Interest on savings a/c			1 980	
		Consumable stores		72 900			Interest on overdue a/c			156	
		Salaries and wages		342 000							
		Insurance		4 320							
		Sundry expenses		58 200							
		Donation		2 310							
		Loss due to theft		8 640							
		Depreciation		68 250							
		Loss on disposal of as- set		1 350							
		Prov. for bad debts adj.		3 750							
		Appropriation account		360 201							
				1 057 021						1 057 021	

Dr				APPROPRIATION				F3		Cr	
20.2					20.2						
Feb	28	Salary: Andile		216 000	Feb	28	Profit & loss account			360 201	
		Salary: Bryan		144 000			Current a/c: Andile			29 775	
		Bonus: Bryan		20 000			Current a/c: Bryan			29 774	
		Interest on capital		39 750							
				419 750						419 750	

**INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 28 FEBRUARY 20.2**

	Note	
Sales [1 762 800 – 62 625]		1 700 175
Cost of sales		[924 000]
Gross profit		776 175
Other operating income		274 210
Fee income		274 210
Gross operating income		1 050 385
Operating expenses		[662 370]
Rent expense [76 800 + 2 400]		79 200
Advertising		13 500
Packing materials [9 900 – 1 950]		7 950
Consumable stores [76 800 – 3 900]		72 900
Salaries and wages		342 000
Insurance [5 640 – 1 320]		4 320
Sundry expenses		58 200
Donation		2 310
Loss due to theft		8 640
Depreciation [28 050 + 30 600 + 9 600]		68 250
Loss on disposal of fixed asset [153 000 – 103 650 – 48 000]		1 350
Provision for bad debts adjustment		3 750
Operating profit		388 015
Interest income	1	6 636
Profit before interest expense		394 651
Interest expense / Financing cost	2	[34 450]
Net profit for the year	8	360 201

ZULULAND CARPETS
BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.2

ASSETS	Note	
Non-current assets		228 400
Tangible / fixed assets	3	104 400
Financial assets – Fixed deposit		124 000
Current assets		605 131
Inventories	4	475 900
Trade and other receivables	5	94 701
Cash and cash equivalents	6	34 530
Total assets		833 531
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		509 901
Capital	7	420 000
Current accounts	8	89 901
Non-current liabilities		250 000
Loan from Business Partners Ltd		250 000
Current liabilities		73 630
Trade and other payables	9	73 630
Total equity and liabilities		833 531

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 20.2

1. INTEREST INCOME		
On fixed deposit [3 540 + 960]		4 500
On savings account		1 980
On overdue debtors' account		156
		6 636
2. INTEREST EXPENSE		
on loan [24 900 + 9 550]		34 450
		34 450

3. FIXED ASSETS	Vehicles	Equipment	Total
Carrying value at beginning	154 800	67 200	222 000
Cost	306 000	96 000	402 000
Accumulated depreciation	[151 200]	[28 800]	[180 000]
Movements	[108 000]	[9 600]	[117 600]
Additions at cost	-	-	-
Disposals at carrying value	[49 350]	-	[49 350]
Depreciation [28 050 + 30 600]	[58 650]	[9 600]	[68 250]
Carrying value at end	46 800	57 600	104 400
Cost	153 000	96 000	249 000
Accumulated depreciation	[106 200]	[38 400]	[144 600]

4. INVENTORIES		
Trading stock [481 000 – 2 310 – 8 640]		470 050
Consumable stores on hand [3 900 + 1 950]		5 850
		475 900

5.	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	92 421
	Trade debtors [55 500 – 3 315 + 48 000 + 156 – 1 920]	98 421
	Provision for bad debts [2 250 + 3 750]	[6 000]
		94 701
6.	CASH AND CASH EQUIVALENTS	
	Savings account	18 000
	Bank	15 630
	Petty cash	900
		34 530

7.	CAPITAL	Andile	Bryan	Total
	Balance at the beginning of the year	240 000	150 000	390 000
	Contribution of capital during the year	30 000	-	30 000
	Withdrawal of capital during the year	-	-	-
	Balance at the end of the year	270 000	150 000	420 000

8.	CURRENT ACCOUNTS	Andile	Bryan	Total
	Profit per Income Statement	210 975	149 226	360 201
	Partners' salaries	216 000	144 000	360 000
	Bonus: Bryan	0	15 000	15 000
	Interest on capital	24 750	20 000	44 750
	Primary distribution of profits	240 750	179 000	419 750
	Final distribution of profits	[29 775]	[29 774]	[59 549]
	Drawings during the year	[192 000]	[111 000]	[303 000]
	Retained income for the year	18 975	38 226	57 201
	Retained income at beginning of year	15 900	16 800	32 700
	Retained income at end of year	34 875	55 026	89 901

9.	TRADE AND OTHER PAYABLES	
	Trade creditors	54 780
	SARS (PAYE)	6 900
	Accrued expenses / Expenses payable [2 400 + 9 550]	11 950
	73 630	

TASK 13.16 Secunda School Uniforms: Appropriation, Capital & Current accounts

13.16.1 Calculate the correct net profit for the year.

	Net profit calculated by the accountant	R648 530
(a)	Bad debt written off (9 000 x 65c)	(5 850)
(b)	Rates prepaid	(8 600)
(c)	Correction of depreciation (60 000 – 88 000)	(28 000)
(d)	Correction of stock deficit (2 x R6 000)	(12 000)
(e)	Decrease in provision for bad debts	1 180
(f)	Interest on loan	(84 700)
(g)	Rent income owing by tenant*	19 440
	Correct net profit for the year	R530 000

*Calculation of rent owing:

$$91\,530 - (810 \times 3) = 91\,530 - 2\,430 = 89\,100$$

$$89\,100 \div 10 = 8\,910$$

$$(8\,910 + 810) \times 2 = 19\,440$$

13.16.2 GENERAL LEDGER OF SECUNDA SCHOOL UNIFORMS FINAL ACCOUNTS SECTION

Dr				APPROPRIATION				F3				Cr			
20.4					20.4										
Feb	28	Salary: Mary		115 200	Feb	28	Profit & loss							530 000	
		Salary: Sarah ^[1]		96 000											
		Bonus: Sarah		21 200											
		Interest on capital ^[2]		111 250											
		Current account: Mary		124 233											
		Current account: Sarah		62 117											
				530 000										530 000	

[1] Calculation of Sarah's salary: $115\,200 \times \frac{100}{120}$

[2] Calculation of interest on capital:

$$\text{Mary: } (5\% \times 1\,300\,000 \times \frac{6}{12}) + (5\% \times 1\,500\,000 \times \frac{6}{12}) = 32\,500 + 37\,500 = R70\,000$$

$$\text{Sarah: } (5\% \times 900\,000 \times \frac{6}{12}) + (5\% \times 750\,000 \times \frac{6}{12}) = 22\,500 + 18\,750 = R41\,250$$

13.16.3 Notes to the financial statements on 28 February 20.4

Capital	Mary Mxoli	Sarah Naidoo	TOTAL
Balance at beginning of the year	1 300 000	900 000	2 200 000
Contributions during the financial year	200 000		200 000
Withdrawals during the financial year		(150 000)	(150 000)
Balance at end of the year	1 500 000	750 000	2 250 000
Current accounts			
Profit per the Income Statement	309 433	220 567	530 000
Salary	115 200	96 000	211 200
Bonus	0	21 200	21 200
Interest on capital	70 000	41 250	111 250
Primary division of profits	185 200	158 450	343 650
Final division of profits	124 233	62 117	186 350
Drawings	(360 000)	(160 000)	(520 000)
Retained income for the year	(50 567)	60 657	10 000
Balance at beginning of the year	11 000	(40 000)	(29 000)
Balance at end of the year	(39 567)	20 567	(19 000)

NOTE TO THE TEACHER:

If the learners require more revision Tasks they are to refer to Module 6 as there were a large number of financial statements Tasks included in this Module.

TASK 13.17  **Financial indicators****13.17.1 MN Stores:**

(a) Calculate the percentage Gross profit on sales (turnover) for each year.	
20.6 $\frac{112\ 000}{400\ 000} \times \frac{100}{1} = 28\%$	20.5 $\frac{96\ 000}{440\ 000} \times \frac{100}{1} = 21.8\%$
(b) Calculate the percentage Gross profit on cost of sales for each year.	
20.6 $\frac{112\ 000}{288\ 000} \times \frac{100}{1} = 38.9\%$	20.5 $\frac{96\ 000}{344\ 000} \times \frac{100}{1} = 27.9\%$
(c) Calculate the Operating expenses as a percentage of sales (turnover) for each year.	
20.6 $\frac{84\ 000}{400\ 000} \times \frac{100}{1} = 21\%$	20.5 $\frac{76\ 000}{440\ 000} \times \frac{100}{1} = 17.3\%$
(d) Calculate the Operating profit as a percentage of sales (turnover) for each year.	
20.6 Operating profit: $400\ 000 - 288\ 000 + 20\ 000 - 84\ 000 = 48\ 000$ $\frac{48\ 000}{400\ 000} \times \frac{100}{1} = 12\%$	20.5 Operating profit: $440\ 000 - 344\ 000 + 20\ 000 - 76\ 000 = 40\ 000$ $\frac{40\ 000}{440\ 000} \times \frac{100}{1} = 9.1\%$
(e) Calculate the Net profit as a percentage of sales (turnover) for each year.	
20.6 Net profit = $48\ 000 + 10\ 000 - 11\ 000 = 47\ 000$ $\frac{47\ 000}{400\ 000} \times \frac{100}{1} = 11.8\%$	20.5 Net profit = $40\ 000 + 9\ 000 - 8\ 000 = 41\ 000$ $\frac{41\ 000}{440\ 000} \times \frac{100}{1} = 9.3\%$
(f) Comment on the Profitability of the business for 20.6.	
<p>The effective mark-up percentage has increased in 20.6 from 27.9% to 38.9% probably due to fewer trade discounts being granted.</p> <p>This has effectively led to a decrease in sales by R40 000, but gross profit has in fact increased by R16 000, so the change – discount policy has been beneficial.</p> <p>The business is still not reaching its intended mark-up percentage of 40% (some discounts are still being given).</p> <p>The business' profitability has improved from 20.5 to 20.6.</p> <p>Out of each R1.00 of sales they are now earning 11.8c compared to the 9.3c in 20.5.</p> <p>This is mainly due to the pricing policy, because operating expenses are costing relatively more, i.e. 21c in each R1.00 of sales compared to 17.3c last year.</p> <p>The financing achieved have had little effect on the final profit as operating profit and net profit are very similar in both years.</p>	

13.17.2 OP Stores:

Calculate Net profit as a percentage of Average owners' equity for each year.	
20.6 $\frac{168\ 000}{624\ 000} \times \frac{100}{1} = 26.9\%$	20.5 $\frac{232\ 000}{540\ 000} \times \frac{100}{1} = 43\%$

Use the financial indicator you have calculated in order to comment on the *return* earned in this business in 20.6. Should the owners be satisfied with this return? Explain briefly.

The owners should not be completely satisfied. Although the return of 26.9% exceeds that which can be earned on alternative investments (e.g. fixed deposit or shares on stock exchange), it is lower than that of the preceding year.
The reason for the decline needs to be investigated, e.g. gearing effect, control of expenses, decline in sales, etc.

13.17.3 QR Stores:

Calculate Net assets for each year.

<p>20.6 Total assets – Total liabilities (560 000 + 40 000 + 180 000) – (100 000 + 320 000) 780 000 – 420 000 = R360 000</p>	<p>20.5 (568 000 + 40 000 + 152 000) – (80 000 + 520 000) 760 000 – 600 000 = R160 000</p>
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Calculate the Solvency ratio (i.e. total assets: total liabilities) for each year.

<p>20.6 Total assets : total liabilities 780 000 : 420 000 = 1.9 : 1</p>	<p>20.5 760 000 : 600 000 = 1.3 : 1</p>
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Use the financial indicators you have calculated in order to comment on the *solvency* situation of the business for 20.6. Should the owners be satisfied? Explain.

The solvency situation has improved possibly due to extra capital provided by the owners, or extra profit retained in the business.
The business should have no problem in paying off all its debts.

13.17.4 ST Stores:

Calculate net Current assets for each year.

<p>20.6 Current assets – Current liabilities 240 000 – 52 000 = R188 000</p>	<p>20.5 160 000 – 28 000 = R132 000</p>
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Calculate the Current ratio (i.e. Current assets : Current liabilities) for each year.

<p>20.6 Current assets : Current liabilities 240 000 : 52 000 = 4.6 : 1</p>	<p>20.5 160 000 : 28 000 = 5.7 : 1</p>
--	---

Calculate Liquid assets (i.e. Current assets without Inventories) for each year.

<p>20.6 Current assets – Inventories 240 000 – 140 000 = R100 000</p>	<p>20.5 160 000 – 80 000 = R80 000</p>
--	---

Calculate the Acid-test ratio (i.e. Liquid assets : Current liabilities) for each year.

<p>20.6 Liquid assets : Current liabilities 100 000 : 52 000 = 1.9 : 1</p>	<p>20.5 80 000 : 28 000 = 2.9 : 1</p>
---	--

	Use the financial indicators you have calculated in order to comment on the <i>liquidity</i> situation of the business. Should the owners be satisfied? Explain.
<p>The business is in a very liquid situation as the current assets significantly outweigh the current liabilities. The liquidity ratios appear to be too high, although they have dropped from the previous year. The current ratio improved from 5.7 : 1 to 4.6 : 1 while the acid-test ratio improved from 2.9 : 1 to 1.9 : 1. However it appears that there is too much invested in liquid assets which will not yield a return. Rather convert some current assets (e.g. stock, debtors or cash) into financial assets that are earning a return.</p>	

13.17.5 UV Stores:

(a)	Calculate the average stock for each year.	
20.6	$(165\ 000 + 195\ 000) \div 2 = R180\ 000$	20.5 $(135\ 000 + 165\ 000) \div 2 = R150\ 000$
(b)	Estimate how long it will take the business to sell its closing stock at the end of each year.	
20.6	Average daily cost of sales: $900\ 000 \div 365 = R2\ 466$ Stock period: $195\ 000 \div 2\ 466 = 79$ days	20.5 $600\ 000 \div 365 = R1\ 644$ $165\ 000 \div 1\ 644 = 100$ days
(c)	Calculate how many times the business had to re-order stock during each year, i.e. the turnover rate of stock (use average stock in your calculation).	
20.6	$900\ 000 \div 180\ 000 = 5$ times	20.5 $600\ 000 \div 150\ 000 = 4$ times
(d)	You are told that this business sells clothing. In your opinion, are the financial indicators calculated above satisfactory? Explain.	
<p>Yes, the indications are satisfactory. The business is now replacing its stock at a faster rate (5 times instead of 4 times) which could indicate greater volume of customers, which would lead to bigger profits. In the clothing business fashion changes frequently (± 3 months), so 79 days should be appropriate. This has improved from the 100 days of stock in 20.5.</p>		
(e)	If this business sells groceries, would your answer in (d) be different? Explain.	
<p>Yes. A grocery store stocks perishable items. A grocery store should aim to have a very high stock turnover rate and a lower closing stock.</p>		

13.17.6 WX Stores:

(a)	Calculate the debtors average collection period for 20.6 and 20.5.	
20.6	Average debtors: $(60\ 000 + 100\ 000) \div 2 = 80\ 000$ $\frac{80\ 000}{750\ 000} \times \frac{365}{1} = 38.9$ days	20.5 Average debtors: $(100\ 000 + 80\ 000) \div 2 = 90\ 000$ $\frac{90\ 000}{1\ 126\ 000} \times \frac{365}{1} = 29.2$ days
(b)	Calculate the creditors average payment period for 20.6 and 20.5.	
20.6	Average creditors: $(200\ 000 + 140\ 000) \div 2 = 170\ 000$ $\frac{160\ 000}{780\ 000} \times \frac{365}{1} = 74.9$ days	20.5 Average creditors: $(140\ 000 + 160\ 000) \div 2 = 150\ 000$ $\frac{150\ 000}{1\ 100\ 000} \times \frac{365}{1} = 49.8$ days

(c)	Comment on the financial indicators calculated above. Note that normal credit terms are 30 days and that WX Stores receive 60-day credit terms from their suppliers.
<p>The debtors are now taking longer to pay (39 days compared to 29 days). This is not a good sign as it can lead to cash flow problems. The debtors should be paying in 30 days. Slow debtors should be chased up. Also, the creditors are being paid too slowly (79.6 days compared to 49.8 days). This will give WX stores a poor reputation with suppliers as the credit terms are 60 days.</p>	

TASK 13.18 Ramsamy & Sons: Debt-equity ratio

In your opinion should the business consider taking out more loans? Explain.
<p>No. Loans will then be R400 000 + R300 000 = R700 000. Interest on the loan will be 17% of R700 000 (R119 000). This will exceed the profit earned as the final return on equity is 12%, lower than the interest rate. The business will be placed under strain because they will be required to repay loans and interest each month. This will be ill-advised if the profits are lower than the interest.</p>

TASK 13.19 AM Traders: Returns & financial gearing

13.19.1

GENERAL LEDGER OF AM TRADERS FINAL ACCOUNTS SECTION

Dr	APPROPRIATION				F3	Cr
20.8				20.8		
Feb	28	Salary: Aboobaker	GJ	72 000	Feb	28
		Salary: Marx	GJ	108 000		
		Interest on capital	GJ	75 000		
				255 000		
						255 000

13.19.2	What is the total primary distribution?
R255 000	
13.19.3	What is the partnership profit for the year?
R195 000	
13.19.4	How would you know that the partners were expecting to make a bigger profit than the one they earned this year?
The primary distribution according to the partnership agreement is greater the net profit earned. They would have expected a remaining profit.	
13.19.5	What percentage of the current year's profits was retained in the business? What reason would the partners have had in making this decision?
$\frac{75\,000}{195\,000} \times \frac{100}{1} = 38.5\%$ <p>The partners wish to retain a portion of the profits so that the business can grow and earn bigger profits in the future.</p>	
13.19.6	What is the profit-sharing ratio as stipulated in the partnership agreement?
Aboobaker : Marx = 45 000 : 15 000 = 3 : 1	

13.19.7	Identify the amount earned by each partner, and calculate the proportion of the business profit attributed to each partner.
Aboobaker earned R79 500 which is 41% of the total profit. Marx earned R115 500 which is 59% of the total profit.	
13.19.8	Calculate the percentage return earned by the business.
Average equity: $(600\ 000 + 900\ 000 + 21\ 000 + 96\ 000) \div 2 = 808\ 500$ $\frac{195\ 000}{808\ 500} \times \frac{100}{1} = 24.1\%$	
13.19.9	Calculate the percentage return earned by each partner.
Aboobaker: Average equity: $(450\ 000 + 600\ 000 + 8\ 500 + 48\ 000) \div 2 = 553\ 250$ $\frac{79\ 000}{553\ 250} \times \frac{100}{1} = 14.4\%$ Marx: Average equity: $(150\ 000 + 300\ 000 + 12\ 500 + 48\ 000) \div 2 = 255\ 250$ $\frac{115\ 500}{225\ 250} \times \frac{100}{1} = 45.2\%$	
13.19.10	If the debt : equity ratio is 0.25 : 1, calculate the amount of the non-current loans.
Non-current loans : $0.25 \times 996\ 000 = R249\ 000$	
13.19.11	Comment on the returns and the debt : equity ratio for 20.8. The comparative figures for the previous year were:
- Return earned by the business: 21%	
The percentage return earned by the business increased from 21% to 24.1%.	
- Return earned by Aboobaker: 11%	
Aboobaker's return increased from 11% to 14.4%	
- Return earned by Marx: 38%	
Marx's return increased from 38% to 45.2%.	
- Debt: equity ratio: 0.4 : 1	
The debt : equity ratio has improved from 0.4 : 1 to 0.25 : 1. This is due to more capital by the owners or could also indicate a reduction in the loan amount.	
13.19.12	Aboobaker is not happy with his returns. In your opinion, does he have a valid concern? What advice would you offer him?
Yes – Consider the following: <ul style="list-style-type: none"> • Aboobaker has more capital than Marx. • The return earned by Aboobaker is less than that of the business and Marx. • He should renegotiate the partnership agreement. 	

TASK 13.20 Parys Fashions: Financial indicators

13.20.1	Piet and Zilda decided to increase the prices marked on the clothing from 70% in 20.4 to 90% in 20.5. In your opinion, has this been a good strategy? Explain, quoting figures or a financial indicator (actual ratio or percentage) for both years to support your answer.
<p>Yes.</p> <p>Despite the increase in the mark-up % the sales increased by R500 000 and their gross profit has increased from R945 000 (39.4% of R2.4m) to R1 287 600 (44.4% of R2.9m).</p> <p>This indicates that the customers are still supporting the shop.</p> <p>Maybe there is no other fashion shop in Parys and Piet and Zilda might have a monopoly over this form of business in Parys which enables them to charge high prices.</p> <p>Piet and Zilda are still granting trade discounts to some of their customers as they are achieving an 80% mark-up compared to the 90% intended mark-up (65% compared to 70% in 20.4), so this might encourage customers to support Parys Fashions even if a competitor opens up in a nearby town.</p>	
13.20.2	Has the business appeared to control its operating expenses well in 20.5? Quote two financial indicators (actual figures or percentages) for both years to support your answer.
<p>Yes.</p> <p>Operating expenses as a percentage of sales have improved from 42.5% in 20.4 to 35.1% in 20.5. Consequently Operating profit as a percentage of sales increased from 16.6% to 20.2%.</p> <p>This is partly due to the good control of operating expenses, and also to the successful strategy relating to the mark-up percentage.</p>	
13.20.3	Comment on the solvency of the business. Should the partners be satisfied? Explain. Quote a financial indicator (actual figures or percentages) for both years to support your answer.
<p>Yes.</p> <p>In both years the solvency ratio is more than 3 : 1 .</p> <p>The total assets exceed the total liabilities by more than three times, so the business should not have any problem in paying off all its debts.</p>	
13.20.4	Zilda says she does not agree with the low value of land & buildings in the Balance Sheet as it is valued at the cost price from 10 years ago. She says the solvency ratio will be even better if the land & buildings are valued at current values. Do you agree with her? Explain.
<p>Yes and No.</p> <p>She is correct that the solvency ratio will be higher as total assets will be much higher based on the current value of land and buildings.</p> <p>However, it is generally accepted practice to value land and buildings at historical cost (GAAP). This also complies with the rule of prudence (i.e. being conservative) as they cannot be certain of the current value until the land and buildings are sold.</p>	
13.20.5	Comment on the control over stock, debtors and creditors. Quote financial indicators (actual figures) for both years to support your answer.
<p>Stock:</p> <p>The business is keeping too much stock.</p> <p>Fashions change almost every 3 months/90 days), but they are keeping 150 days of stock (worsened from 120 days).</p> <p>Debtors:</p> <p>The control over debtors has improved.</p> <p>They are now paying much quicker, in 27 days rather than the 45 days of the previous year.</p>	

<p>Creditors: The business is complying with normal credit terms of 30 days. This will keep the suppliers happy and will help the business in negotiating better cost prices with their suppliers.</p>	
13.20.6	Comment on the current ratio and the acid-test ratio. Quote the financial indicators (actual figures or percentages) for both years to support your answer.
<p>Current ratio: Has increased from 2.4 : 1 to 3.3 : 1 Acid-test ratio: Has increased from 1.3 : 1 to 1.5 : 1. Although the business will have no problem in settling its current debts, both these ratios are too high and represent too much invested in working capital. Even without relying on the sale of stock, the business will not have a problem paying off its current debts. Current asset items do not earn a return and it would be advisable to convert some of these assets into investments.</p>	
13.20.7	Comment on the debt / equity ratio. Quote a financial indicator (actual figures or percentages) for both years to support your answer.
<p>The debt/equity ratio has been maintained at 0.2 : 1 for both years which indicates that the business relies significantly more on capital provided by the owners rather than on borrowed capital. Partner' capital is 5 times higher than the loans. This means that the business is in a low-risk situation. If profits drop in future, the business will not have to pay high interest on loans and loan repayments will be relatively low.</p>	
13.20.8	Comment on the percentage return earned by the business, by Piet and by Zilda. Quote financial indicators (actual figures or percentages) for both years to support your answer.
<p>Percentage return of the business: This has improved from 22.2% to 26.3% which greatly exceeds the return on alternative forms of investment. The partners should be very satisfied. But this return could be even higher if they sort out the over-investment in current assets (see 13.20.5 and 13.20.6 above). Percentage return of Piet: His return is good and it has increased from 18% to 21.6%. Percentage return of Zilda: His return is very satisfactory; it has increased from 24.9% to 30.0%. However, Piet should be concerned that his percentage return is consistently lower than that of Zilda, and that of the business. He might have contributed considerable capital and he might not be earning what he feels he might be entitled to earn. He should inspect the partnership agreement to see that he is happy with the provisions.</p>	
13.20.9	Comment on the Drawings taken by the partners. Is this good business practice? Explain, quoting a financial indicator (ratio or percentage) for both years to support your answer.
<p>In both years the partners are drawing 50% of the profit earned by the business. This is good business practice as it means the partners are personally benefiting from the business each year by taking a good percentage of the profit in the form of drawings, while they are also retaining 50% of the profit in the business which will enable it to grow and earn even bigger profits in the future. Also the business will be worth more, which will enable the partners to sell the business at a higher value should they choose to retire at some stage.</p>	

13.20.10	Piet feels that they should open up a separate department which sells cheaper fashions. Zilda feels this will be a bad idea as it will give the business a poor reputation by selling poor quality clothes. This is causing disagreement between the partners. What would you say to them to influence a 'win-win' situation for Piet and Zilda?
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Both Piet and Zilda are probably correct.

Piet might well be correct to diversify into low-cost clothing because it would open up a new market for the business.

Zilda might well be correct because lower quality clothing will negatively influence perceptions about the business and might chase customers away if they feel a certain status in shopping at an exclusive shop.

The **compromise** might be for them not to open up another department in the same shop, but to open up a new shop in Parys with a different trading name, e.g. Parys Bargains.

Piet could run this shop or they could employ a manager to run it for them.

However, they must not allow their focus to drift off Parys Fashions as this business is earning a good profit for them.

CLUBS (NON-PROFIT ORGANISATIONS)

TASK 13.21 Membership Fees account and Financial Statements

13.21.1

GENERAL LEDGER OF PRESTIGE SPORTS CLUB NOMINAL ACCOUNTS SECTION

Dr				MEMBERSHIP FEES				N1				Cr			
20.2					20.2										
Jan	1	Income receivable		90	Jan	1	Deferred income						225		
Dec	31	Deferred income		450	Dec	31	Bank						10 965		
		Income & Expenditure*		10 875			M/fees written off						90		
							Income receivable						135		
				11 415									11 415		

$$*[200 - 2 \times 45] + [40 \times 11 \times 3.75] + [21 \times 3.75 \times 4]$$

$$= 8\ 910 + 1\ 650 + 315 = 10\ 875$$

13.21.2 PRESTIGE SPORTS CLUB

INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDED 31 DECEMBER 20.2

INCOME	Notes	
Income from membership fees		10 875
Other income:		4 379
Entrance fees [4 575 x $\frac{2}{3}$]		3 050
Refreshment profit:		823
Refreshment sales [1 875 – 160]		1 715
Refreshment purchases [939 + 378 – 325 – 100]		[892]
Dance profit:		250
Dance proceeds		625
Dance expenses		[375]
Donations		256
Gross income		15 254
EXPENDITURE		[12 156]
Membership fees written off		90
Wages [4 875 – 1 470]		3 405
Stationery		155
Water and electricity [1 350 – 100]		1 250
Honorarium to treasurer		300
Sports expenses [1 388 + 30 – 150]		1 268
Donation		100
Depreciation [2 250 ^[1] + 338 ^[2]]		5 588
Surplus from general activities		3 098
Interest income	1	2 298
Surplus before interest expense/financing cost		5 396
Interest expense/financing cost	2	[2 875]
Net surplus for the year	7	2 521

^[1]15 000 X 15% = 2 250

^[2]3 000 x 15% x $\frac{9}{12}$ = 338

13.21.3 PRESTIGE SPORTS CLUB

BALANCE SHEET ON 31 DECEMBER 20.2

ASSETS	Notes	
Non-current assets		156 662
Tangible/Fixed assets	3	149 162
Financial assets:		
Investment at AB Bank [12 500 + 1 250 – 6 250]		7 500
Current assets		10 884
Inventory	4	325
Receivables	5	1 755
Cash and cash equivalents	6	8 804
Total assets		167 546
FUNDS AND LIABILITIES		
Accumulated fund	7	153 296
Non-current liabilities		8 750
Loan from EBC Bank [16 250 – 3 750 – 3 750]		8 750
Current liabilities		5 500
Payables	8	5 500
Total funds and liabilities		167 546

Notes to the financial statements for the year ended 31 December 20.2

1.	INTEREST INCOME	
	from investments [3 000 – 750 + 48]	2 298
		2 298
2.	INTEREST EXPENSE	
	on loan [1 625 ^[1] + 1 250 ^[2]]	2 875
		2 875

^[1]16 250 x 20% x $\frac{6}{12}$ = 1 625

^[2]16 250 – 3 750 x 20% x $\frac{6}{12}$ = 1 250

3.	FIXED/TANGIBLE ASSETS	Land & Buildings	Equipment	Total
	Carrying value at beginning	131 250	20 500	151 750
	Cost	131 250	35 000	166 250
	Accumulated depreciation	-	(14 500)	(14 500)
	Movements		(2 588)	(2 588)
	Additions at cost	-	3 000	3 000
	Disposals at carrying value	-	-	-
	Depreciation	-	(5 588)	(5 588)
	Carrying value at end	131 250	17 912	149 162
	Cost	131 250	38 000	169 250
	Accumulated depreciation	-	(20 088)	(20 088)

4.	INVENTORIES	
	Refreshments [939 – 939 + 325]	325
		325
5.	RECEIVABLES	
	Prepaid expenses [30 – 30 + 1 470]	1 470
	Income receivable/Accrued income [1 000 – 90 – 750 – 160 + 135]	135
	Deposit for hall	150
		1 755
6.	CASH AND CASH EQUIVALENTS	
	Fixed deposit	6 250
	Savings account	456
	Bank [75 + 21 344 – 19 321]	2 098
		8 804
7.	ACCUMULATED FUND	
	Balance at beginning of financial year	149 250
	Net surplus for the year	2 521
	Entrance fees capitalized [4 575 x $\frac{1}{3}$]	1 525
		153 296
8.	PAYABLES	
	Creditors [925 – 875]	50
	Expenses payable [100 – 100 + 1 250]	1 250
	Deferred income [225 – 225 + 450]	450
	Short term loan	3 750
		5 500

TASK 13.22 Membership Fees account – Interpretation

GENERAL LEDGER OF WEMBLEY BOWLING CLUB NOMINAL ACCOUNTS SECTION

Dr				MEMBERSHIP FEES				N1				Cr			
20.3								20.3							
Jan	1	Accrued income ^[1]				1 800		Jan	1	Deferred income					300
Dec	31	Deferred income				1 500		Dec	31	Bank: 20.2 ^[2]					1 200
		Income & Expend.^[5]				31 500				20.3 ^[6]					28 800
										20.4					1 500
										Membership fees written off ^[3]					600
										Accrued income^[4]					2 400
						34 800									34 800

^[1] $6 \times 300 = 1\,800$

^[2] $4 \times 300 = 1\,200$

^[3] $2 \times 300 = 600$ OR $1\,800 - 1\,200 = 600$

^[4] $8 \times 300 = 2\,400$

^[5] $100 + 6 - 1 \times 300 = 31\,500$

^[6] Balancing figure **OR**

$100 - 1$ (membership terminated) $- 1$ (paid in 2002 for 2003) $- 8$ (arrears in 2003) $+ 6$ (new members)
 $= 96 \times 300 = R28\,800$

TASK 13.23 Ledger accounts and Financial Statements

13.23.1

GENERAL LEDGER OF STAY TRIM SPORTS CLUB NOMINAL ACCOUNTS SECTION

Dr				MEMBERSHIP FEES				N1				Cr			
20.3								20.3							
Jan	1	Income accrued				5 600		Jan	1	Deferred income					6 400
Dec	31	Deferred income				8 800		Dec	31	Bank: 20.2					2 400
		Income & Expenditure				414 400				20.3					394 400
		[510 + 12 - 4 x 800]								20.4					8 000
										Membership fees written off					3 200
										Energy drinks					1 600
										Accrued income					12 800
						428 800									428 800

13.23.2 COST OF SALES

Opening stock	3 000
Cash purchases	21 100
Credit purchases	14 500
Stock received from member	1 600
Stock returned to creditor	[600]
Donation	[500]
	39 100
Less closing stock	[2 200]
COST OF SALES	36 900

13.23.3 STAY TRIM SPORTS CLUB

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20.3

INCOME	Note	
Income from membership fees		414 400
Other income:		17 880
Entrance fees		3 000
Fun run profit [8 000 – 2 600]		5 400
Energy drinks profit [45 625 – 36 900]		8 725
Profit on sale of asset [3 600 + 1 155 + 8 000 – 12 000]		755
EXPENDITURE		[167 999]
Membership fees written off		3 200
Salary of caretaker [68 175 + (2 x 600)]		69 375
Unemployment Insurance contribution [682 + 12]		694
Water and electricity		8 140
Honorarium: Treasurer		8 000
Rent [5 000 + 62 000 – 5 500 ^[3]]		61 500
Donation		500
Depreciation [1 155 ^[4] + 19 140 ^[5] + 910 ^[6]]		21 205
Surplus from general activities		264 281
Interest income ^[1] [980 + 468 + 150]		1 598
Surplus before interest expense/financing cost		265 879
Interest expense/financing cost ^[2]		[10 440]
Net surplus for the year		255 439

^[1] [28 000 x 5%] + [2 400 x 8% x ³/₁₂] = 1 400 + 48 = R1 448

^[2] [120 000 x 9% x ⁸/₁₂] + [120 000 – 12 000 x 9% x ⁴/₁₂]
= 7 200 + 3 240 = R10 440

^[3] 62 000 + 5 000 – [4 x 500] = 65 000 for 13 months

Old rent amount = 65 000 ÷ 13
= R5 000 per month
Prepaid amount = 5 000 + 500
= R5 500

^[4] 8 400 x 15% x ¹¹/₁₂ = 1 155

^[5] [260 000 – 12 000] – [124 000 – 3 600]
= 248 000 – 120 400 = 127 600
127 600 x 15% = R19 140

^[6] 18 200 x 15% x ⁴/₁₂ = R910

13.23.4 Notes to the financial statements for the year ended 31 December 20.3

FIXED/TANGIBLE ASSETS	Equipment
Carrying value at beginning	136 000
Cost	260 000
Accumulated depreciation	[124 000]
Movements	[10 250]
Additions at cost	18 200
Disposals at carrying value	[7 245]
Depreciation	[21 205]
Carrying value at end	125 750
Cost	266 200
Accumulated depreciation	[140 450]

CASH AND CASH EQUIVALENTS	
Fixed deposit: Standard Bank	28 000
Savings account [3 000 + 150]	3 150
Bank [11 400 + 249 765]	261 165
Petty cash	500
	292 815
ACCUMULATED FUND	
Balance at beginning of financial year	164 900
Net surplus for the year	255 439
Balance at the end of the financial year	420 339
PAYABLES	
Creditors [19 600 – 18 025 - 600]	975
Deferred income/Income received in advance	8 800
Expenses payable/Accrued expenses	10 440
Current portion of loan	12 000
UIF [12 + 12]	24
SARS – PAYE	264
Creditors for salaries [1 200 – 12 – 264]	924
	33 427

TASK 13.24 Problem solving

GENERAL LEDGER OF STELLA INDOOR HOCKEY CLUB NOMINAL ACCOUNTS SECTION

13.24.1 Dr				MEMBERSHIP FEES				N	Cr
20.6				20.6					
Jan	1	Accrued income	15 600	Jan	1	Deferred income		8 400	
Dec	31	Deferred income	9 600	Dec	31	Bank: 20.5		4 800	
		Bank (refund)	2 400			20.6		109 200	
		Income & Expend.*	135 600			20.7		9 600	
						M/ship fees written off		10 800	
						Accrued income		20 400	
			163 200					163 200	

* $110 - 2 [2\ 400 \div 1\ 200] - 9 [10\ 800 \div 1\ 200] + 14 [2\ 800 \div 200] \times 1\ 200 = 113 \times 1\ 200 = R135\ 600$

13.24.2	Do you think the committee should be happy with the collection of fees? Why? Give TWO reasons for your answer.
No.	<p>13 members ($15\ 600 \div 1\ 200$) did not pay their previous year's fees. This amounts to 12% ($\frac{13}{110} \times 100$).</p> <p>17 members ($20\ 400 \div 1\ 200$) did not pay their current year's fees. This amounts to 15% ($\frac{17}{113} \times 100$). Arrear fees have increased by 3%.</p> <p>The fees of 9 members had to be written off – 8% ($\frac{9}{110} \times 100$) of the total membership.</p> <p>Alternate answers are possible.</p>

13.24.3

This Task affords learners the opportunity to deal with conflict situations.

Various options are possible – class discussions, report backs from group leaders or written presentations will encourage healthy discussion.

The class may also be split into two groups – one group representing management and the other the 'dissatisfied' group.

Some points to consider are listed below:

- A detailed breakdown of expenses and income should be compiled.
- The surplus of R86 000 need to be justified. What was it in the previous years? What will it be in the next financial period? Does a high surplus indicate that club management is highly efficient in the control of expenses? Does a high surplus indicate that management is skimping on service benefits for members?
- A Cash Budget and Projected Income Statement may be compiled.
- The fixed deposit investment: Is it too high? Should it be cashed in and the funds used to upgrade facilities? Should the funds be used to pay for the running expenses? This may make it possible to decrease membership fees.
- Fixed/tangible asset values are at historical value – these could be worth much more at market value. Members need to know this.
- Etc.

COST ACCOUNTING**TASK 13.25**  **Ledger accounts****13.25.1****GENERAL LEDGER OF EAST COAST MANUFACTURERS****BALANCE SHEET ACCOUNTS SECTION**

Dr					RAW MATERIALS STOCK ACCOUNT					B	Cr
20.8					20.9						
Mar	1	Balance	b/d	80 000	Feb	28	Creditors control	CAJ			20 000
20.9							Work-in-progress stock	GJ			545 000
Feb	28	Bank	CPJ	300 000			Balance	c/d			45 000
		Creditors control	CJ	200 000							
		Bank	CPJ	30 000							
				610 000							610 000
Mar	1	Balance	b/d	45 000							

WORK-IN-PROGRESS STOCK ACCOUNT**B**

20.8					20.9						
Mar	1	Balance	b/d	40 000	Feb	28	Finished goods stock	GJ			1 432 200
20.9							Balance	c/d			48 000
Feb	28	Raw materials cost	GJ	545 000							
		Direct labour cost (480 000 + 24 000)	GJ	504 000							
		Factory overhead cost	GJ	391 200							
				1 480 200							1 480 200
Mar	1	Balance	b/d	48 000							

Dr					FINISHED GOODS STOCK ACCOUNT					B		Cr	
20.8					20.9								
Mar	1	Balance	b/d	120 000	Feb	28	Cost of sales	GJ				1 462 200	
20.9							Balance	c/d				90 000	
Feb	28	Work-in-progress stock	GJ	1 432 200									
				1 552 200								1 552 200	
Mar	1	Balance	b/d	90 000									

**COST ACCOUNTS SECTION
FACTORY OVERHEAD COST ACCOUNT**

Dr					C				
20.9					20.9				
Feb	28	Indirect labour (120 000 + 6 000)	GJ	126 000	Feb	28	Work-in-progress stock	GJ	391 200
		Consumable stores (10 000 + 24 000 x 80%)	GJ	27 200					
		Rent (80 000 x 80%)	GJ	64 000					
		Electricity (130 000 x 80%)	GJ	104 000					
		Sundry expenses (42 000 x 2/3)	GJ	28 000					
		Depreciation (640 000 - 36 000 x 15%)	GJ	42 000					
				391 200					391 200

13.25.2 Calculate the unit cost if 1 500 satellite dishes were manufactured.

$$R1\ 432\ 200 \div 1\ 500\ \text{units} = R954.80$$

TASK 13.26  **Calculation of break-even point**

Selling price per unit	Variable cost per unit	Contribution per unit	Fixed costs (in total)	Break-even point (no. of units)
R20	R16	R4	R120	30
R40	R24	R16	R500	31.25 / 32
R180	R144	R36	R670	18.6 / 19
R700	R550	R150	R8 200	54.6 / 55
R1 200	R880	R320	R7 200	22.5 / 23

TASK 13.27  **Ledger accounts and problem solving**

13.27.1

**GENERAL LEDGER OF KZN MANUFACTURERS
BALANCE SHEET ACCOUNTS SECTION**

(a) Dr					RAW MATERIALS STOCK					B		Cr	
20.6					20.7								
Sept	1	Balance	b/d	28 300	Aug	31	Direct materials cost	GJ				176 190	
20.7							Balance	c/d				25 500	
Aug	31	Bank	CRJ	78 600									
		Creditors control	CJ	90 090									
		Bank (carriage)	CRJ	4 700									
				201 690								201 690	
Sept	1	Balance	b/d	25 500									

(b) Dr					WORK-IN-PROCESS STOCK					B	Cr
20.6					20.7						
Sept	1	Balance	b/d	12 100	Aug	31	Finished goods stock	GJ	436 000		
20.7							Balance	c/d	10 720		
Aug	31	Direct materials cost	GJ	176 190							
		Direct labour cost	GJ	120 040							
		Factory overhead cost	GJ	138 390							
				446 720							446 720
Sept	1	Balance	b/d	10 720							

(c)					COST ACCOUNTS SECTION					C	
FACTORY OVERHEAD COST											
20.7					20.7						
Aug	31	Indirect materials			Aug	31	Work-in-process stock	GJ	138 390		
		(540 + 6 210 - 420)	GJ	6 330							
		Indirect labour	GJ	38 300							
		Rent	GJ	28 800							
		Water and electricity	GJ	15 680							
		Insurance	GJ	6 560							
		Salaries	GJ	28 000							
		Maintenance	GJ	11 720							
		Depreciation	GJ	3 000							
				138 390							138 390

(d)					SELLING AND DISTRIBUTION COST					C	
20.7					20.7						
Aug	31	Rent	GJ	3 600	Aug	31	Profit & loss account	GJ	80 980		
		Water and electricity	GJ	1 960							
		Insurance	GJ	820							
		Advertising	GJ	12 400							
		Salaries	GJ	52 800							
		Packing materials	GJ	9 400							
				80 980							80 980

13.27.2	Calculate the unit cost of production of a cap if 109 000 caps were manufactured during the year.
436 000 ÷ 109 000 = R4	

13.27.3 PROBLEM SOLVING

(a)	Explain how the importing of the sanitary ware from China will affect the profits of the business.
Profits – increase because cost of sales will be 50% lower than when they were manufactured. Profits – increase because selling price can be lowered - capture a large share of local market. Any other acceptable answer.	

(b)	Discuss two ethical issues that John Smith should consider when importing goods from China.
Retrench workers – increase unemployment in South Africa. Exploitation of labour in China – long hours, low wage, child labour. Not encouraging the development of manufacturing sector in South Africa to create employment. Not considering the social responsibility to the workers. Any other acceptable answer.	
(c)	Do you recommend that the sanitary ware be imported from China? Discuss two reasons for your answer.
No. Quality of products. Distance between countries – lead to problems regarding queries, returns, placing of orders. Time taken between placing of orders and delivery of goods. Risk with shipping – damages. Yes. Profits increase. Remove risks associated with manufacturing, e.g. strike action by workers, etc.	

TASK 13.28 Ledger accounts, unit cost and break-even calculations

13.28.1

GENERAL LEDGER OF TASH MANUFACTURERS BALANCE SHEET ACCOUNTS SECTION

(a) Dr					RAW MATERIALS STOCK					B	Cr
20.7					20.8						
Sept	1	Balance	b/d	60 000	Aug	31	Creditors control				12 600
20.8							Direct materials cost				680 880
Aug	31	Bank		467 800			Balance	c/d			54 620
		Creditors control		204 400							
		Bank (carriage)		15 900							
				748 100							748 100
Sept	1	Balance	b/d	54 620							

(b)					WORK-IN-PROGRESS STOCK					B
20.7					20.8					
Sept	1	Balance	b/d	18 400	Aug	31	Finished goods stock			1 219 580
20.8							Balance	c/d		19 260
Aug	31	Direct materials cost		680 880						
		Direct labour cost		328 000						
		Factory o/head cost		211 560						
				1 238 840						1 238 840
Sept	1	Balance	b/d	19 260						

(c) Dr				FINISHED GOODS STOCK				B		Cr	
20.7					20.8						
Sept	1	Balance		44 300	Aug	31	Cost of sales			1 211 390	
20.8							Balance	c/d		52 490	
Aug	31	Work-in-progress stock		1 219 580							
				1 263 880						1 263 880	
Sept	1	Balance	b/d	52 490							

(d)				COST/FINAL ACCOUNTS SECTION FACTORY OVERHEAD COST				C			
20.8					20.8						
Aug	31	Cleaning materials ^[1]		13 940	Aug	31	Work-in-progress stock			211 560	
		Water and electricity ^[2]		17 920							
		Rent expenses ^[3]		24 000							
		Insurance ^[4]		7 840							
		Salaries ^[5]		89 400							
		Depreciation		26 000							
		Sundry expenses		32 460							
				211 560						211 560	

[1] 5 200 + 15 540 - 6 800

[2] 22 400 × ⁴/₅

[3] 36 000 × ⁸⁰⁰/_{1 200}

[4] 9 800 × ⁴/₅

[5] 72 000 + 5 400 + 12 000

(e)				TRADING ACCOUNT				F			
20.8					20.8						
Aug	31	Cost of sales		1 211 390	Aug	31	Sales			1 938 224	
		Profit and loss		726 834			(1 211 390 + 60%)				
				1 938 224						1 938 224	

13.28.2

(a)	Calculate the following:
	• Direct material cost per unit
	$390\,600 \div 28\,000 = R13.95$
	• Direct labour cost per unit
	$241\,360 \div 28\,000 = R8.62$
	• Factory overhead cost per unit
	$123\,760 \div 28\,000 = R4.42$
	• The break-even point
	$\frac{210\,000}{50 - (737\,800 \div 28\,000)}$ $\frac{210\,000}{50 - 26.35}$ $\frac{210\,000}{23.65} = 8\,879.49 / 8\,880 \text{ clocks}$
(b)	Give a reason for the calculation of the break-even point.
	Manufacturer will know the minimum number of clocks to manufacture and sell so that no profit or loss is made.

BUDGETS

TASK 13.29 Debtors Collection Schedule and Interpretation

13.29.1	What is the main line of business of a draper?																
Curtaining.																	
13.29.2	In your opinion what did Kamino do to improve credit terms? Give two examples.																
No deposit; lower deposit; no credit checks, etc.																	
13.29.3	Calculate the expected cash and credit sales for the period 01 April 20.8 – 30 June 20.8. (Round off answers to the Rand when necessary).																
	<table border="1"> <thead> <tr> <th></th> <th>April</th> <th>May</th> <th>June</th> </tr> </thead> <tbody> <tr> <td>Cash [40% x 90 000 + 5%]</td> <td>37 800</td> <td>39 690</td> <td>41 675</td> </tr> <tr> <td>Credit [60% x 90 000 + 20%]</td> <td>64 800</td> <td>77 760</td> <td>93 312</td> </tr> <tr> <td>Total turnover</td> <td>102 600</td> <td>117 450</td> <td>134 987</td> </tr> </tbody> </table>		April	May	June	Cash [40% x 90 000 + 5%]	37 800	39 690	41 675	Credit [60% x 90 000 + 20%]	64 800	77 760	93 312	Total turnover	102 600	117 450	134 987
	April	May	June														
Cash [40% x 90 000 + 5%]	37 800	39 690	41 675														
Credit [60% x 90 000 + 20%]	64 800	77 760	93 312														
Total turnover	102 600	117 450	134 987														

13.29.4 DEBTORS COLLECTION SCHEDULE: 01 APRIL 20.8 – 30 JUNE 20.8

MONTH	CREDIT SALES	COLLECTIONS		
		April	May	June
February: 8%	51 000	4 080		
March: 70%; 8%	54 000	37 800	4 320	
April: 20% (-3%); 70%; 8%	64 800	12 571	45 360	5 184
May: 20% (-3%); 70%	77 760		15 085	54 432
June: 20% (-3%)	93 312			18 103
DEBTORS' COLLECTIONS		54 451	64 765	77 719

TASK 13.30 Cash Budget and interpretation

13.30.1 MO'S CORNER STORE

CASH BUDGET FOR THE PERIOD 01 FEBRUARY 20.8 – 30 APRIL 20.8

RECEIPTS	February	March	April	Total
Cash sales	68 800	64 000	68 000	200 800
Collection from debtors ^[1]	18 000	17 200	16 000	51 200
Commission	800	800	800	2 400
Rental	6 000	6 000	6 000	18 000
Total receipts [A]	93 600	88 000	90 800	272 400
PAYMENTS	February	March	April	Total
Cash purchases of stock ^[2]	25 800	24 000	25 500	75 300
Payments to creditors ^[3]	16 000	24 000	18 000	58 000
Operating expenses	30 600	31 212	31 836	93 648
Drawings	10 000	10 000	10 000	30 000
Deposit on vehicle		20 000	-	20 000
Instalment on vehicle			1 200	1 200
Total payments [B]	82 400	109 212	86 536	278 148
Cash surplus (shortfall) [A – B]	11 200	[21 212]	4 264	[5 748]
Bank: opening balance	38 800	50 000	28 788	38 800
Bank: closing balance	50 000	28 788	33 052	33 052

^[1]Feb: 90 000 x 20%

Mar: 86 000 x 20%

Apr: 80 000 x 20%

^[2]86 000 x $\frac{100}{200}$ x 60%; 80 000 x $\frac{100}{200}$ x 60%; 85 000 x $\frac{100}{200}$ x 60%

^[3]Cost of sales: Nov: 80 000 x $\frac{100}{200}$ = 40 000 x 40% = 16 000

Dec: 120 000 x $\frac{100}{200}$ = 60 000 x 40% = 24 000

Jan: 90 000 x $\frac{100}{200}$ = 45 000 x 40% = 18 000

13.30.2 PROJECTED NET PROFIT FOR FEBRUARY 20.8

Sales	86 000
Cost of sales	[43 000]
Gross profit	43 000
Other income:	6 800
Commission	800
Rental	6 000
Gross operating income	49 800
Operating expenses	[30 600]
NET PROFIT	19 200

13.30.3	Answer the following questions:
	(a) What other supporting documents would the bank manager require to support the loan application?
Balance Sheet, current and previous bank statements.	
	(b) Refer to the Cash Budget. Is Mo likely to get the loan?
The bank manager will need to look at his Balance Sheet before he decides to grant the loan. The Cash Budget is based on expectations while the Balance Sheet indicates real values on a particular date.	

TASK 13.31 Cash Budget and interpretation

13.31.1 ACBON TRADERS

CASH BUDGET FOR THE PERIOD JANUARY - MARCH 20.8

	January	February	March	Total
CASH RECEIPTS				
Sales	180 000	162 000	186 300	528 300
Rent income	-	-	10 000	10 000
Loan: ZipBank	-	-	60 000	60 000
Sale of vehicle	-	21 000	-	21 000
Total receipts [A]	180 000	183 000	256 300	619 300
CASH PAYMENTS				
Stock purchases ^[1]	12 000	10 800	12 420	35 220
Payments to creditors ^[2]	151 200	108 000	97 200	356 400
Loan instalment	2 550	2 550	2 550	7 650
Salaries	60 000	60 000	60 000	180 000
Drawings	5 000	5 000	5 000	15 000
Sundry operating expenses	49 850	50 000	50 150	150 000
Total payments [B]	280 600	236 350	227 320	744 270
Cash surplus/shortfall [A - B]	[100 600]	[53 350]	28 980	[124 970]
Opening bank balance	186 450	85 850	32 500	186 450
CLOSING BANK BALANCE	85 850	32 500	61 480	61 480

13.31.2	Refer to the additional information and the budget to calculate the mark-up percentage on cost.
Total purchases in January = R12 000 + R108 000 = R120 000 Total sales in January = R180 000 Mark-up % = $\frac{180\,000 - 120\,000}{120\,000} \times \frac{100}{1}$ = <u>50%</u>	
13.31.3	Answer the questions below:
	(a) Does this business sell on credit? Give a reason for your answer.
No. There are no collections from debtors.	
	(b) The carrying value of the vehicle sold in February is R18 000. Calculate the profit or loss on the vehicle sold.
Selling price (R21 000) is higher than the carrying value (R18 000). A profit of R3 000 was made.	
	(c) Calculate the expected amount for "other operating expenses" for April 20.8 Explain how you arrived at this figure
R50 300 - There is a monthly increase of R150 from January to March.	
	(d) Study the Cash Budget and state six observations that you have made about this budget.
<ul style="list-style-type: none"> In January the large deficit arose mainly from the large amount paid to creditors in respect of December purchases. The sale of the vehicle brought in more cash but there is still a deficit. The additional loan in March and the rent income resulted in a positive balance. A healthy balance of R186 450 has decreased to R61 480 over a 3-month period. The proprietor should be concerned about this decrease in cash. Sales revenue need to be boosted – consider a change in mark-up, advertising campaigns, etc. Better control over expenses is necessary. 	

INVENTORY SYSTEMS

TASK 13.32 Ledger accounts, Calculations, Internal control

13.32.1

LEDGER OF NKOSI SPAZA SHOP FINAL ACCOUNTS SECTION

Dr				Trading Account				F1		Cr	
20.9					20.9						
Feb	28	Opening stock		55 000	Feb	28	Sales ^[3]				858 080
		Purchases ^[1]		516 400			Closing stock				48 000
		Customs duty		18 000							
		Carriage on purchases ^[2]		17 100							
		Profit & loss (gross profit)		299 580							
				906 080							906 080

^[1]Purchases: 520 000 + 3 400 – 5 800 – 1 200

^[2]Carriage on purchases: 14 600 + 2 500

^[3]Sales: 882 000 – 22 000 – 1 920

13.32.2	Calculate the following:
	• Cost of sales
Sales – Gross profit = 858 080 – 299 580 = R558 500 OR Opening stock + Purchases + Customs duty + Carriage on purchases – Closing stock = 55 000 + 516 400 + 18 000 + 17 100 – 48 000 = R558 500	
	• Mark-up percentage achieved for the year
$\frac{299\ 580}{558\ 500} \times \frac{100}{1} = 53.6\%$	
13.32.3	Calculate the amount that appears to be missing.
Expected sales = 558 500 x 1.60 = R893 600 Actual sales = R858 080 Shortfall = R35 520	
13.32.4	Jack Nkosi is considering changing to the perpetual inventory system next year. What main point should he consider before doing this?
Cost of implementation in comparison to the benefit. Any other valid explanation.	

TASK 13.33 Analysis of the Purchases account

13.33.1	What stock system does this business use? Supply a reason for your answer.
Periodic system. Purchases account applies only to this system. Trading stock account applies to the perpetual system.	
13.33.2	In which section of General Ledger would this account appear?
Nominal section – Purchases is an expense account.	
13.33.3	On which side does this account decrease?
Credit.	
13.33.4	Identify the journals for [1] – [5].
[1]: CPJ	
[2]: CJ	
[3]: GJ	
[4]: CAJ	
[5]: GJ	
13.33.5	Describe the transactions for [1] – [5].
[1]: Cash purchases of merchandise.	
[2]: Credit purchases of merchandise.	
[3]: Merchandise taken by owner for personal use.	
[4]: Merchandise returned to suppliers/allowances granted by suppliers.	
[5]: Donated merchandise.	
13.33.6	At month-end the amount that will be transferred to the Trial Balance is R92 376. Calculate the missing amount on the debit side marked '*'.
$92\ 376 + 1\ 232 + 1\ 987 + 1\ 209 - 24\ 320 - 31\ 250 = R41\ 234$	

13.33.7 The balance of this account indicates the value of stock on hand. Is this statement true or false? Provide a reason for your answer.

False.

A stock take will reveal the amount of stock on hand. The balance on the purchases account represents the net purchases for the month.

TASK 13.34 Giga's Stores: Ledger accounts, Post-Adjustment Trial Balance, Calculations, Balance Sheet

13.34.1

GENERAL LEDGER OF GIGA'S STORES BALANCE SHEET ACCOUNTS SECTION

Dr					B					Cr				
TRADING STOCK														
20.7					20.8									
Dec	31	Closing stock	GJ	92 000	Jan	1	Opening stock	GJ					92 000	

NOMINAL ACCOUNTS SECTION OPENING STOCK

N					N									
20.7					20.7									
Dec	31	Total	b/f	96 660	Dec	31	Trading account	GJ					96 660	
20.8														
Jan	1	Trading stock	GJ	92 000										

PURCHASES

N					N									
20.7					20.7									
Dec	31	Total	b/f	356 710	Dec	31	Drawings	GJ					1 860	
							Trading account	GJ					354 850	
				356 710									356 710	

13.34.2 GIGA'S STORES

POST-ADJUSTMENT TRIAL BALANCE ON 31 DECEMBER 20.7

Balance Sheet accounts section	Fol	Debit	Credit
Capital [600 000 + 50 000]	B1		650 000
Drawings [120 000 + 2 500 + 1 860]	B2	124 360	
Land and buildings	B3	630 000	
Vehicles [320 000 – 80 000]	B4	240 000	
Accum. depreciation on vehicles [200 740 + 5 500 – 61 500 + 23 815]	B5		168 555
Equipment [116 000 + 32 000]	B6	148 000	
Accumulated depreciation on equipment [98 000 + 17 400 + 1 600]	B7		117 000
Debtors control [54 600 – 870 – 720 + 1 390]	B8	54 400	
Provision for bad debts [5 000 + 440]	B9		5 440
Bank [25 420 – 1 310 – 2 500 + 1 500 + 21 000]	B10	44 110	
Petty cash	B11	2 000	
Cash float	B12	4 500	
Creditors control [89 030 + 1 500]	B13		90 530
Pension fund [2 500 – 90 + 1 080]	B14		3 490
UIF [210 – 1 080 + 90]	B15	780	
Loan from Icic Bank [120 000 + 18 000]	B16		138 000
Income received in advance	B17		5 600
Accrued expenses	B18		670
Trading stock	B19	92 000	
Consumable stores on hand	B20	500	
Prepaid expenses [6 000 ÷ 12 x 11]	B21	5 500	
Nominal accounts section			
Opening stock	N1	96 660	
Purchases [356 710 – 1 860]	N2	354 850	
Carriage on purchases [39 840 + 670]	N3	40 510	
Customs duty [12 480 + 1 310]	N4	13 790	
Sales	N5		997 860
Debtors allowances [8 770 + 870]	N6	9 640	
Salaries and wages [258 000 – 90 – 1 080 + 1 080 + 90]	N7	258 000	
Pension contribution	N8	38 700	
Unemployment insurance contribution	N9	2 580	
Bank charges	N10	5 210	
Telephone	N11	15 440	
Rent income ^[1] [33 000 – 5 600]	N12		27 400
Bad debts [6 600 + 720]	N13	7 320	
Consumable stores [8 730 – 500]	N14	8 230	
Sundry operating expenses [42 100 – 5 500]	N15	36 600	
Closing stock	N16		92 000
Interest on loan	N17	18 000	
Bad debts recovered	N18		1 390
Provision for bad debts adjustment	N19	440	
Depreciation [(5 500 ^[2] + 23 815 ^[3]) + (17 400 ^[4] + 1 600 ^[5])]	N20	48 315	
Asset disposal [80 000 + 2 500 – (56 000 + 5 500) - 21 000]	N22		-
Profit on sale of asset	N23		2 500
		2 300 435	2 300 435

^[1] Rent amount before the R500 increase = 33 000 – [4 x 500]

= 33 000 - 2 000 = R31 000

01 Jan 20.7 – 30 April 20.7: 4 x 100% = 400%

01 May 20.7 – 28 Feb 20.8: 10 x 115% = 1 150%

Total = 1 550%

$$\begin{aligned}
 31\,000 \times \frac{115}{1\,550} &= R\,2\,300 \\
 \text{Amount received in advance} &= 2\,300 + 500 \times 2 \text{ months} \\
 &= \underline{R5\,600}
 \end{aligned}$$

$$\begin{aligned}
 [2] 80\,000 - 56\,000 \times 25\% \times \frac{11}{12} &= R5\,500 \\
 [3] [320\,000 - 80\,000] - [200\,740 - 56\,000] \times 25\% \\
 &= 240\,000 - 144\,740 \times 25\% = R23\,815 \\
 [4] 148\,000 - 32\,000 \times 15\% &= 17\,400 \\
 [5] 32\,000 \times 15\% \times \frac{4}{12} &= 1\,600
 \end{aligned}$$

13.34.3 Gross profit

$$\text{Net sales} = 997\,860 - 9\,640 = R988\,220$$

Cost of sales:

Opening stock	96 660
Purchases	354 850
Carriage on purchases	40 510
Customs duty	13 790
	505 810
LESS Closing stock	92 000
Cost of sales	R413 810

$$\text{Gross profit} = 988\,220 - 413\,810 = \underline{R574\,410}$$

13.34.4 Net profit

Gross income:

$$574\,410 + 27\,400 + 1\,390 + 2\,500 = R605\,700$$

Expenses:

$$258\,000 + 38\,700 + 2\,580 + 5\,210 + 15\,440 + 7\,320 + 8\,230 + 36\,600 + 18\,000 + 440 + 48\,315 = R438\,835$$

$$\text{Net profit} = 605\,700 - 438\,835 = \underline{R166\,865}$$

13.34.5 GIGA'S STORES

BALANCE SHEET ON 31 DECEMBER 20.7

ASSETS	Note	
Non-current assets		
Tangible / Fixed assets	1	732 445
Current assets		197 570
Inventories	2	92 500
Trade and other receivables	3	54 460
Cash and cash equivalents	4	50 610
Total assets		930 015
EQUITY AND LIABILITIES		
Capital and reserves / Owners' equity		
Capital	5	692 505
Non-current liabilities		
Loan from Icic Bank		138 000
Current liabilities		
Trade and other payables	6	99 510
Total equity and liabilities		930 015

Notes to the financial statements on 31 December 20.7

1. FIXED ASSETS	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning	630 000	119 260	18 000	767 260
Cost	630 000	320 000	116 000	1 066 000
Accumulated depreciation	-	[200 740]	[98 000]	[298 740]
Movements	-	[47 815]	13 000	[34 815]
Additions at cost	-	-	32 000	32 000
Disposals at carrying value	-	[18 500]	-	[18 500]
Depreciation	-	[29 315]	[19 000]	[48 315]
Carrying value at end	630 000	71 445	31 000	732 445
Cost	630 000	240 000	148 000	1 018 000
Accumulated depreciation	-	[168 555]	[117 000]	[285 555]

2. INVENTORIES	
Trading stock	92 000
Consumable stores on hand	500
	92 500
3. TRADE AND OTHER RECEIVABLES	
Net trade debtors	48 960
Trade debtors	54 400
Provision for bad debts	[5 440]
Prepaid expenses	5 500
	54 460
4. CASH AND CASH EQUIVALENTS	
Bank	44 110
Petty cash	2 000
Cash float	4 500
	50 610
5. OWNER'S EQUITY	
Balance on 01.01.20.7	600 000
Net profit for the year	166 865
Additional capital introduced	50 000
Drawings	[124 360]
Balance on 31.12.20.7	692 505
6. TRADE AND OTHER PAYABLES	
Trade creditors	90 530
Pension fund (2 500 – 90 + 1 080)	3 490
UIF (210 – 1 080 + 90)*	(780)
Income received in advance/Deferred income	5 600
Accrued expenses/Expenses payable	670
	99 510

*Can be shown under Trade and other receivables.

TASK 13.35

Katlov Retailers: Ledger accounts

GENERAL LEDGER OF KATLOV RETAILERS BALANCE SHEET ACCOUNTS SECTION

13.35.1 Dr					DEBTORS CONTROL					B	Cr
20.8					20.8						
June	1	Balance	b/d	41 211	June	30	Bank	CRJ	24 316		
	30	Bank (r/d)	CPJ	2 468			Discount allowed	CRJ	896		
		Sales	DJ	44 569			Debtors allowances	DAJ	4 222		
		Sundry accounts	GJ	225			Sundry accounts	GJ	139		
							Balance	c/d	58 900		
				88 473					88 473		
July	1	Balance	b/d	58 900							

13.35.2					BANK					B	
20.8					20.8						
June	1	Balance	b/d	12 569	June	30	Sundry accounts	CPJ	89 256		
	30	Sundry accounts	CRJ	115 655			Balance	c/d	38 968		
				128 224					128 224		
July	1	Balance	b/d	38 968							

13.35.3					CREDITORS CONTROL					B	
20.8					20.8						
June	30	Bank	CPJ	14 982	June	1	Balance	b/d	33 324		
		Discount received	CPJ	350		30	Sundry accounts	CJ	22 419		
		Total allowances	CAJ	3 080			Sundry accounts	GJ	98		
		Sundry accounts	GJ	542							
		Balance	c/d	36 887							
				55 841					55 841		
					July	1	Balance	b/d	36 887		

NOMINAL ACCOUNTS SECTION

13.35.4					SALES					N	
					20.8						
					June	1	Total	b/f	102 347		
						30	Bank	CRJ	56 782		
							Debtors control	DJ	44 569		
									203 698		

13.35.5					PURCHASES					N	
20.8					20.8						
June	1	Total	b/f	99 550	June	30	Creditors control	CAJ	2 167		
	30	Bank	CPJ	36 298							
		Creditors control	CJ	16 367							
		Petty cash	PCJ	449							
				152 664					2 167		

13.35.6 Dr

CONSUMABLES

N

Cr

20.8					20.8				
June	1	Total	b/f	24 563	June	30	Creditors control	CAJ	51
	30	Bank	CPJ	6 743					
		Creditors control	CJ	784					
		Petty cash	PCJ	140					
				<u>32 230</u>					<u>51</u>

TASK 13.36  **Analysis of transactions, Accounting equation**

13.36.1 Perpetual (Continuous) method:

No.	Account debit	Account credit	Amount
(a)	Trading stock	Bank	R4 425
(b)	Debtors control	Sales	R3 500
	Cost of sales	Trading stock	R2 500
(c)	Trading stock	Bank	R535
(d)	Drawings	Trading stock	R650
(e)	SARS – PAYE	Bank	R15 000
(f)	Repairs	Bank	R2 500
(g)	Bank	Bad debts recovered	R1 450

Periodic method:

No.	Account debit	Account credit	Amount
(a)	Purchases	Creditors control	R3 942
(b)	Bank	Sales	R3 400
(c)	Carriage on purchases	Bank	R475
(d)	Donation	Purchases	R720
(e)	Creditors control	Purchases	R930
(f)	Bank	Rent income	R2 900
(g)	Debtors allowances	Debtors control	R513

13.36.2	Briefly explain 2 advantages of the perpetual inventory system over the periodic inventory system.
<p>Stock movements are recorded immediately. Stock shortages are easily detected. More sophisticated – bar coding, inventory control computer software. Any other valid answer.</p>	
13.36.3	Briefly explain 2 advantages of the periodic inventory system over the perpetual inventory system.
<p>Cheaper – no need for expensive outlay in computer/scanners, etc. Ideal for smaller businesses where cost price cannot be easily determined. Any other valid answer.</p>	

VAT

TASK 13.37  **Matching columns**

1.	D
2.	G
3.	A
4.	I
5.	B

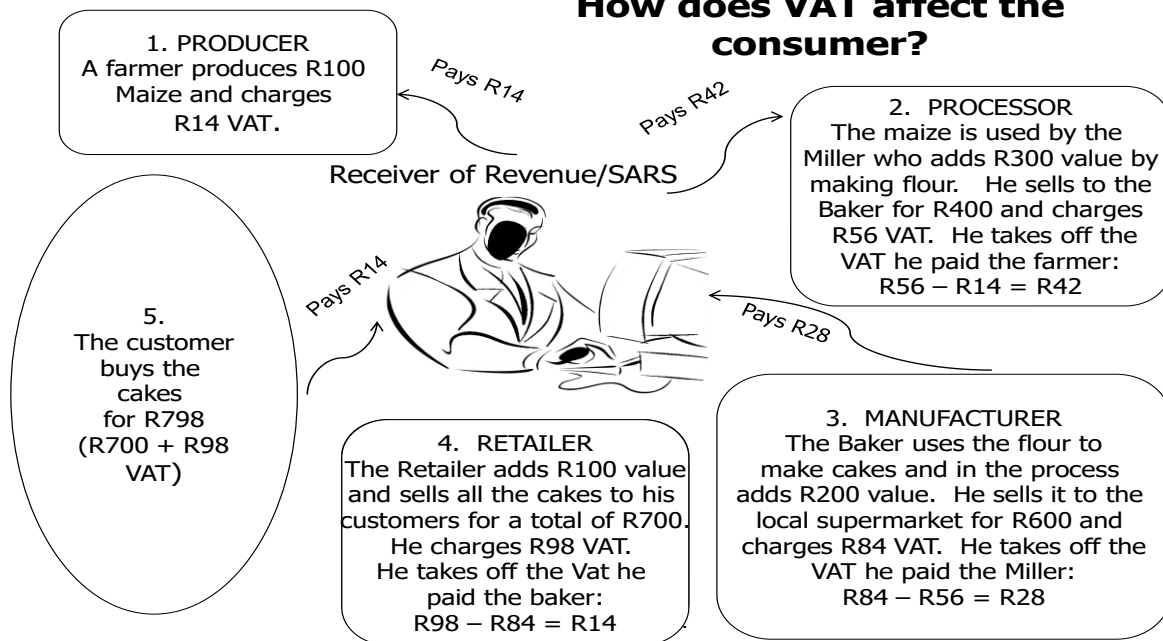
6.	E
7.	H
8.	F
9.	C

TASK 13.38 VAT calculations

Cost price	Mark-up	Exclusive selling price	VAT (14%)	Inclusive selling price
R220	R80	R300	R42	R342
R320	25%	R400	R56	R456
R480	R72 (15%)	R552	R77.28	R629.28
R440	50%	R660	R92.40	R752.40
R593.79	30%	R771.93	R108.07	R880

TASK 13.39 VAT calculations

How does VAT affect the consumer?



ADDITIONAL TASKS

TASK 13.40 Kangaroo Traders: Working backwards from indicators

KANGAROO TRADERS:

Income Statement for the year ended 28 February 20.7

Sales	997 500
Cost of sales	570 000
Gross profit	427 500
Other operating income	70 000
Operating expenses	198 250
Operating profit	299 250
Interest on fixed deposit	20 250
	319 500
Interest on loan	43 200
Net profit	276 300

Balance Sheet on 28 February 20.7

Non-current assets	1 352 500
Fixed / tangible assets	1 052 500
Investment (Fixed deposit, 9% p.a.)	300 000
Current assets	600 000
Inventories (all Trading stock)	190 000
Trade & other receivables (all Debtors)	375 000
Cash & cash equivalents	35 000
TOTAL ASSETS	1 952 500
Partners' equity	1 200 000
Capital	1 300 000
Current accounts	(100 000)
Non-current liabilities	240 000
Loan from Basix Lenders (16% p.a.)	240 000
Current liabilities	512 500
Trade & other payables (all Creditors)	512 500
TOTAL EQUITY & LIABILITIES	1 952 500

TASK 13.41 Majmey Clothing: Working backwards from indicators

MAJMEY CLOTHING

Income Statement for the year ended 28 February 20.9

	20.9	20.8
Sales	7 644 000	6 825 000
Cost of sales	4 368 000	3 900 000
Gross profit	3 276 000	2 925 000
Other operating income	364 900	952 500
Operating expenses	2 293 200	2 548 000
Operating profit	1 347 700	1 329 500
Interest on fixed deposit	32 300	24 000
	1 380 000	1 353 500
Interest on loan	331 200	398 000
Net profit	1 048 800	955 500

MAJMEY CLOTHING

Balance Sheet on 28 February 20.9

	20.9	20.8
Non-current assets	6 320 800	5 266 500
Fixed / tangible assets	5 864 500	4 942 500
Investment (Fixed deposit at A1 Bank)	456 300	324 000
Current assets	1 459 200	2 430 000
Inventories (all Trading stock)	447 200	1 300 000
Trade & other receivables (all Debtors)	762 000	710 000
Cash & cash equivalents	250 000	420 000
TOTAL ASSETS	7 780 000	7 696 500
Partners' equity	4 900 000	4 220 000
Capital	4 800 000	4 200 000
Current accounts	100 000	20 000
Non-current liabilities	1 960 000	2 464 000
Loan from Lanka Lenders	1 960 000	2 464 000
Current liabilities	920 000	1 012 500
Trade & other payables (all Creditors)	920 000	1 012 500
TOTAL EQUITY & LIABILITIES	7 780 000	7 696 500

Note 1: CAPITAL

	MAJOLA	MEYER	TOTAL
Balance on 1 March 20.8	3 000 000	1 200 000	4 200 000
Capital contributed on 31 August 20.8	0	600 000	600 000
Balance on 28 February 20.9	3 000 000	1 800 000	4 800 000

Note 2: CURRENT ACCOUNTS

	MAJOLA	MEYER	TOTAL
Profit per Income Statement	690 000	358 800	1 048 800
Partners' salaries	300 000	100 000	400 000
Partners' bonus	0	39 800	39 800
Interest on capital	150 000	75 000	225 000
Primary distribution	450 000	214 800	664 800
Share of remaining profit	240 000	144 000	384 000
Drawings	(690 000)	(278 800)	(968 800)
Retained income for the year	0	80 000	80 000
Balance on 1 March 20.8	0	20 000	20 000
Balance on 28 February 20.9	0	100 000	100 000

TASK 13.42 Umala Deliveries: Problem-solving

Some of the expected responses are provided below. Note that additional valid responses might well be provided by learners. These must be assessed from the figures provided to assess their validity.

	Problem/s identified	Positive point/s identified
Anand (Vehicle 1)	There appears to be R60 000 cash missing. Anand should have paid in $1\ 600 \times R300 = R480\ 000$.	Anand appears to have taken 10 days' sick leave which is reasonable.
	The vehicle is very expensive (R820 000) which causes cash flow problems for the business, and results in very high depreciation (R164 000 per year) which reduces the profit.	
Brian (Vehicle 2)	Brian might be using the vehicle for personal activities as his average per trip is 200 km whereas the other drivers travel on average about 80 km per trip.	The running costs of the vehicle are low (R1.30). This might be because the vehicle is fairly new and still under a maintenance plan, or that Brian has been a careful driver.
	Brian is not working hard enough. He worked on 180 days for 300 deliveries, which is less than one trip per day, whereas the other drivers did between 7 to 11 trips per day. Consequently he is incurring a loss for the business as the revenue he has earned (R90 000) is much less than his expenses (R150 000).	
Zama (Vehicle 3)	The running costs of the vehicle are very high at R2.38 per km whereas the other vehicles are running at R1.58 per km or less. This vehicle is very old as it has been fully depreciated (book value R1.00). This vehicle has done the most kilometres (200 000 km) in comparison to the others. The wisdom of this should be queried as it is the oldest vehicle (8 years old) and costs the most to run (R2.38 per km).	Zama has been working very diligently. He has worked all 225 days that the business was operational. On average he did 11 trips per day.

Any other valid points can be accepted as long as they are qualified, e.g. Salaries, number of days worked, etc.

POINTS OF ADVICE OFFERED TO UMESH TO IMPROVE THE BUSINESS:	
1.	He must review his policy of allowing drivers to collect the cash from customers as this is open to abuse (refer to the R60 000 shortfall in Anand's case).
2.	He must review his policy of not allowing credit transactions. If he can ensure that no bad debts occur, he might benefit from increased customers if he allows them to open up accounts.
3.	He must review his policy to work only 225 days in the year. If there are 52 weeks in the year, and the business is open 5 days per week, the total weekdays in the year are 260 days. Allowing for normal holidays of three weeks per year, each driver should work 245 days, not 225.
4.	He could possibly consider working on Saturdays, charge a higher rate for Saturdays and rotate duties of drivers so that one of them works on a Saturday.
5.	He should have a plan to replace vehicles after 5 years, otherwise they end up costing too much in terms of running costs. When replacing each vehicle after five years, ensure that the new vehicle comes with a maintenance plan.
6.	Instead of paying the drivers a fixed salary of R72 000 each, rather put them on a commission basis to motivate drivers like Brian to do more trips.
7.	He must assess the work done by each driver. Zama has made 2 500 deliveries which is 900 more than Anand and 2 200 more than Brian. Brian appears to be unproductive. Umesh must implement an appraisal system, he must give a warning to Brian as he is not working up to the required standard, and if Brian does not respond, he should put procedures in place to discipline him and possibly replace him.

TASK 13.43 Muscle Powa Gyms: Problem-solving

Some of the expected responses are provided below. Note that additional valid responses might well be provided by learners. These must be assessed from the figures provided to assess their validity.

	Knysna Muscle-Powa Gym Manager: Cynthia	Benoni Muscle-Powa Gym Manager: Sambuko	Polokwane Muscle-Powa Gym Manager: Sambuko
Good points relating to each gym	<p>The gym is open throughout the year (360 days) except for certain public holidays. This has probably led to the high number of clients (6 000) compared to other gyms.</p> <p>Promotion of the gym to gain clients is good. Spent R50 000 on advertising which is double that of the Polokwane gym, but the Knysna gym has 1 500 more members.</p> <p>Spent R90 000 on agents which is double than that of the Polokwane gym. Although they did not gain double the members, effectively the extra 1 500 clients brings in extra fees of R450 000.</p>	<p>Operating costs (R42 000) appear to be well controlled. These work out to R14 per member which is considerably lower than the other gyms (but might also be due to the fact that they are not open every day of each week).</p> <p>Per client, this gym makes the highest profit (R167). The potential exists to make the highest profit of the three gyms if they can double the membership.</p>	<p>Telephone costs (R3 000) have been well controlled compared to the other two gyms. They have 75% of the number of clients of the Knysna gym, yet the telephone bill is 50% of that of the Knysna gym.</p> <p>Repairs to equipment appear to be well controlled (R54 000, which is on average R12 per client). This could be seen as a negative if clients are dissatisfied with the condition of the equipment.</p>

<p>Points of concern relating to each gym</p>	<p>The Knysna gym seems to be spending too much on instructors (R180 000) which is 4 times more than the other gyms. They do not have 4 times the clients.</p> <p>Each instructor might also be paid too much. This works out to R7 500 per instructor (the other gyms are paying R5 625).</p>	<p>There is low membership compared to the other gyms (3 000 members).</p> <p>The gym is open only 5 days per week (260 / 52 weeks). This might discourage clients from joining.</p>	<p>Control over collection of cash is poor, R250 000 is missing (expected collection = 300 x R4 500 = R1 350 000). If this cash is located, their profits will be R250 000 higher.</p> <p>Advertising has not been effective. Spent R60 000 which is more than the Knysna gym, but has 1 500 fewer clients.</p>
	<p style="text-align: center;">Knysna Muscle-Powa Gym Manager: Cynthia</p>	<p style="text-align: center;">Benoni Muscle-Powa Gym Manager: Sambuko</p>	<p style="text-align: center;">Polokwane Muscle-Powa Gym Manager: Sambuko</p>
<p>Points of concern relating to each gym</p>	<p>Other operating expenses seem to be high (R300 000 or R50 per client) in comparison to the other branches of R14 and R23.</p>	<p>Gym not well promoted as there is no commission paid to agents to secure clients, and advertising is very low (R10 000).</p> <p>Telephone costs (R9 000) are relatively high, 3 times higher than that of the Polokwane gym yet fewer members.</p> <p>Repair costs are relatively high (R87 000 for only 3 000 members = R29 per member). This is proportionately higher than the other gyms, especially as this gym is not open every day.</p>	<p>Administration costs are the highest of the 3 gyms (R290 000) yet they do not have the highest number of members and they are not open on the most days. These costs are generally fixed costs (e.g. rent) so they should be similar for all three gyms.</p>

SUGGESTIONS TO STEVE STRONG TO IMPROVE THE BUSINESS OVERALL:	
1.	All three gyms should open 360 days of the year as this will increase the number of clients. People want to train on their non-working days.
2.	Better control is needed over the collection of fees. A new system needs to be put in place, especially for the Polokwane gym. Encourage clients to pay by debit order even though bank charges could increase. This would also reduce the security risk of carrying cash on the premises.
3.	The promotion of the gyms should probably be done as a concerted effort from Steve's head office. It is clear that the managers of the different gyms are using different policies which are not always successful.
4.	The role of instructors needs to be determined. These people are obviously good for each gym. Maybe it is necessary to employ more of them and pay them more or employ them for more hours (such as occurs with the Knysna gym) as the clients might feel they are getting better service.
5.	Certain costs in certain gyms need to be investigated to assess whether controls are good or not, e.g. telephone costs in the Knysna and Benoni gyms; administration salaries in the Polokwane gym; other operating costs in the Knysna gym.
6.	The condition of the equipment in all three gyms must be inspected. Although the Knysna and Polkwane gyms are relatively not spending much, they must not allow the condition of the equipment to deteriorate as this will lead to loss of clients. On the other hand, maybe the relatively higher expenditure on repairs by the Benoni gym is due to clients or employees abusing the equipment, so better physical control might be necessary.

MODULE 14 EXAMINATION PAPERS

EXAMINATION PAPER 1

QUESTION 1: Bank Reconciliation

(45 marks; 25 minutes)

1.1	Calculate the correct bank balance on 30 September 20.9.	(24)																																							
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">Cash Receipts Journal</th> <th style="width: 35%; text-align: center;">Cash Payments Journal</th> </tr> </thead> <tbody> <tr> <td>TOTALS b/f</td> <td style="text-align: center;">56 000</td> <td style="text-align: center;">49 800</td> </tr> <tr> <td>2.3</td> <td style="text-align: center;">✓✓845</td> <td></td> </tr> <tr> <td>2.4</td> <td></td> <td style="text-align: center;">✓✓300</td> </tr> <tr> <td>2.5</td> <td></td> <td style="text-align: center;">✓✓✓1 450</td> </tr> <tr> <td>2.7</td> <td></td> <td style="text-align: center;">✓182</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">✓420</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">✓560</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">✓✓✓2 400</td> </tr> <tr> <td>2.8</td> <td style="text-align: center;">✓✓2 400</td> <td></td> </tr> <tr> <td>2.9</td> <td></td> <td style="text-align: center;">✓✓850</td> </tr> <tr> <td>2.10</td> <td style="text-align: center;">✓✓1 500</td> <td></td> </tr> <tr> <td>TOTALS</td> <td style="text-align: center;">60 745</td> <td style="text-align: center;">55 962</td> </tr> </tbody> </table>		Cash Receipts Journal	Cash Payments Journal	TOTALS b/f	56 000	49 800	2.3	✓✓845		2.4		✓✓300	2.5		✓✓✓1 450	2.7		✓182			✓420			✓560			✓✓✓2 400	2.8	✓✓2 400		2.9		✓✓850	2.10	✓✓1 500		TOTALS	60 745	55 962	
	Cash Receipts Journal	Cash Payments Journal																																							
TOTALS b/f	56 000	49 800																																							
2.3	✓✓845																																								
2.4		✓✓300																																							
2.5		✓✓✓1 450																																							
2.7		✓182																																							
		✓420																																							
		✓560																																							
		✓✓✓2 400																																							
2.8	✓✓2 400																																								
2.9		✓✓850																																							
2.10	✓✓1 500																																								
TOTALS	60 745	55 962																																							
<p>Calculation of bank account balance: (7 615✓✓) + 60 745 ✓ - 55 962 ✓ = (2 832) ✓</p>																																									

1.2 Bank Reconciliation Statement on 30 September 20.9

(11)

Balance as per the bank statement	(7 922)	✓
Outstanding deposit✓	5 200	✓
Correction of overpayment of stop order✓	2 400	✓✓
Outstanding cheques: No. 201	(850)	✓✓
No. 195	(920)	✓
No. 198	(740)	✓
Balance as per bank account	(2 832)	✓

Alternate format:

Bank Reconciliation Statement on 30 September 20.9

	Debit	Credit	
Balance as per the bank statement	7 922		✓
Outstanding deposit✓		5 200	✓
Correction of overpayment of stop order		2 400	✓✓
Outstanding cheques:✓ No. 201	850		✓✓
No. 195	920		✓
No. 198	740		✓
Balance as per bank account		2 832	
	10 432	10 432	✓

Negative marking: -1 for R1 200; -1 for R1 250

1.3	Which GAAP principle dictates the entry to be made for No. 2.5? Why? Explain briefly.	(4)
Prudence ✓ You need to be realistic. ✓ The cheque has been written against the business bank account so they will have to make the necessary entry and then can follow up to get the money back from the individual. ✓✓		
1.4	The owner has asked for your assistance on how to prevent situations like 2.5 above occurring again in the future. Briefly discuss 3 measures that he can introduce.	(6)
<ul style="list-style-type: none"> • 2 signatures on each cheque. ✓✓ • Authorisation must be obtained before a cheque is written out. ✓✓ • Division of duties. ✓✓ Any other feasible reason.		

QUESTION 2: Fixed assets and Asset Disposal

(45 marks; 30 minutes)

**2.1 GENERAL LEDGER OF SANI TRADERS
NOMINAL ACCOUNTS SECTION**

Dr					ASSET DISPOSAL					N		Cr	
20.					20.9								
June	30	Vehicles ✓	GJ	✓260 000	June	30	Acc dep on vehicles	GJ	✓110 500				
							[78 000 ✓ + 32 500] ✓✓						
							Creditors control	GJ	✓130 000				
							Loss on disposal of as- set	GJ	✓19 500				
				260 000								260 000	
												(12)	

2.2 Tangible assets / Fixed assets (21 marks)

	Land & buildings	Vehicles	Equipment
Carrying value at beginning of year	920 000	340 000	80 000
Cost	920 000	560 000	420 000
Accumulated depreciation	0	(220 000)	340 000
Movements	230 000	85 000	107 200
Additions at cost	✓✓230 000	✓✓320 000	132 000
Disposals at carrying value		☑ (149 500)	0
Depreciation	0	☑ (85 500)	☑ (24 800)
Carrying value at end of year	1 150 000	☑425 000	☑187 200
Cost	1 150 000	✓620 000	✓552 000
Accumulated depreciation	0	☑ (195 000)	☑(364 800)

CALCULATION OF DEPRECIATION

<p>VEHICLE SOLD: $260\,000 \times 15\% \times \frac{10}{12} = R32\,500$</p> <p>Balance of vehicles:</p> <p>$560\,000 - 260\,000 = 300\,000 \times 15\% = R45\,000$ ✓✓</p> <p>$320\,000 \times 15\% \times \frac{2}{12} = R8\,000$ ✓✓</p>
<p>EQUIPMENT:</p> <p>$80\,000 \times 20\% = 16\,000$ ✓✓</p> <p>$132\,000 \times 20\% \times \frac{4}{12} = 8\,800$ ✓✓</p>

2.3.1	The owner is very unhappy about the price that the Outlander was sold for. Suggest 3 possible reasons why the business could not sell the vehicle for a higher price.	(6)
<ul style="list-style-type: none"> • Bad condition.✓✓ • High mileage.✓✓ • Economic climate – people are not buying expensive cars.✓✓ Any other feasible reason.		
2.3.2	Briefly discuss 3 measures that the business could introduce to try to avoid such losses in the future.	(6)
<ul style="list-style-type: none"> • Control private mileage.✓✓ • Keep up the services and maintenance.✓✓ • Trade in earlier before losses are incurred.✓✓ Any other feasible reason.		

QUESTION 3: Partnerships

(90 marks; 50 minutes)

NAME OF BUSINESS: S AND M SPORT SHOP

INCOME STATEMENT FOR YEAR ENDED 31 OCTOBER 20.9

(38 marks)

	Note		
Sales		4 000 000	✓✓
Cost of sales		2 500 000	✓✓
Gross profit		1 500 000	☑
Other operating income		110 830	☑
Rent income [65 800 – 9 400]✓✓		56 400	☑
Bad debts recovered		2 300	✓✓
Fee income [52 000 – 450]✓✓		51 550	☑
Discount received [470 – 90]✓		380	☑
Provision for bad debts adjustment [1 400 – 1 200]		200	✓✓
Gross operating income		1 610 830	☑
Operating expenses		1 017 630	☑
Salaries and wages [360 000 + 8 000]✓		368 000	✓
Salary contributions [36 000 + 80]✓		36 080	✓
Insurance [17 280 – 1 500]✓		15 780	☑
Discount allowed		1 800	
Bad debts		4 560	
Consumable stores [8 200 – 600]		7 600	✓
Sundry expenses		*103 110	☑
Water and electricity [12 400 + 1 300]✓		13 700	✓
Trading stock deficit		2 000	☑
Depreciation		45 000	
Rent		420 000	
Operating profit / loss		593 200	☑
Interest income [1 900 + 500]✓✓		2 400	☑
Profit / loss before interest expense/financing cost		595 600	☑
Interest expense/financing cost		(75 600)	✓✓
Net profit / loss for the year		520 000	

*Balancing figure

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 20.9

3.2.1	INVENTORIES	
	Trading stock [84 000 - 800✓ - 2 000]✓	✓81 200
	Consumable stores on hand [8 200 - 7 600]	✓600
3.2.2	TRADE AND OTHER RECEIVABLES	
	Net trade debtors	☑29 100
	Trade debtors [28 000 + 2 300]✓✓	☑30 300
	Provision for bad debts [1 400 - 200]	✓(1 200)
	Income receivable / accrued	✓500
	Expenses prepaid	✓1 500

(11)

3.2.3	CAPITAL ACCOUNTS	Stuart	Mark	Total
	Balance at the beginning of the year	480 000	600 000	1 080 000
	Contribution of capital during the year	80 000		
	Withdrawal of capital during the year			
	Balance at the end of the year	560 000	600 000	1 160 000

3.2.4	CURRENT ACCOUNTS	Stuart	Mark	Total
	Profit per Income Statement	☑314 800	☑205 200	✓520 000
	Partners' salaries	216 000	✓108 000	
	Interest on capital ^[1]	☑40 000	✓48 000	
	Bonus	-	✓10 000	
	Primary distribution of profits	☑256 000	☑166 000	422 000
	Final distribution of profits	☑58 800	☑39 200	☑98 000
	Drawings during the year ^[2]	✓✓(25 800)	(154 344)	
	Retained income for the year	289 000	50 856	
	Retained income at beginning of year	22 000	(16 000)	6 000
	Retained income at end of year	☑311 000	☑34 856	☑345 856

^[1] Stuart: 28 800 + 11 200✓

^[2] 25 000 + 800

(18)

3.2.5	TRADE AND OTHER PAYABLES	
	Trade creditors [54 000 + 4 890]✓	☑58 890
	Deferred income/Income received in advance [9 400☑ + 450]✓	☑9 850
	Expenses payable/Accrued expenses	✓1 300
	UIF [230 + 80✓ + 80]✓	✓390
	SARS (PAYE) [2 400 + 1 680]✓	☑4 080
	Creditors for salaries	✓☑6 240
	Current portion of loan	✓92 000

(14)

3.3	Answer the following questions:	
3.3.1	Calculate the return earned on the average owners' equity of the partnership.	(5)
<p>Average equity = $(1\ 080\ 000 + 1\ 160\ 000 + 6\ 000 + 345\ 856) \div 2 = 1\ 295\ 928$ $\frac{520\ 000}{1\ 295\ 928} \times \frac{100}{1}$ 40%</p>		
3.3.2	Stuart and Mark are not happy with this return as they budgeted to make a return of 50% this year. Explain to them why in view of the economic climate they should be happy with this return.	(5)
<p>Recession and poor economic conditions may have resulted in the decrease. Also it should be noted that the sporting industry is not an essential item. ✓✓✓ The return of 40% is a lot higher than they would receive on an alternative investment. ✓✓</p>		

QUESTION 4: Ratio and Analysis

(45 marks; 30 minutes)

4.1	Calculate the current ratio for 20.9	(3)
<p>$169\ 000 \div 65\ 000$ $2.6 : 1$</p>		
4.2	The acid test ratio for 20.9 is 1.4 : 1. Calculate the missing cash and cash equivalent and inventory figures.	(6)
<p>$65\ 000 \times 1.4 = R91\ 000$ CASH AND CASH EQUIVALENTS: $91\ 000 - 72\ 000 = R19\ 000$ INVENTORY: $169\ 000 - 91\ 000 = R78\ 000$</p>		
4.3	Calculate the average stock holding period for 20.9.	(4)
<p>$\frac{(78\ 000 + 110\ 000)}{2} \times 12$ $\frac{423\ 000}{94\ 000} \times 12$ $423\ 000$ 2.7 months / 81 days</p>		
4.4	Calculate the average debtors' collection period for 20.9.	(4)
<p>$\frac{(72\ 000 + 60\ 000)}{2} \times 12$ $\frac{761\ 400}{66\ 000} \times 70\%$ $66\ 000 \times 12$ $532\ 980$ 1.5 months / 45 days</p>		
4.5	Calculate the average creditors' payment period for 20.9.	(4)
<p>$\frac{(65\ 000 + 52\ 000)}{2} \times 12$ $423\ 000 \times 90\%$ $58\ 500 \times 12$ $380\ 700$ 1.8 months / 56 days</p>		
4.6	The owner is very happy as he believes the liquidity position of the business has improved as the current ratio has decreased from last year. You do not totally agree with him. Explain why you feel this way, by quoting at least 2 figures to support your answer.	(6)
<p>The stock holding period has increased from 1.9 months to 2.7 months. The creditors are been paid quicker than last year (1.8 months as against 2.1 months). The debtors are taking longer to pay, i.e. 1.5 months as against 1.2 months. Therefore, creditors are been paid before the stock has been sold and the debtors have all paid.</p>		

4.7	Calculate the owner's equity for 20.9.	(5)
1 200 000 + 240 000 + 169 000✓✓ – 500 000 – 65 000✓✓ = R1 044 000✓		
4.8	Is the business solvent? Quote figures to explain.	(2)
Yes – the owner's equity is positive OR Assets exceed liabilities ✓✓		
4.9	Calculate the debt : equity ratio for 20.9.	(3)
500 000✓ : 1 044 000☑ 0.5 : 1☑		
4.10	Explain to the owner whether the taking out of the loan was the best option or not. Quote figures to explain your answer.	(8)
The risk has increased from 0.2 : 1 to 0.5 : 1 although there is still low risk.✓✓ The return on total capital employed has decreased from 19% to 17%. ✓✓ While there is still positive gearing, the reason for the decrease needs to be assessed – is it going to increase in the future?✓✓ Overall opinion – partner or loan ✓✓		

QUESTION 5: Manufacturing

(30 marks; 15 minutes)

**GENERAL LEDGER OF RAINBOW TOYS
BALANCE SHEET ACCOUNTS SECTION**

Dr					RAW MATERIALS STOCK					B		Cr		
20.8					20.9									
Nov	1	Balance	b/d	23 000	Oct	31	Creditors control✓						✓880	
20.9							Work-in-progress✓						☑137 592	
Oct	31	Creditors control / purchases✓		✓✓105 600			Balance	b/d					6 800	
		Carriage✓		✓6 200										
		Import duties✓		✓✓10 472										
				145 272									145 272	
Nov	1	Balance		6 800										

(12)

					FINISHED GOODS STOCK					B				
20.8					20.9									
Nov	1	Balance	b/d	56 000	Oct	31	Cost of sales✓						✓✓450 000	
20.9							Balance	c/d					24 000	
Oct	31	Work-in-progress stock✓		☑418 000										
				474 000									474 000	
Nov	1	Balance	b/d	24 000										

(5)

Dr		WORK-IN-PROGRESS STOCK				B		Cr	
20.8					20.9				
Nov	1	Balance	b/d	6 000	Oct	31	Finished goods ✓		✓418 000
20.9							Balance	c/d	✓16 392
Oct	31	Direct materials cost ✓		✓137 592					
		Direct labour cost		✓100 800					
		Factory overhead cost		190 000					
				434 392					434 392
Nov	1	Balance	b/d	✓16 392					

(7)

5.2	Point out at least 3 reasons why it would be better to buy the raw materials from Limpopo.	(6)
<ul style="list-style-type: none"> • Buying locally means more employment for locals which could lead to an improvement in the living conditions of our own people. • Due to fluctuating exchange rates the imported products are not stable. • Goods brought from China are subject to import duties and higher carriage. • Ethical reasons around child labour in China. <p>Any other feasible reason.</p>		

QUESTION 6: Budgets**(45 marks; 30 minutes)****CASH BUDGET OF JOYCE STORES FOR THE 3 MONTHS ENDED 31 DECEMBER 20.9****6.1.1 DEBTORS COLLECTION SCHEDULE**

MONTH	CREDIT SALES	OCTOBER	NOVEMBER	DECEMBER
August	180 000	54 000	27 000	
September	210 000	99 750	63 000	31 500
October	✓330 000		✓156 750	✓99 000
November	✓420 000			✓199 500
		153 750	246 750	330 000

(5)

6.1.2 CASH BUDGET OF JOYCE STORES FOR THE 3 MONTHS ENDED 31 DECEMBER 20.9

RECEIPTS	OCTOBER	NOVEMBER	DECEMBER
Cash sales	✓✓220 000	✓280 000	✓360 000
Cash from debtors	☑153 750	☑246 750	☑330 000
Loan		420 000	
TOTAL RECEIPTS	☑373 750	☑946 750	☑690 000
PAYMENTS			
Cash purchases	✓✓55 000	✓✓70 000	✓✓90 000
Payments to creditors	140 000	160 000	✓✓220 000
Interest on the loan	3 600	7 800	7 800
Salaries for the shop assistants	50 000	50 000	54 000
Manager's salary	20 000	20 000	23 000
Rent	5 200	✓✓5 590	☑5 590
Telephone	4 000	4 000	4 000
Sundry expenses	11 000	11 000	11 000
TOTAL PAYMENTS	☑288 800	☑328 390	☑415 390
Surplus (Deficit)	☑84 950	☑618 360	
Opening bank balance	(120 000)	(35 050)	
Closing bank balance	☑(35 050)	☑583 310	

(28)

6.2 Problem solving (12 marks)

BRANCH	PROBLEM 2 mark for identification	POSSIBLE SOLUTION 2 marks for possible solution
Keurboom	<ul style="list-style-type: none"> 18 bikes have gone missing. Sales have not met the budget. 	<ul style="list-style-type: none"> Need to introduce better control mechanisms to prevent theft of bikes. Need to advertise more.
Hot Springs	<ul style="list-style-type: none"> Bought 20 more bikes than what was budgeted for. Sales are too low. Holding too much stock. 	<ul style="list-style-type: none"> Need to control buying so that it is line with the budget. Need to advertise more or reduce the selling price in order to increase the stock. Need to buy stock only when it is needed.
Valley Rise	<ul style="list-style-type: none"> Budget is too low. No stocks on hand. Over-spent on advertising. 	<ul style="list-style-type: none"> Need to review the budgeting. Need to ensure that there is stock available. Advertising has resulted in all the stock been sold. Assess whether all this advertising is necessary or increase stocks and sales.

Grade 11 Examination Paper 1: Analysis Grid

FINANCIAL ACCOUNTING

Concepts - partnerships
Concepts - GAAP
Selected ledger entries & documents - partnerships
Accounting equation - partnerships
Prepare bank reconciliations
Prepare creditors reconciliations
Final accounts - partnerships
Financial statements - IS - partnerships
Financial statements - BS - partnerships
Financial statements - Notes - partnerships
Financial statements - Differences Partnerships vs Non-Profit Orgs
Analysis and interpretation of FS - partnerships
Calculate VAT

MANAGERIAL ACCOUNTING

Ledger accounts of a manufacturing business
Cost calculations
Prepare cash budgets

MANAGING RESOURCES

Recording acquisition & disposal of fixed assets
Periodic inventory system - record transactions
Identify & analyse ethical behaviour using different scenarios
Internal control, internal audit, division of duties, docs, phys controls

TOTAL PER QUESTION

QUES. 1 QUES. 2 QUES. 3 QUES. 4 QUES. 5 QUES. 6
 Bank Fixed Ass IS & Notes Interp Manuf Budgets
 Recon

1					
35					
		38			
	21	42			
		10	31		

QUESTION QUESTION QUESTION QUESTION QUESTION QUESTION
 1 2 3 4 5 7

				24	
					42

QUESTION QUESTION QUESTION QUESTION QUESTION QUESTION
 1 2 3 4 5 7

	12				
				6	
9	12		14		3
45	45	90	45	30	45

TOTAL
PER
TOPIC

1
0
0
0
35
0
0
38
0
63
0
41
0

TOTAL
178

TARGET
150 to 180

TOPIC TOT

24
0
42

TOTAL
66

TARGET
60 to 75

TOPIC TOT

12
0
6
38

TOTAL
56

TARGET
60 to 75

Should be 300

COGNITIVE AND CHALLENGE

Q NO.	TOPIC	Blooms Taxonomy								Challenge			Problem-Solving			
		Remember	Understand	Apply 1	Apply 2	Analyse 1	Analyse 2	Evaluate	Create	Easy	Medium	High	Surface	Deeo		
1.1	Bank balance			3	21					14	6	4				
1.2	Recon			5	6					6	2	3				
1.3	Theory		4						6	1	3	6				
2.1	Asset disposal	4		3	5					5	7					
2.2	Fixed asset			3	18					9	10	2				
2.3.1	Reasons							6			4	2				
2.3.2	Measures								6		2	4	6			
3.1	Income Statement			17	21					14	12	12				
3.2	Notes			26	16					26	12	4				
3.3	Questions						5	5			5	5				
4.1	Current ratio					3				3						
4.2	Acid test						6				3	3				
4.3	Stock holding						4			2	2					
4.4	Debtors						4			2	2					
4.5	Creditors						4			2	2					
4.6	Liquidity						6				2	4				
4.7	Owners equity				5						5					
4.8	Solvent		2								2					
4.9	Debt : equity					3					3					
4.10	Loan							8				8		8		
5.1	Ledger			12	12					8	12	4				
5.2	Ethics								6			6		6		
6.1	Debtors collection			2	6					4	4					
6.2	Budget			14	16					2	20	8				
6.3.1	Interest rate						4					4				
6.3.2	Comment							3				3				
		4	6	85	126	6	33	22	18	300	98	120	82	300	6	14
		1%	2%	28%	42%	2%	11%	7%	6%		33%	40%	27%		2.0%	4.7%
		TARGET = 30%			TARGET = 40%			TARGET = 30%			TARGET=30%	TARGET=40%	TARGET=30%			

EXAMINATION PAPER 2

QUESTION 1: Ledger entries & Accounting equation

(30 marks; 18 minutes)

	Account debited	Account credited	Amount	A	O	L
e.g.	Equipment	Creditors control	R20 000	+	0	+
1.1	Bank ✓	Capital: Ben ✓	R120 000	+ ✓	+ ✓	0
	Vehicle ✓		R150 000			
1.2	Capital: Ben ✓	Loan from Ben ✓✓	R200 000	0	- ✓	+ ✓
	Current acc: Ben ✓		R100 000			
1.3	Drawings: Ben ✓	Trading stock ✓	R11 200 ✓✓	- ✓	- ✓	0
1.4	Salary: Dudu ✓	Current a/c: Dudu ✓	R480 000 ✓	0	+ ✓	0
	Bonus: Dudu ✓		R50 000			
1.5	Appropriation ✓	Current a/c: Ben ✓	R240 000 ✓	0	± ✓ ✓	0
		Current a/c: Dudu ✓	R80 000 ✓			
	(8)	(7)	(5)	(10)		

QUESTION 2: Creditors Reconciliation & Internal Control

(35 marks; 21 minutes)

2.1	Explain the following:															
	<ul style="list-style-type: none"> What is meant by 'internal control' and 'division of duties' in an Accounting department of a business? 	(4)														
<p>'Internal control' The systems put in place to safeguard the resources and assets of a business. ✓✓</p> <p>'Division of duties' The careful allocation of Tasks to people in the Accounting Department so that the work of one person serves as a check on another. ✓✓</p>																
	<ul style="list-style-type: none"> Three points you would mention to Miss Nevva Wright concerning the comments she has made (see above). 	(6)														
<p>Any three valid points ✓✓ ✓✓ ✓✓</p> <ul style="list-style-type: none"> Creditors' reconciliations are an important part of internal control. They are not a waste of time but are essential to ensure that creditors are paid the correct amounts. This process is part of her job description as a bookkeeper. Her existing salary covers this. Statements received from creditors are documents received from other organisations. 																
2.2	Make a list of the changes to BB Wholesalers' account in the Creditors Ledger which Miss Nevva Wright should process to correct her errors or omissions. Show the changes to the balance of BB Wholesalers in the Amount column.	(12)														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Description of correction</th> <th style="width: 30%;">Amount</th> </tr> </thead> <tbody> <tr> <td>Discount received reversed</td> <td style="text-align: right;">+680 ✓✓</td> </tr> <tr> <td>Interest expense to be entered</td> <td style="text-align: right;">+658 ✓✓</td> </tr> <tr> <td>Correction of DN 102</td> <td style="text-align: right;">-114 ✓✓</td> </tr> <tr> <td>Correction of JV 82</td> <td style="text-align: right;">-4 000 ✓✓</td> </tr> <tr> <td>Correction of adding error on 23 Oct</td> <td style="text-align: right;">-18 000 ✓✓</td> </tr> <tr> <td>Entry of discount on 23 Oct</td> <td style="text-align: right;">-1 000 ✓✓</td> </tr> </tbody> </table> <p><u>Workings:</u> New balance on BB Wholesalers' account: 57 000 – 21 776 = 35 224</p>			Description of correction	Amount	Discount received reversed	+680 ✓✓	Interest expense to be entered	+658 ✓✓	Correction of DN 102	-114 ✓✓	Correction of JV 82	-4 000 ✓✓	Correction of adding error on 23 Oct	-18 000 ✓✓	Entry of discount on 23 Oct	-1 000 ✓✓
Description of correction	Amount															
Discount received reversed	+680 ✓✓															
Interest expense to be entered	+658 ✓✓															
Correction of DN 102	-114 ✓✓															
Correction of JV 82	-4 000 ✓✓															
Correction of adding error on 23 Oct	-18 000 ✓✓															
Entry of discount on 23 Oct	-1 000 ✓✓															

2.3	Prepare a Creditor's Reconciliation Statement in respect of BB Wholesalers for October 20.8	(13)														
<table border="1"> <tr> <td>Balance per statement received from BB Wholesalers</td> <td>9 842✓✓</td> </tr> <tr> <td>Reduction of interest charged</td> <td>-500✓✓</td> </tr> <tr> <td>Correction of C/N 1009</td> <td>+3 000✓✓</td> </tr> <tr> <td>Correction of Inv 5943</td> <td>-198✓✓</td> </tr> <tr> <td>Transfer of balance JV82</td> <td>-2 000✓✓</td> </tr> <tr> <td>Invoice 6021 omitted</td> <td>+25 080✓✓</td> </tr> <tr> <td>Correct balance</td> <td><u>35 224✓</u></td> </tr> </table>			Balance per statement received from BB Wholesalers	9 842✓✓	Reduction of interest charged	-500✓✓	Correction of C/N 1009	+3 000✓✓	Correction of Inv 5943	-198✓✓	Transfer of balance JV82	-2 000✓✓	Invoice 6021 omitted	+25 080✓✓	Correct balance	<u>35 224✓</u>
Balance per statement received from BB Wholesalers	9 842✓✓															
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Correction of Inv 5943	-198✓✓															
Transfer of balance JV82	-2 000✓✓															
Invoice 6021 omitted	+25 080✓✓															
Correct balance	<u>35 224✓</u>															

QUESTION 3: Balance Sheet & Fixed assets

(80 marks; 48 minutes)

UZAN TRADERS

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 20.8 (33 marks)

ASSETS	Note	R
Non-current assets		<input checked="" type="checkbox"/> 3 205 200
Fixed assets	1	2 985 200
Investment: Fixed deposits [300 000✓ – 80 000✓]		✓ 220 000
Current assets		<input checked="" type="checkbox"/> 793 000
Inventories [565 200 ✓ – 12 000✓ – 7 000✓ + 8 000✓]		✓ 554 200
Trade & other receivables [103 000 ✓ – 13 000✓ – 7 200 ✓ + 11 000✓]		✓ 93 800
Cash & cash equivalents [60 000✓ + 5 000✓ + 80 000✓]		✓ 145 000
TOTAL ASSETS		<input checked="" type="checkbox"/> 3 998 200
EQUITY & LIABILITIES		
Partners' equity		<input checked="" type="checkbox"/> 3 309 000
Capital [1 500 000 + 900 000]		2 400 000
Current accounts	2	<input checked="" type="checkbox"/> 909 000
Non-current liabilities		310 500
Loan from Prime Lenders [344 000✓ + 62 500✓ – 96 000✓]		✓ 310 500
Current liabilities		<input checked="" type="checkbox"/> 378 700
Trade & other payables	3	<input checked="" type="checkbox"/> 356 900
Bank overdraft [35 000✓ + 800✓ – 14 000✓]		✓ 21 800
TOTAL EQUITY & LIABILITIES		<input checked="" type="checkbox"/> 3 998 200

Note 1: FIXED ASSETS (16 marks)

	Land & buildings	Equipment	Total
Carrying value at beginning	2 520 000	540 000	3 060 000
Cost	✓ 2 520 000	900 000	3 420 000
Accumulated depreciation		(360 000)	(360 000)
Movements	75 000	[149 800]	[74 800]
Additions at cost	✓✓ 75 000	✓✓ 36 000	111 000
Disposals at carrying value		✓✓ (5 500)	(5 500)
Depreciation*		<input checked="" type="checkbox"/> (180 300)	(180 300)
Carrying value at end	2 595 000	<input checked="" type="checkbox"/> 390 200	2 985 200
Cost	✓ 2 595 000	✓ 909 000	3 504 000
Accumulated depreciation		✓✓ (518 800)	(518 800)

*[27 000 x 20% x ¹⁰/₁₂] + [900 000 – 27 000 x 20%] + [36 000 x 20% x ²/₁₂]

Note 2: CURRENT ACCOUNTS (13 marks)

8. CURRENT ACCOUNTS	Vuzi	Andrew	Total
Profit per Income Statement	620 000	✓ 680 000	1 300 000
Partners' salaries	360 000	✓✓ 360 000	720 000
Interest on capital [60 000 + 5 000]	150 000	✓✓ 65 000	215 000
Bonus		✓ 200 000	200 000
Primary distribution	510 000	✓ 625 000	1 135 000
Share of remaining profit	110 000	✓✓ 55 000	165 000
Drawings [220 000 + 12 000]	(240 000)	✓✓ (232 000)	(472 000)
Retained income for the year	380 000	✓ 448 000	828 000
Balance at beginning of year	(44 000)	✓ 125 000	81 000
Balance at end of year	336 000	✓ 573 000	909 000

Note 3: TRADE & OTHER PAYABLES (18 marks)

9. TRADE AND OTHER PAYABLES	
Trade creditors [181 000✓ + 14 000✓ + 36 000✓ - 5 500✓]	✓ 225 500
Deferred income (received in advance)	✓ 9 200
SARS (PAYE) [9 130✓ + 1 970✓]	✓ 11 100
Golden Age Pension Fund [7 080✓ + 630✓ + 990✓]	✓ 8 700
Creditors for salaries	✓✓ 6 400
Current portion of loan	✓✓ 96 000
	✓✓ 356 900

QUESTION 4: Interpretation of financial information

(50 marks; 30 minutes)

4.1	Comment on the solvency of the business. Should the partners be satisfied? Explain. Quote a financial indicator (actual figures or percentages) for both years to support your answer.	(4)
<p>Opinion: Yes✓ Comment: The business should have no problem in settling all its debts.✓ Total assets are 4 times higher than total liabilities (increased from 3 times in the previous year). ✓✓</p>		
4.2	Should the partners be satisfied with the stock turnover rate? Explain, quoting the financial indicator (actual figures) for both years to support your answer.	(4)
<p>Opinion: Yes✓ Comment: The business is selling its stock more quickly in 20.8. ✓ The stock turnover rate has improved from 5 times to 7 times in 20.8. ✓✓</p>		
4.3	Comment on the liquidity of the business. Quote two financial indicators (actual figures or percentages, other than those used above) for both years to support your answer.	(6)
<p>Both the current ratio and the acid-test ratio have remained constant at 1.8 : 1 ✓✓ and 0.8 : 1 ✓✓ respectively. Liquid assets are approximately equal to current liabilities, so the business should be able to settle its current debts, especially as these ratios have existed for the past two years without any apparent problems. The ratios are not too high indicating that the working capital is being used efficiently. ✓✓</p>		
4.4	In your opinion, has the business appeared to control its operating expenses well in 20.8? Quote two financial indicators (actual figures or percentages) for both years to support your answer.	(3)
<p>Opinion: No ✓ Comment: Operating expenses on sales increased from 33.5% to 40.1% ✓✓</p>		

4.5	Explain what accounts for the difference between the percentage operating expenses on sales and the % net profit on sales.	(2)
In both years the interest expense exceeded the interest income. ✓✓		
4.6	The percentage return earned by the business on average equity is 23.0%. Provide a calculation to prove that this calculation is in fact correct.	(5)
$\frac{885\ 000}{3\ 845\ 000} \times \frac{100}{1} = 23.0\%$		
4.7	The percentage return earned by Ted on his average equity is 19.0%. Provide a calculation to prove that this calculation is in fact correct.	(5)
$\frac{345\ 000}{1\ 815\ 000} \times \frac{100}{1} = 19.0\%$		
4.8	Comment on the percentage return earned by the business. Quote a financial indicator (actual figures or percentages) for both years to support your answer.	(4)
<p>The partners should be satisfied as the return of 23.0% in 20.8 exceeds that which can be earned on alternative investments. ✓✓</p> <p>However, this has decreased from 27.3% in 20.7 so the partners should develop strategies or implement controls to get the return back to previous levels. ✓✓</p>		
4.9	Comment on the percentage return earned by Ted. Quote a financial indicator (actual figures or percentages) for both years to support your answer.	(4)
<p>Ted should not be completely satisfied as his return (19.0%) has decreased (from 24.9%) ✓ and is lower than that of the business (23.0%) ✓ and Bess (27.6%). ✓</p> <p>He should look at possibly renegotiating with Bess for a fairer distribution of profit. ✓</p>		
4.10	Comment on the debt / equity ratio. Quote a financial indicator (actual figures or percentages) for both years to support your answer.	(4)
<p>The debt/equity ratio has increased from 0.5 : 1 to 0.6 : 1 ✓✓</p> <p>This indicates that the business is making relatively more use of loans and is in a more risky situation should profits drop in future. ✓✓</p>		
4.11	What percentage of the net income are the partners withdrawing from the business? Is this good business practice? Explain, quoting figures to support your opinion.	(4)
<p>Percentage withdrawn:</p> $\frac{295\ 000}{885\ 000} \times \frac{100}{1} = 33.3\% \checkmark \checkmark$ <p>Comment:</p> <p>This is good business practice as the partners are now retaining a lot more in the business thereby enabling it to grow and earn bigger profits in the future. ✓✓</p>		
4.12	You are told that R200 000 has been spent in the past year for the controlled destroying stock of detergents, cleaning materials and chemicals that have reached their sell-by date. Partner Bess thinks this has been a waste of money, while Ted disagrees. Which opinion do you share? Explain.	(5)
<p>Share Ted's opinion.</p> <p>This is a responsible business practice.</p> <p>The business must display respect for the environment.</p> <p>Disposing of these materials in unsafe ways will lead to consequences for the environment and the local community.</p> <p>Others will have to bear a cost of rectifying the problem which is unfair.</p> <p>The business must display good corporate governance in this regard as their products are dangerous and due care should be taken. ✓✓✓✓✓</p>		

QUESTION 5: Manufacturing

(35 marks; 21 minutes)

5.1	Calculate the following for the year:	
	• Direct materials cost	(3)
3 090 x 3 = 9 270 ✓ x R130 ✓ = R1 205 100 ✓		
	• Direct labour cost	(5)
Normal time: 30 x R35 x 240 days x 9 hours = R2 268 000 ✓✓ Overtime: 4 000 hours x R52 = R 208 000 ✓✓ = R2 476 000 ✓		

5.2 Dr				WORK-IN-PROCESS STOCK ACCOUNT				B		Cr	
20.7	Mar	1	Balance	b/d	✓510 000	20.8	Feb	28	Finished goods stock ✓ (3 090 x R1 790)		✓✓5 531 100
20.8	Feb	28	Direct materials cost ✓		✓1 205 100				Balance	c/d	✓320 000
			Direct labour cost ✓		✓2 476 000						
			Factory overhead cost* ✓		✓1 660 000						
					5 851 100 ✓						5 851 100
20.8	Mar	1	Balance	b/d	✓320 000						(13)

*Balancing figure.

5.3	Calculate the net profit for the year.	(6)												
<table border="1"> <tr> <td>Sales (3 060 jackets at R2 600 each)</td> <td>✓R7 956 000</td> </tr> <tr> <td>Cost of sales (75 000 + 5 531 100 - 143 200)</td> <td>✓✓(5 462 900)</td> </tr> <tr> <td>Gross profit</td> <td>2 493 100</td> </tr> <tr> <td>Administration cost</td> <td>✓(780 000)</td> </tr> <tr> <td>Selling & distribution cost</td> <td>✓(822 000)</td> </tr> <tr> <td>Net profit</td> <td>✓891 100</td> </tr> </table>		Sales (3 060 jackets at R2 600 each)	✓R7 956 000	Cost of sales (75 000 + 5 531 100 - 143 200)	✓✓(5 462 900)	Gross profit	2 493 100	Administration cost	✓(780 000)	Selling & distribution cost	✓(822 000)	Net profit	✓891 100	
Sales (3 060 jackets at R2 600 each)	✓R7 956 000													
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Gross profit	2 493 100													
Administration cost	✓(780 000)													
Selling & distribution cost	✓(822 000)													
Net profit	✓891 100													

5.4	Jackie is concerned about the increase in the cost of producing the jackets as this is negatively affecting the net profit he is earning. He is considering an alternative fabric costing R110 per metre which looks the same as the fabric currently used, but is not as long-lasting. Explain four points that you would mention to Jackie, quoting evidence or figures from the question to support your answer.	(8)
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Any four valid points. ✓✓ ✓✓ ✓✓ ✓✓
Award part-marks for less complete answers.

- It would be foolish to focus on the fabric as the cause of the problem as the price has remained constant at R130 per metre for the past two years.
- The unit cost of production increased from R1 500 to R1 790 per jacket due to the other costs of production, i.e. labour or overheads. Rather focus on those for cost savings, e.g. reduce the amount of overtime, or do a study of the efficiency of the workers.
- The increase in unit cost is significantly affected by the number of units produced. The number of units produced dropped from 4 000 to 3 090. Fixed costs remain constant (i.e. administration cost and factory overheads), which means that fixed costs per unit have increased. Rather try to increase production over 4 000 units again, and market the jackets and price the jackets correctly.
- Ethically, it would be wrong to mislead the customers about the quality of the fabric. They will notice this sooner or later and this will affect the sales that they make, as well as the goodwill that they have built up with their client base.

QUESTION 6: Budgeting

(30 marks; 18 minutes)

6.1	Consider the budget for staff training and advertising:	
	<ul style="list-style-type: none"> • Calculate the percentage increase in staff training from January to February 20.9. 	(2)
$\frac{6\ 000}{40\ 000} \times 100 = 15\% \checkmark\checkmark$		
	<ul style="list-style-type: none"> • Explain how Simon budgets for advertising (calculate the actual percentage used in his method). 	(2)
$\frac{10\ 800}{360\ 000} \times 100 = 3\% \checkmark\checkmark$		
<p>OR $\frac{6\ 000}{200\ 000} \times 100$ OR $\frac{3600}{120\ 000} \times 100$</p>		
	<ul style="list-style-type: none"> • Do you agree with Simon’s budgeting for both these items? Explain. 	(4)
<ul style="list-style-type: none"> - It is good that he is investing a significant amount (R40 000 and R46 000) in training as this will benefit the business in terms of its professional dealing with customers. $\checkmark\checkmark$ - His sales appear to be very seasonal, e.g. lower sales in January (R200 000) and even lower sales in February (R120 000). Applying a small percentage such as 3% might not be advisable. In the months with low sales he should consider advertising a lot more to try to keep his sales constant in order to cover monthly overheads. $\checkmark\checkmark$ 		
6.2	Calculate the missing figures in the Cash Budget designated by A to F.	(16)
<p>Calculation of A (Cash sales for February 20.9): $25\% \times R120\ 000 = R30\ 000 \checkmark\checkmark$</p>		
<p>Calculation of B (Collection from debtors for February 20.9): $(90\ 000 \times 30\% \times 94\%) + (150\ 000 \times 55\%) + (10\% \times 270\ 000)$ $= 25\ 380 \checkmark + 82\ 500 \checkmark + 27\ 000 \checkmark$ $= R134\ 880 \checkmark\checkmark$</p>		
<p>Calculation of C (Rent income for January 20.9): $14\ 112 / 112 \times 100 = R12\ 600 \checkmark\checkmark$</p>		
<p>Calculation of D (Cash purchases of trading stock for January 20.9): $40\% \times 160\ 000 = R64\ 000 \checkmark\checkmark$</p>		
<p>Calculation of E (Salary of manager for January 20.9): $9\ 000 \times \frac{109}{100} = R9\ 810 \checkmark\checkmark$</p>		
<p>Calculation of F (Wages of shop assistants for January 20.9): $20\ 400 \times \frac{3}{4} \times \frac{105}{100} = R16\ 065 \checkmark\checkmark\checkmark$</p>		
6.3	The shop assistants are not satisfied with their increase. Explain what advice you would give to Simon. Provide two points. Quote evidence or figures from the question to support your answer.	(6)
<p>Any two valid points, quoting evidence from the question. $\checkmark\checkmark \quad \checkmark\checkmark \quad \checkmark\checkmark$</p> <ul style="list-style-type: none"> • The manager got an increase of 9% which is above the inflation rate. • The shop assistants got an increase of 5% which is much lower and is calculated off a lower base. The shop assistants will not see this as fair. • One of the shop assistants has not been replaced. This means that the other assistants will be doing more work. However, sales are decreasing by R60 000 in January and a further R80 000 in February, so maybe keeping four assistants is not viable. So maybe keeping four assistants is not viable. 		

QUESTION 7: Periodic inventory system

(40 marks; 24 minutes)

7.1.1	Calculate the value of closing stock on hand on 28 February 20.8 (refer to Information 2 (c) below).	(6)
Taps: R4 000✓ + R10 500✓ + (30 x R100): R17 500✓✓ Other stock: <u>R102 000</u> ✓ TOTAL <u>R119 500</u> ✓		

7.1.2 Dr				Trading account				B	Cr
20.8				20.8					
Feb	28	Opening stock✓	✓94 000	Feb	28	Sales		✓1 565 800	
		Purchases (870 000✓+ 66 400✓)	✓936 400			(1 630 000✓ – 62 000✓ – 2 200✓)			
		Customs duty (28 000✓ + 9 960✓)	✓37 960			Closing stock✓		☑119 500	
		Carriage (45 000✓ + 7 000✓)	✓52 000						
		Profit & loss✓	☑564 940						
			<u>1 685 300</u>					<u>1 685 300</u>	
								(19)	

7.1.3	Calculate the following:	(3)
	<ul style="list-style-type: none"> Cost of sales 	
1 565 800✓ – 564 940☑ = R1 000 860 ☑ OR (94 000 + 936 400 + 37 960 + 52 000)✓ – 119 500☑ = R1 000 860 ☑		
	<ul style="list-style-type: none"> Mark-up % achieved on cost 	(3)
$\frac{564\,940\ \checkmark}{1\,000\,860\ \checkmark} \times \frac{100}{1} = 56.4\%$		

QUESTION 7.2

	COMMENT, IDENTIFY PROBLEM & QUOTE FIGURE/S	PROVIDE ADVICE
3 marks x 3 shops = 9 marks total	Mark allocation on each shop: Comment on problem ✓ Figure/s ✓	Mark allocation on each shop: Advice ✓
NORTHVILLE SHOP Manager: Nora	Credit sales are Nil / Creditors being paid after 15 days – affects liquidity as the stock takes 60 days to sell.	Offer sales on credit to increase sales / Use credit terms to the maximum.
WESTVILLE SHOP Manager: Wally	No discounts offered (75% mark up achieved at all times) / Debtors taking too long to pay (40 days) which affects liquidity.	Offer trade discounts to liquidate slow-moving stock / Chase up slow-paying debtors.
SOUTHVILLE SHOP Manager: Sam	The shop is doing well. Sales are high (R2.24m) / Gross profit is high (R640 000) / Stock holding period too low (15 days).	Offering discounts appears to be increasing sales – maintain this policy / Increase stock levels to ensure demand can be satisfied.

Grade 11 Sample paper 2	QUESTION 1	QUESTION 2	QUESTION 3	QUESTION 4	QUESTION 5	QUESTION 6	QUESTION 7			
	Acc eqn	Crs Recon	BS & FA	Interp	Manuf	Budgets	Periodic	TOTAL PER TOPIC	TOTAL	TARGET
FINANCIAL ACCOUNTING							Prob-solv			
Concepts - partnerships								0	176	150 to 180
Concepts - GAAP								0		
Selected ledger entries & documents - partnerships	20							20		
Accounting equation - partnerships	10							10		
Prepare bank reconciliations								0		
Prepare creditors reconciliations		25						25		
Final accounts - partnerships								0		
Financial statements - IS - partnerships								0		
Financial statements - BS - partnerships			33					33		
Financial statements - Notes - partnerships			31					31		
Financial statements - Differences Partnerships vs Non-Profit Orgs								0		
Analysis and interpretation of FS - partnerships				45			12	57		
Calculate VAT								0		
MANAGERIAL ACCOUNTING	QUESTION 1	QUESTION 2	QUESTION 3	QUESTION 4	QUESTION 5	QUESTION 6	QUESTION 7	TOPIC TOT	TOTAL	TARGET
Ledger accounts of a manufacturing business					27			27	61	60 to 75
Cost calculations and interpretation					4			4		
Prepare cash budgets						30		30		
MANAGING RESOURCES	QUESTION 1	QUESTION 2	QUESTION 3	QUESTION 4	QUESTION 5	QUESTION 6	QUESTION 7	TOPIC TOT	TOTAL	TARGET
Recording acquisition & disposal of fixed assets			16					16	63	60 to 75
Periodic inventory system - record transactions							28	28		
Identify & analyse ethical behaviour using different scenarios				5	4			9		
Internal control, internal audit, division of duties, docs, phys controls		10						10		
TOTAL PER QUESTION	30	35	80	50	35	30	40	300	300	
								Should be 300		

Q NO.	TOPIC	TARGET = 30%			TARGET = 40%			TARGET = 30%			30%	40%	30%	PROBLEM-SOLVING	
		BLOOMS TAXONOMY									CHALLENGE			PROBLEM-SOLVING	
		Remember	Understand	Apply 1	Apply 2	Analyse 1	Analyse 2	Evaluate	Create	Easy	Medium	High	Surface	Deeo	
1	Accounts			15						9	6				
1	Amounts			5						3	2				
1	Equation					10					5	5			
2.1	Internal control		10							2	6	2	6		
2.2	Entries in books				12					4	4	4			
2.3	Creditors recon				13					3	6	4			
3.1	Balance Sheet			14	19					14	10	9			
3.2.1	Fixed asset note			2	14					2	7	7			
3.2.2	Current account note			5	8					5	4	4			
3.2.3	Payables note			5	13					5	7	6			
4.1	Solvency							4		2	2				
4.2	Stock turnover							4		2	2				
4.3	Liquidity							6		2	4				
4.4	Operating expenses							3		3					
4.5	Interest		2							2					
4.6	Calculate business						5				3	2			
4.7	Calculate partner						5				3	2			
4.8	Comment business							4			4				
4.9	Comment partner							4			4				
4.10	Debt equity							4			2	2			
4.11	Withdrawals							4			2	2			
4.12	Corp governance								5	2	3		5		
5.1	Direct materials cost				8					4	4				
5.2	WIP stock account			8	5					8	3	2			

		TARGET = 30%			TARGET = 40%			TARGET = 30%			30%			40%			30%			PROBLEM-SOLVING	
Q NO.	TOPIC	BLOOMS TAXONOMY								CHALLENGE			PROBLEM-SOLVING								
		Remember	Understand	Apply 1	Apply 2	Analyse 1	Analyse 2	Evaluate	Create	Easy	Medium	High	Surface	Deeo							
5.3	Calculate NP			3	3						2	2	2								
5.4	Comment ethics			4	4						2	4	2	8							
6.1	Training & advertising					4		4			4	2	2								
6.2	Calculations					4	12				4	6	6								
6.3	Comment remuneration							6			2	2	2		6						
7.1.1	Calculate stock								6		2	2	2								
7.1.2	Trading account			9	10						9	5	5								
7.1.3	Calculate COS			3							3										
7.1.4	Calculate MU%			3							3										
7.2	Problem-solving								9		3	3	3		9						
		0	12	76	109	18	22	43	20	300	106	119	75	300	13	15					
		0%	4%	25%	36%	6%	7%	14%	7%		35%	40%	25%		4.3%	5.0%					
		TARGET = 30%			TARGET = 40%			TARGET = 30%			TAR-GET=30%	TAR-GET=40%	TAR-GET=30%								