

MODULE 4

CREDIT SALES AND ALLOWANCES

Note to the Teacher:

In the previous module, we looked at cash transactions, i.e. the Cash Receipts, Cash Payments and Petty Cash journals, posting to the ledger and drawing up a Trial Balance. In this module, we will look at credit transactions and firstly, **selling** on credit. Learners have also been exposed to credit buying and selling in Grade 9. Therefore, we request you to be selective in choosing which tasks you require the learners to do at the beginning of this module, based on their prior knowledge and skills. Debtors allowances will be introduced in this module as part of an integrated approach to dealing with credit selling.

As the learners already have the basic concepts regarding entering transactions into the journals, posting to the ledger and drawing up a Trial Balance, try to encourage them to self-discover what entries to process for credit selling. They must draw on what they already know and extend into the unknown. The names which they attach to the journals and accounts are not important at this stage – you are encouraging them to think and to understand rather than the accuracy of names – that can come later.

TASK 4.1 Jim: Credit sales

The purpose of this task is for the learners to discuss what they already know about selling on credit and in particular the advantages and disadvantages. Internal control is an important concept to understand in accounting and should not be seen as something separate but an integral part of the accounting syllabus.

Suggested answers:

Advantages of selling on credit:

- Increased sales.
- Increased profit.
- Increased market share.
- Economies of scale in buying to sell larger quantities.
- Etc.

Disadvantages of selling on credit:

- Bad debts.
- More admin work.
- Higher costs.
- Having to wait for cash which affects cash flow.
- If the trader has to borrow cash in the meantime, this will cost him money, etc.

Extra measures:

- Ledger accounts to record each debtor.
- Extra journals to record the sales and returns.
- Screening of potential customers.
- Debtors control.
- Etc.

TASK 4.2 Jim (2): Recording of credit sales

Allow learners to come up with their own examples that they are to share with the rest of the class. Constructive criticism has great value as a learning tool, providing it does not get personal.

TASK 4.3 Type of business

Refer to Learner's manual.

TASK 4.4

Monica's Boutique: Debtors

4.4.1 What suggestions can you make to get her debtors to pay on time?

Provide incentives to encourage early payment, e.g. discounts.

Charge interest on overdue accounts.

Send reminders, e.g. in the form of statements of account, telephone calls, email, SMS, etc.

Call in the defaulting debtors and make arrangements for payment in instalments, etc.

4.4.2 What do you understand by the 'triple-entry system'?

A debtors ledger implies that a triple entry system is in operation.

For example, when goods are sold to a debtor, Debtors control account is debited and Sales account is credited. This sale is also posted to the individual debtor's account in the Debtors Ledger.

The Debtors ledger is an extension of the General Ledger.

The total of the individual balances in the debtors ledger should equal to the balance of the debtors control accounts at month-end.

4.4.3 The Debtors List total does not agree with the Debtors control account balance. What are the probable causes for this?

Inaccurate calculations, wrong posting, omission of entries in the Debtors control account, etc.

4.4.4 When debtors pay their accounts, their balances will decrease. Is this statement true or false? Explain.

True. They will owe less – their debt to the business decreases.

4.4.5 When goods are sold for cash, debtors will increase. Is this statement True or False? Explain.

False. As it is a cash sale, no entry would be made in the debtor's account. They do not owe any money.

TASK 4.5

Hululu Traders: DJ, General/Debtors Ledger, Debtors List

4.5.1 Hululu Traders

Debtors Journal – August 20.6

DJ5

Inv. No.	D	Debtor	Fol	Sales	Cost of sales
V122	5	K. Kind	DL2	513	342
V123	12	G. Gentle	DL3	490	320
V124		M. Mean	DL1	580	435
V125	23	K. Kind	DL2	387	300
V126		M. Mean	DL1	660	495
V127	28	M. Mean	DL1	193	95
V128		G. Gentle	DL3	54	45
				2 877	2 032

B6/N1

N2/B5

4.5.2

GENERAL LEDGER OF HULULU TRADERS BALANCE SHEET ACCOUNTS SECTION

Dr				TRADING STOCK				B6		Cr
20.6				20.6						
Aug	1	Balance	b/d	52 140	Aug	20	Cost of sales(102 + 90)	CRJ	192	
						31	Cost of sales	DJ5	2 032	
							Balance	c/d	49 916	
				52 140					52 140	
Sept	1	Balance	b/d	49 916						

Dr				DEBTORS CONTROL				B7		Cr
20.6				20.6						
Aug	1	Balance	b/d	4 040	Aug	31	Balance	c/d	6 917	
	31	Sales	DJ5	2 877						
				6 917					6 917	
Sept	1	Balance	b/d	6 917						

**NOMINAL ACCOUNTS SECTION
SALES**

				N1			
				20.6			
	Aug	1	Total	b/f			128 850
		20	Bank (204 + 120)	CRJ			324
		31	Debtors control	DJ5			2 877
							132 051

COST OF SALES

				N2			
20.6							
Aug	1	Total	b/f	72 210			
	20	Trading stock	CRJ	192			
	31	Trading stock	DJ5	2 032			
				74 434			

**DEBTORS LEDGER
M. MEAN**

				DL1		
Date		Details	Fol	Debit	Credit	Balance
20.6						
Aug	1	Balance	b/d			1 140
	12	Inv. V124	DJ5	580		1 720
	23	Inv. V126	DJ5	660		2 380
	28	Inv. V127	DJ5	193		2 573

K. KIND

				DL2		
Date		Details	Fol	Debit	Credit	Balance
20.6						
Aug	1	Balance	b/d			790
	5	Inv. V122	DJ5	513		1 303
	23	Inv. V125	DJ5	387		1 690

G. GENTLE

				DL3		
Date		Details	Fol	Debit	Credit	Balance
20.6						
Aug	1	Balance	b/d			2 110
	12	Inv. V123	DJ5	490		2 600
	28	Inv. V128	DJ5	54		2 654

4.5.3 DEBTORS LIST ON 31 AUGUST 20.6

Debtor	Fol	Amount
M. Mean	DL1	2 573
K. Kind	DL2	1 690
G. Gentle	DL3	2 654
		6 917

4.5.4 Compare the Debtors control account balance with the Debtors List – the totals must agree.

NATIONAL CREDIT ACT (NCA) 34 OF 2005:

Note to the teacher:

The National Credit Act is relatively new to the curriculum as it was only introduced during 2007. It is, therefore, very important that all Accounting Learners are exposed to this Act and its effect on buying and selling on credit in the country. A brief description is given in the Learner's Book but more in-depth information can be obtained via Internet. One site is www.nedbank.co.za. Click on Quicklinks and National Credit Act.

Consumer Act:

In 2011 the new Consumer Act was introduced. Although this is not a requirement of the curriculum learners should be exposed to the principles of the Act.

TASK 4.6 Jim's Sports Shop: National Credit Act

This task enables the learners to engage with the National Credit Act. It is very important that the learner's responses are directed at Jim and his sporting business and not just copied off a web-site.

Possible answers:

PRINCIPLES:

Refer to Learner's textbook.

ADVANTAGES AND DISADVANTAGES TO JIM:

- Can obtain all information relating to client's credit record.
- Less bad debts.
- Less administrative work in terms of following up on clients.
- Could lose business, as not as many people will be eligible to buy on credit.

ADVANTAGES AND DISADVANTAGES TO CUSTOMERS:

- Ability to obtain credit could be curtailed (reduced).
- Will be protected from unscrupulous banks and financial information.
- Will be given all information up front.
- Has to provide all necessary information to the bank and undergo strict testing.
- Might not be able to buy as much as before.

ADVICE:

- Get to know the principles of the NCA well.
- Ensure that all credit application forms cover all the information required.
- Conduct research on each client.
- Give detailed information to all clients.
- Transparent and responsible.
- Accountable.
- Etc.

Rubric for the assessment of the report:

Criteria	Level 1	Level 2	Level 3	Level 4
Principles of the NCA	Shows little understanding of the NCA	Some aspects of the NCA are discussed	A good discussion on the NCA	An excellent discussion on the NCA
Advantages and disadvantages to Jim	Shows little understanding of the advantages and disadvantage to Jim	Some advantages and disadvantages to Jim are discussed	Good discussion on the advantages and disadvantages to Jim	Excellent understanding of the advantages and disadvantages to Jim
Advantages and disadvantages to the customers of Jim	Shows little understanding of the advantages and disadvantage to the customers	Some advantages and disadvantages to the customers are discussed	Good discussion on the advantages and disadvantages to the customers	Excellent understanding of the advantages and disadvantages to the customers.
Advice	Very little advice given to Jim	Some advice given to Jim	Good advice given to Jim	Excellent advice given to Jim

TASK 4.7 Question & Answer

This task is to allow the learner's time to discover how to handle returns and allowances. Give them time to discuss the issues in groups and to report back before you introduce the topic formally.

Suggested answers:

4.7.1	Refer to Task 4.5. Assume that K. Kind returned some of the goods sold on credit on the 23rd and discuss the following issues:															
	4.7.1.1 Do we need to make any entry to record this return? Why?															
	Yes – the debtor does not owe Hululu Traders the money. The profit has not been made on the sale and the trading stock has been returned.															
	4.7.1.2 Show the effect on the accounting equation.															
	<table border="1"> <thead> <tr> <th>Debtors</th> <th>Trading stock</th> <th>Expenses</th> <th>Capital</th> <th>Income</th> </tr> </thead> <tbody> <tr> <td>Decreases with the selling price</td> <td></td> <td></td> <td></td> <td>Decreases with the selling price</td> </tr> <tr> <td></td> <td>Increases with the cost price</td> <td>Decreases with the cost price</td> <td></td> <td></td> </tr> </tbody> </table>	Debtors	Trading stock	Expenses	Capital	Income	Decreases with the selling price				Decreases with the selling price		Increases with the cost price	Decreases with the cost price		
	Debtors	Trading stock	Expenses	Capital	Income											
	Decreases with the selling price				Decreases with the selling price											
	Increases with the cost price	Decreases with the cost price														
4.7.1.3 What effect will this return have on the general and debtors ledgers? Show the effect in the ledgers.																
Show the ledger accounts – refer to the example in the textbook. General ledger: Debtors control decreases; Sales decreases; Trading stock increases; Cost of sales increases Debtors ledger: Individual debtor's account decreases																
4.7.1.4 Why can't we make the entry directly into the ledgers? Why? Design an appropriate journal.																
We need to draw up a journal first. Allow the learners to design their own journal and call it what they want at this stage.																
4.7.1.5 What difference would there be if K. Kind was overcharged for the goods sold to him on the 23rd and did not return goods as already discussed?																
Only the selling price would have been recorded as no goods were returned. A profit would still have been made although it will be less as a result of the overcharge.																
4.7.2	Assume that G. Gentle returned some of the goods sold to him for cash on the 20th in Task 4.5 and indicate the following:															
	4.7.2.1 Show the effect on the accounting equation.															
	<table border="1"> <thead> <tr> <th>Bank</th> <th>Trading stock</th> <th>Expenses</th> <th>Capital</th> <th>Income</th> </tr> </thead> <tbody> <tr> <td>Decreases with the selling price</td> <td></td> <td></td> <td></td> <td>Decreases with the selling price</td> </tr> <tr> <td></td> <td>Increases with the cost price</td> <td>Decreases with the cost price</td> <td></td> <td></td> </tr> </tbody> </table>	Bank	Trading stock	Expenses	Capital	Income	Decreases with the selling price				Decreases with the selling price		Increases with the cost price	Decreases with the cost price		
	Bank	Trading stock	Expenses	Capital	Income											
	Decreases with the selling price				Decreases with the selling price											
	Increases with the cost price	Decreases with the cost price														
4.7.2.2 What effect will this return have on the general and debtors ledgers? Show the effect in the ledgers.																
General ledger: Bank decreases; Sales decreases; Trading stock increases; Cost of sales increases Debtors ledger: No effect																
4.7.2.3 Which journal do you think should be used to record this entry? Show an example.																
CPJ. Learners to make up their own example.																
4.7.2.4 Report back																

TASK 4.8

Pumelo Stores: DJ, DAJ, Ledger, Debtors List

4.8.1 PUMELO STORES

DEBTORS JOURNAL – SEPTEMBER 20.5

DJ8

Inv. No.	D	Debtor	Fol	Sales	Cost of sales
B08	5	D. Day	DL1	5 523	3 682
B09	10	N. Night	DL2	6 984	4 211
B10		M. Morn	DL3	644	483
B11	18	M. Morn	DL3	800	400
B12	20	N. Night	DL2	2 459	1 639
B13		M. Morn	DL3	1 912	1 434
B14	28	D. Day	DL1	1 870	1 207
B15		M. Morn	DL3	360	300
				20 552	13 356

B6/N1

N2/B5

DEBTORS ALLOWANCES JOURNAL – SEPTEMBER 20.5

DAJ8

C/N No.	D	Debtor	Fol	Debtors allowances	Cost of sales
Z20	8	D. Day	DL1	126	84
Z21	12	N. Night	DL2	204	-
Z22		N. Night	DL2	484	341
Z23	25	N. Night	DL2	300	-
Z24	29	M. Morn	DL3	40	-
				1 154	425

N3/B6

B5/N2

4.8.2

GENERAL LEDGER OF PUMELO STORES BALANCE SHEET ACCOUNTS SECTION

Dr				TRADING STOCK				B5		Cr
20.5				20.5						
Sept	1	Balance	b/d	70 010	Sept	30	Cost of sales	DJ8	13 356	
	30	Cost of sales	DAJ8	425			Cost of sales	CRJ	750	
				70 435			Balance	c/d	56 329	
									70 435	
Oct	1	Balance	b/d	56 329						

DEBTORS CONTROL

B6

20.5				20.5					
Sept	1	Balance	b/d	47 640	Sept	30	Debtors allowances	DAJ8	1 154
	30	Sales	DJ8	20 552			Balance	c/d	67 038
				68 192					68 192
Oct	1	Balance	b/d	67 038					

NOMINAL ACCOUNTS SECTION

SALES

N1

				20.5					
				Sept	1	Total	b/f		128 850
					30	Bank	CRJ		1 000
						Debtors control	DJ8		20 552
									150 402

Dr		COST OF SALES				N2		Cr	
20.5					20.5				
Sept	1	Total	b/f	72 210	Sept	30	Trading stock	DAJ8	425
	30	Trading stock	CRJ	750					
		Trading stock	DJ8	13 356					
				86 316					425

DEBTORS ALLOWANCES					N3				
20.5									
Sept	1	Total	b/f	15 620					
	30	Debtors control	DAJ8	1 154					
				16 774					

DEBTORS LEDGER D. DAY

Date		Details	Fol	Debit	Credit	DL1 Balance
20.5						
Sept	1	Balance	b/d			14 560
	5	Inv. B08	DJ8	5 523		20 083
	8	C/N Z20	DAJ8		126	19 957
	28	Inv. B14	DJ8	1 870		21 827

N. NIGHT

Date		Details	Fol	Debit	Credit	DL2 Balance
20.5						
Sept	1	Balance	b/d			9 870
	10	Inv. B09	DJ8	6 984		16 854
	12	C/N Z21	DAJ8		204	16 650
		C/N Z22	DAJ8		484	16 166
	20	Inv. B12	DJ8	2 459		18 625
	25	C/N Z23	DAJ8		300	18 325

M. MORN

Date		Details	Fol	Debit	Credit	DL3 Balance
20.5						
Sept	1	Balance	b/d			23 210
	10	Inv. B10	DJ8	644		23 854
	18	Inv. B11	DJ8	800		24 654
	20	Inv. B13	DJ8	1 912		26 566
	28	Inv. B15	DJ8	360		26 926
	29	C/N Z24	DAJ8		40	26 886

4.8.3 Debtors List on 30 September 20.5

Debtor	Fol	Amount
D. Day	DL1	21 827
N. Night	DL2	18 325
M. Morn	DL3	26 886
		67 038

TASK 4.9 B. Bongji: Credit terms, Discounts

4.9.1	What do the words mean? If a debtor pays his/her account within 30 days, he/she will receive a discount of 10%. This means he/she will pay less.
4.9.2	Why would a business offer these terms? To encourage the debtors to pay their accounts quickly, so they do not have to wait for payment.
4.9.3	What is the difference between these terms and trade discount? Discount allowed is given when the debtor pays his account. Trade discount is a reduction in price given at the point of purchase. Either because they are having a special or the debtor is a good customer or it could be a bulk discount. Trade discount could also be defined as a discount allowed by one trader to another trader.
4.9.4	What effect would these terms have on the following? <ul style="list-style-type: none"> • Accounting equation Discount allowed will be an expense. • Debtors ledger Reduce the debtor's account with the discount. • General ledger Open a discount allowed account – expense account.

TASK 4.10 Calculation of discount

No.	Amount owing	Details	Bank figure	Discount allowed figure	Debtors control figure
1.	R2 000	Settled account less 5% discount	R1 900	R100	R2 000
2.	R12 000	Settled account less 7.5% discount	R11 100	R900	R12 000
3.	R5 500	Settled account with a cheque for R5 230	R5 230	R270	R5 500
4.	R7 100	Settled account with a cheque for R6 950	R6 950	R150	R7 100
5.	R15 000	Paid half the amount owing less 8% discount	R6 900	R600	R7 500
6.	R8 800	Paid R4 150 in settlement of half of the account	R4 150	R250	R4 400
7.	R1 400	Settled account less 7% discount	R1 302	R98	R1 400
8.	R1 640	Settled account less 5% discount	R1 558	R82	R1 640
9.	R1 500	Settled account less 10% discount	R1 350	R150	R1 500
10.	R1 200	Settled account less 4% discount	R1 152	R48	R1 200


NOTE TO THE TEACHER:

- Calculation No 6. The R1 302 represents 93% of the amount owing – therefore divide R1 302 by 93% = R1 400 (the full amount).
- Calculation no 8. R150 represents 10% of the amount owing – therefore divide R150 by 10% = R1 500 (the full amount).

TASK 4.11 Question & Answer

Note to Teacher:

You will need to arrange for the learners to have time to do this task.

TASK 4.12 

D. Dirker: Dishonoured cheques, Ledger, Accounting equation, Report back

**DEBTORS LEDGER
D. DIRKER**

				DL		
Date		Details	Fol	Debit	Credit	Balance
20.1 June	1	Balance	b/d			160
	5	Receipt no. xxx	CRJ		160	-
	10	Cheque dishonoured	CPJ	160		160

**GENERAL LEDGER
BALANCE SHEET ACCOUNTS SECTION
DEBTORS CONTROL**

Dr					B					Cr
20.1 June	1	Balance	b/d	1 000	June	30	Bank	CRJ	160	
	30	Bank (r/d cheque)	CPJ	160			Balance	c/d	1 000	
				1 160					1 160	
July	1	Balance	b/d	1 000						

EFFECT ON ACCOUNTING EQUATION

Date	Assets	Owner's equity	Liabilities
5 June 20.1	±160	0	0
10 June 20.1	±160	0	0

TASK 4.13 Wendrift Shop: CRJ, CPJ, DJ, DAJ, Ledgers, Debtors List

WENDRIFT SHOP CASH RECEIPTS JOURNAL FOR NOVEMBER 20.8

Doc. No.	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Debtors control		Sundry accounts		CRJ1
								Receipts*	Discount allowed	Amount	Fol	
CRT1	3	Sales		1 632	1 632	1 632	1 088					
B/S	7	F. Fine	DL1	11 400	11 400			11 400	600			
CRT2	9	Sales		1 598	1 598	1 598	1 065					
B/S		S. Smooth	DL3		5 000			5 000	339			
CRT3	18	Sales		1 576	1 576	1 576	1 051					
B/S		R. Rough	DL2		8 000		**582	8 000	800			
CRT4	24	Sales		873		873						
R01		S. Smooth	DL3	1 980	2 853			1 980	-			
CRT5	25	Sales		1 982	1 982	1 982	1 321					
R02	26	R. Rough	DL2	2 000	2 000			2 000	-			
CRT6	30	Sales		1 577	1 577	1 577	1 051					
					37 618	9 238	6 158	28 380	1 739			
						N1	N2/B5	B6	N4			

*Alternative format: Debtors control: Total of Bank & Discount allowed

**Sales amount = $3\,492 \times 25\% = R873$

$$\text{Mark-up} = \frac{3\,492 - 2\,328}{2\,328} \times \frac{100}{1} = 50\%$$

$$\text{Cost of sales} = 873 \times \frac{100}{150} = R582$$

CASH PAYMENTS JOURNAL FOR NOVEMBER 20.8

CPJ1

Doc. no.	Day	Details	Fol	Bank	Trading stock	Debtors control	Wages	Sundry accounts	
								Amount	Fol
B/S	5	Sundry employees		4 200			4 200		
B/S	10	Sundry employees		4 200			4 200		
C01	12	UTWO Suppliers		4 988	4 988				
B/S	15	Sundry employees		4 200			4 200		
C02		AudioVis & Co.		3 299				3 299	Drawings
B/S	20	Sundry employees		4 200			4 200		
B/S	27	Sundry employees		4 500			4 500		
B/S		BigBank		198				198	Bank charges
B/S		Telkom		896				896	Telephone
B/S		City Treasurer		743				743	Water and lights
B/S		Getbud Insurers		1 200				1 200	Insurance
B/S		UTWO Suppliers		7 982	7 982				
B/S	28	R. Rough (r/d)	DL2	2 000		2 000			
B/S	30	S. Smooth (r/d)	DL3	1 980		1 980			
B/S		Sundry employees		4 500			4 500		
				49 086	12 970	3 980	25 800	6 336	

B5 B6

DEBTORS JOURNAL – NOVEMBER 20.8

DJ1

Inv. No.	D	Debtor	Fol	Sales	Cost of sales
B01	4	R. Rough	DL2	4 599	3 066
B02		F. Fine	DL1	976	651
B03	15	S. Smooth	DL3	2 130	2 800
B04	18	R. Rough	DL2	1 922	1 281
B05	24	F. Fine	DL1	2 619	1 746
				12 246	9 544

B6/N1 N2/B5

DEBTORS ALLOWANCES JOURNAL – NOVEMBER 20.8

DAJ1

C/N No.	D	Debtor	Fol	Debtors allowances	Cost of sales
CN01	9	R. Rough	DL2	340	227
CN02		F. Fine	DL1	68	-
				408	227

N3/B6 B5/N2

**GENERAL LEDGER OF WENDRIFT SHOP
BALANCE SHEET ACCOUNTS SECTION**

Dr				TRADING STOCK				B5		Cr
20.8					20.8					
Nov	1	Balance	b/d	45 762	Nov	30	Cost of sales	CRJ1	6 158	
	30	Bank	CPJ1	12 970			Cost of sales	DJ1	9 544	
		Cost of sales	DAJ1	227			Balance	c/d	43 257	
				58 959					58 959	
Dec	1	Balance	b/d	43 257						

DEBTORS CONTROL				B6						
20.8					20.8					
Nov	1	Balance	b/d	35 599	Nov	30	Bank	CRJ1	28 380	
	30	Bank (r/d)	CPJ1	3 980			Discount allowed	CRJ1	1 739	
		Sales	DJ1	12 246			Debtors allowances	DAJ1	408	
				51 825			Balance	c/d	21 298	
									51 825	
Dec	1	Balance	b/d	21 298						

**NOMINAL ACCOUNTS SECTION
SALES**

				N1						
					20.8					
					Nov	1	Total	b/f	78 872	
						30	Bank	CRJ1	9 238	
							Debtors control	DJ1	12 246	
									100 356	

COST OF SALES

				N2						
20.8					20.8					
Nov	1	Total	b/f	52 500	Nov	31	Trading stock	DAJ1	227	
	30	Trading stock	CRJ1	6 158						
		Trading stock	DJ1	9 544						
				68 202					227	

DEBTORS ALLOWANCES

				N3						
20.8										
Nov	1	Total	b/f	4 658						
	30	Debtors control	DAJ1	408						
				5 066						

DISCOUNT ALLOWED

				N4						
20.8										
Nov	1	Total	b/f	3 298						
	30	Debtors control	CRJ1	1 739						
				5 037						

DEBTORS LEDGER

F. FINE

DL1

Date		Details	Fol	Debit	Credit	Balance
20.8						
Nov	1	Balance	b/d			17 585
	4	Inv. B02	DJ1	976		18 561
	7	Electronic payment	CRJ1		11 400	7 161
		Discount allowed	CRJ1		600	6 561
	9	C/N 02	DAJ1		68	6 493
	24	Inv. B05	DJ1	2 619		9 112

R. ROUGH

DL2

Date		Details	Fol	Debit	Credit	Balance
20.8						
Nov	1	Balance	b/d			12 675
	4	Inv. B01	DJ1	4 599		17 274
	9	C/N 01	DAJ1		340	16 934
	18	Electronic payment	CRJ1		8 000	8 934
		Discount allowed	CRJ1		800	8 134
		Inv. B04	DJ1	1 922		10 056
	26	Rec. 02	CRJ1		2 000	8 056
	28	R/d cheque	CPJ1	2 000		10 056

S. SMOOTH

DL3

Date		Details	Fol	Debit	Credit	Balance
20.8						
Nov	1	Balance	b/d			5 339
	9	Electronic payment	CRJ1		5 000	339
		Discount allowed	CRJ1		339	0
	15	Inv. B05	DJ1	2 130		2 130
	24	Rec. 01	CRJ1		1 980	150
	30	R/d cheque	CPJ1	1 980		2 130

Debtors List on 31 November 20.8

Debtor	Fol	Amount
F. Fine	DL1	9 112
R. Rough	DL2	10 056
S. Smooth	DL3	2 130
		21 298

TASK 4.14 Accounting equation

NO.	DOCUMENT	JOURNAL	ACCOUNT DR	ACCOUNT CR	AMOUNT	A	0	L
1.	Cheque counterfoil	CPJ	Trading stock	Bank	10 000	+	0	+
2.	CRT	CRJ	Bank	Sales	500	0	+	-
			Cost of sales	Trading stock	300	-	-	0
3.	Cheque counterfoil	CPJ	Stationery	Bank	450	0	-	+
			Consumable stores	Bank	600	0	-	+
			Trading stock	Bank	1 080	+	0	+
4.	Invoice	DJ	Debtors control/J Robinson	Sales	1 500	+	+	0
			Cost of sales	Trading stock	900	-	-	0
5.	Credit note	DAJ	Debtors allowances	Debtors control/J Robinson	200	-	-	0
			Trading stock	Cost of sales	80	+	+	0
6.	Receipt	CRJ	Bank	Debtors control/J Robinson	1 170	-	0	-
			Discount allowed	Debtors control/J Robinson	130	-	-	0
7.	Receipt	CRJ	Bank	Debtors control/J Paul	800	-	0	-
8.	Bank statement	CPJ	Debtors control/J Paul	Bank	800	+	0	+
9.	Invoice	DJ	Debtors control/B. Smith	Sales	2 400	+	+	0
			Cost of sales	Trading stock	1 600	-	-	0
10.	Credit note	DAJ	Debtors allowances	Debtors control/B Smith	360	-	-	0

TASK 4.15 Project: Cash Journals, DJ, DAJ, Ledgers, Debtors List, Trial Balance

HYPER SUPER STORES CASH RECEIPTS JOURNAL FOR MARCH 20.9

Doc. no.	D	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Debtors control		Sundry accounts			
								Receipts	Discount allowed	Amount	Fol	Details	
CRT1	2	Sales		18 400	18 400	18 400	9 200						
R01	3	Lucky Mtolo		20 000	20 000						20 000	B1	Capital
R02	4	Matilda Matteo		3 000	3 000						3 000	N12	Rent income
CRT2	7	Sales		14 900	14 900	14 900	7 450						
R03	12	L. Length	DL3	3 629				3 629	191				
CRT3		Sales		14 440	14 440	14 440	7 220						
R04	15	S. Style	DL4	12 530	12 530			12 530	240				
CRT4	17	Sales		17 680	17 680	17 680	8 840						
CRT5	22	Sales		22 540	22 540	22 540	11 270						
CRT6	27	Sales		19 570	19 570	19 570	9 785						
R05		W. Width	DL1	8 000				8 000	320				
R06		H. Height	DL2	4 000	31 570			4 000					
R07	28	W. Width	DL1	2 000	2 000			2 000					
R08	29	H. Height	DL2	6 099	6 099			6 099	321				
R09	31	WestFirst Bank			150						150	N7	Interest on fixed deposit
R10		Matilda Matteo		3 000	3 000						3 000	N11	Rent income
					169 938	107 530	53 765	36 258	1 072	26 150			
					B9	N1	N2/ B7	B8	N15/ B8				

CASH PAYMENTS JOURNAL FOR MARCH 20.9

CPJ1

Doc. no.	D	Details	Fol	Bank	Trading stock	Wages	Debtors control	Consumables	Sundry accounts		
									Amount	Fol	Details
C1	7	Tops Wholesalers		9 300	6 870			980	1 450	N13	Stationery
C2	10	Lucky Mtolo		2 000					2 000	B2	Drawings
C3	14	Sundry employees		18 750		18 750					
C4		Cencop Suppliers		6 970	5 990			980			
C5	21	Cencop Suppliers		6 210	6 210						
C6	28	Tops Wholesalers		6 720	6 720						
C7		McCar Leasing		10 000					10 000	N9	Lease of vehicle
C8	30	Sundry employees		18 750		18 750					
C9		Mr Fix-it		320					320	N13	Repairs
B/S		W. Width (r/d)	DL1	2 000			2 000				
B/S		H. Height (r/d)	DL2	4 000			4 000				
B/S		WestFirst Bank		510					330	N4	Bank charges
C10	31	WestFirst Bank		20 000					180	N8	Interest on overdraft
C11		Ms E. Menua		2 520					20 000	B3	Loan: WestFirst
				108 050	25 790	37 500	6 000	1 960	36 800		

B9 B7 B8 N6 N14

PETTY CASH JOURNAL FOR MARCH 20.9

PCJ1

Doc. no.	D	Details	Petty cash	Wages	Repairs	Consumables	Sundry accounts		
							Amount	Fol	Details
P1	7	Lily	350	350					
P2	12	Downtown Flea Market	250				250	B5	Equipment
P3	14	Lily	350	350					
P4		A4 Papers	50			50			
P5	18	Mr Fix-it	80		80				
P6		Lucky Mtolo	400				400	B2	Drawings
P7	21	Lily	350	350					
P8	24	Speedy Transport	180				180	B7	Trading stock
P9	28	Lily	350						
P10	29	NJ Stationers	140			140			
P11		Mr Fix-it	20		20				
			2 520	1 400	100	190	830		

B10 N15 N12 N6

DEBTORS JOURNAL – MARCH 20.9

DJ1

Inv. No.	D	Debtor	Fol	Sales	Cost of sales
E1	13	L. Length	DL3	2 920	1 460
E2	18	W. Width	DL1	3 290	1 645
E3	20	S. Style	DL4	1 550	775
E4	24	H. Height	DL2	940	470
E5	27	L. Length	DL3	1 440	720
				10 140	5 070

B8/N1

N2/B7

DEBTORS ALLOWANCES JOURNAL – MARCH 20.9

DAJ1

C/N No.	D	Debtor	Fol	Debtors allowances	Cost of sales
CN1	14	L. Length	DL3	80	-
CN2	20	W. Width	DL1	570	285
CN3	21	H. Height	DL2	320	160
				970	445

N3/B8

B7/N2

**GENERAL LEDGER OF HYPER SUPER STORES
BALANCE SHEET ACCOUNTS SECTION**

Dr					CAPITAL					B1		Cr
20.9					20.9							
Mar	31	Balance	c/d	370 000	Mar	1	Balance	b/d			350 000	
						3	Bank	CRJ1			20 000	
				370 000							370 000	
					Apr	1	Balance	b/d			370 000	

DRAWINGS					B2							
20.9					20.9							
Mar	10	Bank	CPJ1	2 000	Mar	31	Balance	c/d			2 400	
	18	Petty cash	PCJ1	400								
				2 400							2 400	
Apr	1	Balance	b/d	2 400								

LOAN: WEST BANK					B3							
20.9					20.9							
Mar	31	Bank	CPJ1	20 000	Mar	1	Balance	b/d			100 000	
		Balance	c/d	80 000								
				100 000							100 000	
					Apr	1	Balance	b/d			80 000	

LAND AND BUILDINGS					B4							
20.9												
Mar	1	Balance	b/d	275 000								

EQUIPMENT					B5							
20.9					20.9							
Mar	1	Balance	b/d	78 950	Mar	31	Balance	c/d			79 200	
	12	Petty cash	PCJ1	250								
				79 200							79 200	
Apr	1	Balance	b/d	79 200								

Dr		FIXED DEPOSIT: WEST BANK				B6		Cr	
20.9									
Mar	1	Balance	b/d	20 000					

TRADING STOCK					B7				
20.9					20.9				
Mar	1	Balance	b/d	49 760	Mar	31	Cost of sales	CRJ1	53 765
	24	Petty cash	PCJ1	180			Cost of sales	DJ1	5 070
	31	Bank	CPJ1	25 790			Balance	c/d	17 340
		Cost of sales	DAJ1	445					
				76 175					76 175
Apr	1	Balance	b/d	17 340					

DEBTORS CONTROL					B8				
20.9					20.9				
Mar	1	Balance	b/d	46 940	Mar	31	Bank	CRJ1	36 258
	31	Bank (r/d)	CPJ1	6 000			Discount allowed	CRJ1	1 072
		Sales	DJ1	10 140			Debtors allowances	DAJ1	970
				63 080			Balance	c/d	24 780
									63 080
Apr	1	Balance	b/d	24 780					

BANK					B9				
20.9					20.9				
Mar	31	Sundry accounts	CRJ1	169 938	Mar	1	Balance	b/d	2 560
						31	Sundry accounts	CPJ1	108 050
				169 938			Balance	c/d	59 328
Apr	1	Balance	b/d	59 328					169 938

PETTY CASH					B10				
20.9					20.9				
Mar	1	Balance	b/d	3 000	Mar	31	Sundry accounts	PCJ1	2 520
	31	Bank	CPJ1	2 520			Balance	c/d	3 000
				5 520					5 520
Apr	1	Balance	b/d	3 000					

NOMINAL ACCOUNTS SECTION

SALES					N1				
					20.9				
					Mar	1	Total	b/f	201 330
						31	Bank	CRJ1	107 530
							Debtors control	DJ1	10 140
									319 000

COST OF SALES					N2				
20.9					20.9				
Mar	1	Total	b/f	97 500	Mar	31	Trading stock	DAJ1	445
	31	Trading stock	CRJ1	53 765					
		Trading stock	DJ1	5 070					
				156 335					445

Dr		DEBTORS ALLOWANCES			N3			Cr
20.9								
Mar	1	Total	b/f	2 560				
	31	Debtors control	DAJ1	970				
				3 530				

		BANK CHARGES			N4		
20.9							
Mar	1	Total	b/f	620			
	30	Bank	CPJ1	330			
				950			

		COMMISSION INCOME			N5		
					20.9		
					Mar	1	Total
							b/f
							40 800

		CONSUMABLES STORES			N6		
20.9							
Mar	1	Total	b/f	12 900			
	31	Bank	CPJ1	1 960			
		Petty cash	PCJ1	190			
				15 050			

		INTEREST ON FIXED DEPOSIT			N7		
					20.9		
					Mar	1	Total
							b/f
						31	Bank
							CRJ1
							300
							150
							450

		INTEREST ON OVERDRAFT			N8		
20.9							
Mar	1	Total	b/f	590			
	30	Bank	CPJ1	180			
				770			

		LEASE OF VEHICLES			N9		
20.9							
Mar	1	Total	b/f	26 250			
	28	Bank	CPJ1	10 000			
				36 250			

		LICENCE			N10		
20.9							
Mar	1	Total	b/f	2 720			

Dr		RENT INCOME				N11		Cr	
					20.9				
					Mar	1	Total	b/f	6 000
						4	Bank	CRJ1	3 000
						31	Bank	CRJ1	3 000
									12 000

		REPAIRS				N12	
20.9							
Mar	1	Total	b/f	4 650			
	30	Bank	CPJ1	320			
	31	Petty cash	PCJ1	100			
				5 070			

		STATIONERY				N13	
20.9							
Mar	1	Total	b/f	4 550			
	7	Bank	CPJ1	1 450			
				6 000			

		WAGES				N14	
20.9							
Mar	1	Total	b/f	75 000			
	31	Bank	CPJ1	37 500			
		Petty cash	PCJ1	1 400			
				113 900			

		DISCOUNT ALLOWED				N15	
20.9							
Mar	31	Debtors control	CRJ1	1 072			

DEBTORS LEDGER

W. WIDTH

					DL1	
Date		Details	Fol	Debit	Credit	Balance
20.9						
Mar	1	Balance	b/d			14 560
	18	Inv E2	DJ1	3 290		17 850
	20	C/N 2	DAJ1		570	17 280
	27	Rec. 05	CRJ1		8 000	9 280
		Discount allowed	CRJ1		320	8 960
	28	Rec. 07	CRJ1		2 000	6 960
	30	R/d cheque	CPJ1	2 000		8 960

H. HEIGHT				DL2		
Date		Details	Fol	Debit	Credit	Balance
20.9						
Mar	1	Balance	b/d			9 800
	21	C/N 3	DAJ1		320	9 480
	24	Inv E4	DJ1	940		10 420
	27	Rec. 06	CRJ1		4 000	6 420
	29	Rec. 08	CRJ1		6 099	321
		Discount allowed	CRJ1		321	0
	30	R/d cheque	CPJ1	4 000		4 000

L. LENGTH				DL3		
Date		Details	Fol	Debit	Credit	Balance
20.9						
Mar	1	Balance	b/d			3 820
	12	Rec. 03	CRJ1		3 629	191
		Discount allowed	CRJ1		191	0
	13	Inv E1	DJ1	2 920		2 920
	14	C/N 1	DAJ1		80	2 840
	27	Inv E5	DJ1	1 440		4 280


S. STYLE				DL4		
Date		Details	Fol	Debit	Credit	Balance
20.9						
Mar	1	Balance	b/d			18 760
	12	Rec. 04	CRJ1		12 530	6 230
		Discount allowed	CRJ1		240	5 990
	20	Inv E3	DJ1	1 550		7 540

DEBTORS LIST ON 31 MARCH 20.9

Debtor	Fol	Amount
W. Width	DL1	8 960
H. Height	DL2	4 000
L. Length	DL3	4 280
S. Style	DL4	7 540
		24 780

**HYPER SUPER STORES
TRIAL BALANCE ON 31 MARCH 20.9**

Balance Sheet accounts section	Fol	Debit	Credit
Capital	B1		370 000
Drawings	B2	2 400	
Loan: West Bank (15% p.a.)	B3		80 000
Land and buildings	B4	275 000	
Equipment	B5	79 200	
Fixed deposit with West Bank (9% p.a.)	B6	20 000	
Trading stock	B7	17 340	
Debtors control	B8	24 780	
Bank	B9	59 328	
Petty cash	B10	3 000	
Nominal accounts section			
Sales	N1		319 000
Cost of sales	N2	155 890	
Debtors allowances	N3	3 530	
Bank charges	N4	950	
Commission income	N5		40 800
Consumable stores	N6	15 050	
Interest on fixed deposit	N7		450
Interest on overdraft	N8	770	
Lease of vehicles	N9	36 250	
Licence	N10	2 720	
Rent income	N11		12 000
Repairs	N12	5 070	
Stationery	N13	6 000	
Wages	N14	113 900	
Discount allowed	N15	1 072	
		822 250	822 250

TASK 4.16  **Ethical & internal control scenarios affecting credit sales**

Before undertaking this task, it is advisable to inform the learners about what is meant by ethics in business, fraud and internal control (you may refer to Modules 13 and 14). In each of the following scenarios identify whether the problem relates to ethics or internal control, and spend time in class in discussing each scenario with regard to possible solutions.

4.16.1	Poor internal control. It appears that Phil has not done proper credit checks on his customers before they open their accounts. Proper 'screening' should occur. These customers must provide details of other accounts they have opened and Phil must check that these are valid and well-maintained.
4.16.2	This is unethical. Phil should not take advantage of his customers in this way. It also does not make good business sense. If his prices are high, this will encourage new competitors to enter the area.
4.16.3	Poor internal control. Dora is making too many errors which is giving the business a bad name with his customers. She should be properly trained, and warned that she could be replaced if she cannot do the job properly.
4.16.4	Poor internal control. With proper division of duties amongst the employees, the Debtors List (prepared by employee A) must equal the balance on the Control account (prepared by employee B). This means that any error by one of the employees can be detected each month promptly.
4.16.5	This could represent poor control if the debtors have not been properly screened, or it could be deliberate fraud by an employee in the business, e.g. Dora might have taken the goods, charged them to the fictitious account and then written the account off, hoping that Phil will not notice. Proper division of duties will prevent this sort of fraud from occurring.
4.16.6	This is not ethical. He should be honest with the customer and issue a credit note for R300. The goodwill gained from customers will benefit the business in the long run.

4.16.7	Poor internal control and fraud. Dora has stolen the cash and covered it up by issuing a credit note, hoping that the customer will not notice the difference in document reference. Dora should face disciplinary action which could result in her dismissal. Proper division of duties will prevent this sort of fraud from occurring.
4.16.8	This is deliberate fraud. Phil will find himself charged in court with criminal misconduct by the Medical Aids. His business will not survive fraud of this nature. He should not resort to such criminal misconduct and he should not involve employees in this fraud either.

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Completion of credit entries in the accounting equation.			
Completion of the Debtors Journal.			
Completion of the Debtors Allowances Journal.			
Posting to the General Ledger.			
Posting to the Debtors Ledger.			
Extraction of a Debtors List.			
Recording of cash receipts from debtors and discount allowed.			
Recording entries to show dishonoured cheques.			
Extraction of a Trial Balance.			
Understand the principles of the National Credit Act.			
Analyse ethical and internal control scenarios affecting credit sales			