NASCA

Economics, Business and Finance

Section 4

(Units 1-3)

**BUSINESS OPERATIONS.**

**Unit 1, 2 and 3.1 Mkt and 3.2 HR**

**Introduction:**

In the previous section (Section 2) you learnt about setting up business and the decisions that needed to be made.

Now that you have decided where you want to establish yourself and completed all the necessary planning, we look at getting the business moving. This entails getting on with the actual mission of the business, doing what you planned to do, for example if you decided to make furniture, there are a number of actions that need to take place, like identifying raw materials you will need (wood, glue, machinery vehicles and so on), locating suppliers of these products, placing orders, receiving the goods, begin with the actual process of converting them into finished products, then making them available to customers through one of the distribution channels you have researched.

We have described many *functions* in the paragraph above all of which are necessary to achieve one’s objective. Here, we are glossing over all the functions, then we are choosing only THREE of them to discuss in detail, that is Marketing and Human Resources and Administration (Accounting). It does not mean that the others are not important- they all are equally important and contribute to the final objective. The choice is made because of time constraints.

Included in the discussion is a brief explanation of CSI (Corporate Social Investment), which focuses on a slightly different aspect.

The material is set out as follows:

|  |  |
| --- | --- |
| **Topic Heading** | **Topic (with Approximate Instructional Time)** |
| Unit 1  Functions of a business  4 hours | 1.1 Functions of a business – overview |
| Unit 2  CSI  4 hours | 2.1 Purpose and examples of CSI |
| Unit 3  Specific Business Functions  106 hours | 3.1 Marketing *20 hours*  3.2 Human Resources *20 hours*  3.3 Accounting and Information Management *66 hours* |

**UNIT 1: FUNCTIONS OF A BUSINESS : OVERVIEW**

**Introduction:**

The purpose of this section is to give you an idea of ALL the functions of a business. You will appreciate we cannot expand on all the functions because of the time constraints, yet they are all equally important. We shall later be concentrating on three of the functions:

* Marketing
* Human resources and
* Administration (Accounting and Information management).

These functions have been chosen so that you are able to identify opportunities for yourself and then apply what you learnt in the previous section (Establishing a Business).

**1.1 Business Functions:**

All businesses engage in different types of activities to be successful. In a small business the one man owner may have to perform all the functions himself or he may employ a manager to assist him with these functions. Large businesses have specialised departments to handle each function separately and each department may have its own manager, for example, the *Financial Manager* is in charge of all aspects of *Finance.*

After completing this section you will have an understanding of the following functions:

1.1.1 Marketing

1.1.2 Human resources

1.1.3 Finance

1.1.4 Administration

1,1,5 Public Relations

1.1.6 General Management

1.1.7 Procurement

1.1.8 Production

1.1.9 Risk Management

1.1.10 Information Technology.

Note: Previously the focus fell on eight functions only. Now with growth and specialisation, the last two functions (Risk and IT) have become specialised enough to stand on their own.

Let us examine each one of these functions:

* + 1. **Marketing Function**

This function will be studies later in detail. Here we will mention the important points only.

The marketing function is one of the larger functions in any enterprise. This function decides on the way the business will sell its goods or services. It is itself broken down intofour *policies* which we will also be studying. They are:

* The product policy – deciding on the physical product or service.
* The pricing policy – determining the price at which it will be made available.
* Distribution policy- determining how it will reach the consumer – wholesaler retailer, etc.
* Promotion policy – informing consumers about the product (e.g. advertising)

**PRODUCT** **PRICING**  **PLACE (Dist)** **PROMOTION**

Since we will be dealing with it later, we will not go into more detail here.

From section 1 unit 3 not in CS there.The consumer market can be broken down into the following: consumed

* *Market for non-durable goods* – those that do not last and is used up e.g. food
* *Semi-durable goods* those that can be used over a short period of time e.g. clothing
* *Durable goods* – those with a longer lifespan that can be used over and over again e.g. refrigerator, tools etc.
* *Services –* e.g. plumbing and motor repairs.

**1.1.2 Human Resource Function:**

Also called the “personnel” function.

This function is concerned mainly with :

* Sourcing (finding) workers by recruiting them ( Provision)
* Appointing them and training them(if necessary) to ensure they are competent (development)
* Keeping them in the organisation by offering suitable benefits (wages, incentives etc) (maintenance)

This function also, will be dealt with in detail later..

**PROVISION DEVELOPMENT** **MAINTENANCE**

**1.1.3 Financial Function:**

This function deals with all the financial aspects of the business that is:

* Getting money for the business – capital and loans etc to finance the production process.
* Handling money through the business – making sure it is accounted for properly and used wisely as well as investing it .
* Ensuring the business is profitable and also not in danger of becoming insolvent.

**1.1.4 Administration Function**

This function deals with all the office work, keeping proper records, financial information, and generally making sure that there is information available when needed. Information is needed to make proper decisions and this information needs to be accurate and available when needed. It is therefore concerned with the *receiving, recording, processing, storing and communicating* information.

In this regard, we shall be discussing *Accounting* as a source of information to base decisions on.

**1.1.5 Public Relations Function**

This function ensures that the business maintains good relations with all the publics it comes into contact with, for example, the customers, workers, community etc. It does this by sending out positive messages about the business’s operations. Effective communication is the key. This is necessary to obtain loyalty from the customers and also instil confidence in the community. It does this by, for example, supporting the community in sponsoring events, assisting the community in some health issue like pollution and so on.

(see CSI later) Unit 2

**1.1.6 General Management Function**

This is an overseeing function and ensures that the business is operating properly. It is broken down into:

* Planning
* Organising
* Activating
* Control

as well as others:

* Coordinating
* Decision making
* Motivating
* Disciplining
* Delegating

**1.1.7 Purchasing/Procurement Function**

This function (also known as the Purchasing) deals with all aspects of buying.

It starts with placing orders, receiving goods, storing goods and financing the purchase.

*Stock control* is one of the important aspects.

To be successful the business needs to purchase:

* The right quantity
* Of the right quality
* From the right supplier
* At the right price
* At the right time.

**1.1.8 Production Function**

Production management refers to *goods* that are produced to distinguish it from *services*, where we use the term *operation management*. This function ensures that

* Goods are of the correct quality
* They are produced using the most efficient production method
* They are produced in the right quantities
* They are produced at competitive prices.

**1.1.9 Risk Management Function**

All businesses face risks. There are many risks like:

* Loss of business (customers)
* Loss through burglary, fire, storm etc.
* Loss through lack of safety.

Some of the risks can be insured against. Insurance companies take care of that. Others cannot be insured against and needs to be handled internally

The process involves:

* Identify property that is exposed to risk
* Investigate the possible cause of the risk
* Evaluate solutions to reduce the risk
* Devise a safety policy and inform all persons involved of this.
* Negotiate insurance terms

**1.1.10 Information Technology Function**

Information has drastically changed the lives of individuals and organisations. This is the age of innovation, which means *doing things differently* and more smartly so that it makes a difference. Examples are:

* Online shopping
* Digital marketing
* Digital computing.

A business needs to choose the right type of technology to suit its purposes. It will assist in:

* Planning, by making information available to make decisions
* Marketing
* Customer support
* Managing resources.

The various business functions operate together in order for the business to run smoothly. General Management can be seen as the spoke of the wheel that co-ordinates all the other activities as follows: Use diagram earlier in Sect 1 Unit 3.

**SUMMARY OF LEARNING UNIT 1**

In this unit you learnt that there are many functions that are performed in a business. In small businesses they may be performed by one person, but larger businesses have specialised persons and departments to perform the same work. All the functions are necessary for the business to perform profitably. You discussed each one of these functions very briefly :

*Marketing -* all the activities required to dispose of the produced goods or services

*Human resources* – finding suitable people to perform work and compensating them

*Finance-* finding sources of finance and managing the flow of money through the organisation

*Administration*- takes care of all the recording to make accurate information available

*Public Relations* – making sure that the business projects a positive image of itself to society

*General Management* – an overseeing function of planning, organising, activating and control that ensures that all functions are performed well.

*Procurement* – takes care of buying all it needs, in the most efficient way

*Production* – ensures that raw materials are converted into finished products for sale.

*Risk Management*- reducing the possibility of the business facing losses

*Information Technology* – taking advantage of improved technology to suit business needs

**ASSESSMENT UNIT 1**

**Question 1.**

1.1. Which do you consider to be the most important business function and why? 4

1.2. What is meant by “online shopping” 6

1.3. How does technology assist customer support? Give three examples. 6

1.4. How does an insurance company assist in risk management? Name three insurance companies you are familiar with. 8

1.5. Distinguish between Public Relations and Advertising. 6

**Question 2**

From the descriptions below Column A, match the business function that is most closely being referred to in Column B . Write the letter and number only

e.g. K 4

|  |  |
| --- | --- |
| A | B |
| A. Bringing new goods to the attention of customers | 1. Human resources |
| 2. Marketing |
| B. Controlling all the activities of the enterprise | 3. Public relations |
| C. Investing monies inside and outside the business | 4. General management |
| D. Finding the right person for the job | 5. Procurement |
| E. Facilitate customer support | 6. Risk management |
| F. Reducing the possibility of loss | 7. Information technology |
| G. Buying at the right price | 8. Administration |
|  | 9. Finance |
|  | 10.Production |
|  |  |
|  |  |

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**UNIT 2**

**CSI : CORPORATE SOCIAL INVESTMENT**

**CSR : CORPORATE SOCIAL RESPONSIBILITY**

**Introduction:**

So far, and even hereafter, you will be focussing on the business as a means of earning an income, in other words you establish the business to make profit. This we refer to as the **profit principle.**

**CSR:** Where a business voluntarily ensures the well-being of the community and society

While this is true of all businesses, we will be focussing here, in this unit, on another important aspect of business which does not relate to profit, but rather to a the responsibility, *not to do wrong*, which we call **Corporate Social Responsibility**. This will then lead us to **Corporate Social Investment**

**CSI:** the commitment **(**financial**)** by business to ensure the CSR programme is realised.

After studying this section you will be able to:

2.1.1 Discuss the purpose and reasons for CSR/CSI Projects

2.1.2 Research one CSI project and evaluate the success or

otherwise.

**2.1.1 Corporate Social Responsibility**

This means that while the business is established to make profits for its founders, it has another responsibility and that is to maintain a balance between the economy and the environment and ensuring the well-being of communities.

Simply put this means that, in our business operations, we do not, for example, damage the environment. An example would be the damage caused to the natural habitat when land is excavated for the building of a hotel along the coastline.

Needs some theory on green economy.

How does a business achieve this?

* Manufacture *safe* products – this ensures that your product which they buy will not be harmful to their heath.
* Using labour from the surrounding areas – this will provide employment for the local residents.
* Investing in the well-being of the community by paying fair wages, developing skills and creating special projects (we will deal with this in the next section).
* Refrain from illegal practices like employing children, manufacturing illegal products etc.
* Making contribution to community projects
* Building facilities like schools and clinics

**Activity 3.1 Combine 3.1 and 3.2 into one activity**

1. List some illegal practices you are aware of

2. What can make a product unsafe? Give any two examples.

Can you think of other examples?

3. ~~How serious is the unemployment situation in this country? Not related to text above.~~

**Benefits of CSR:**

How does this exercise benefit a business? Because of the effort, businesses benefit as follows:

* It develops loyalty – the community will support the business because it can see the benefits of it being there

**Ethics:** professional, based on morality, that is, the *right and wrong* principle.

* It is easier to attract good quality staff
* It serves as a model of business **ethics**
* Promotes a “green environment”

How does the community benefit?

* Receives goods and services
* Benefits from sponsorships
* A “green” environment promotes health.

**2.1.2 Corporate Social Investment:**

In the previous section we dealt with the *responsibility* of businesses to conduct their business ethically. CSI on the other hand is the actual commitment**,** financially or otherwise to ensure that this does in fact happen.

Business can do this by investing:

* **Money** – for example a food manufacturer can donate food to a school; they can sponsor a special event like sports day
* **Skills** - a business can offer skills training and in this way promote entrepreneurship
* **Time** – staff can engage with communities in one of their projects, for example, cleaning up the environment.

What are the benefits of CSI?

* Improves business image
* Consumers are loyal to the business – improves profitability
* Helps in marketing
* Assists the community in one of the socio-economic ills like pollution
* There are tax advantages.

**Activity 3.2**

1. What do you understand by “green environment”?

2. Give two examples of “unethical” behaviour by business.

**2.1.3 Research a CSI project**

This is a practical exercise. You will need to consult your local newspapers or magazines or local business.

The purpose of this section is to find evidence of the previous discussions and to evaluate the success or not. Here you will have to be critical, that is, decide whether this project has achieved *what it intended to do*.

You could look at things like:

* How many people have benefitted from the effort?
* How has it helped in improving the skills of the community? To what extent has it improved their employability?
* Is there evidence of the green environment?
* What suggestions can you make to improve the situation?

Examine the case study below taken from **Nedbank sustainability review 2015**

Case Study – Nedbank. (Adapted)

**ENABLING SUSTAINABILITY THROUGH OUR**

**PRODUCTS AND SERVICES**

Responsible banking is a cornerstone of our sustainability commitment.

As such, we strive to design and deliver products and services that enable our clients to achieve the outcomes and objectives they desire, while at the same time respecting environmental limits and helping to meet societal needs.

**A  *Fair Share 2030 In Action***

***Long-term Goal***

Good educational outcomes are consistently being achieved.

***Deal description***

Proactive investment to meet the critical shortage of student housing in SA .Less than a fifth of the country’s approximately 580 000 tertiary-level students have access to quality accommodation within easy reach of our major universities and this impacts the student’s time and ability to study, which in turn impacts academic results.

Government estimates that it will cost about R147bn over the next 15 years to adequately address this student housing shortage. As part of its commitment to helping deliver quality education outcomes for all, Nedbank’s Property Finance Division partnered with a number of developers to focus on developing innovative solutions to the student housing shortage, including a set of lending criteria unique to this distinctive asset class. In 2015 loans amounting to more than R1,3bn were approved for student accommodation developments across the country at major universities.

***Enabling S.A. Farmers To Move To Solar***

***Long-term Goals***

■■ Atmospheric greenhouse gases are stabilised.

■■ Affordable access to modern energy services.

■■ Cobenefit: improved food security.

***Deal description***

Nedbank’s financing offer to help farmers implement renewable-energy projects in their agribusinesses. Escalating electricity costs and ongoing energy insecurity are making sustainable farming practices very difficult for SA farmers. As part of its ongoing partnership with, and support of, SA farmers, Nedbank introduced a commercial renewable-energy finance solution.

The 2015 offering included free energy audits and longer-than-usual payback periods. For some clients a 7% rebate from the French Development Agency was also secured. Farmers also receive the support of Nedbank Business Baking’s teams of regional agricultural specialists.

The offering has been very well received by Nedbank agriclients across SA and is proving effective in empowering farmers to green their operations, reduce the impact of annual energy increases and achieve some independence from the national grid.

**B A glimpse of their commitments:**

|  |  |  |
| --- | --- | --- |
| **CHANNEL** | **DESCRIPTION** | **INVESTMENT 2015** |
| Nedbank foundation | Long term cost to education, job creation and skills development | R32,5m |
| Eyethu Community Trust | Assistance to students of Higher education | R 21,3m |
| Private Wealth Foundation | Learnerships and entrepreneurial skills | R7m p.a |
| External Bursary fund | External Bursaries | R11,2 m to 111 students |
| Nedbank Business Units | Individual Business Units | 13,3m in 50 projects |
| Affinities Programme | Donations on behalf of clients | R44,9m |
| Staff Volunteerism | Offer skills towards helping others | Support estimated at 5,5m |

*Nedbank Group 2015 Sustainability Review*

**Activity 3.3**

Questions:

Examine the case study above.

1. Who is the Sponsor?

2. Examine the two initiatives chosen (Fair Share and SA Farmers). Who are the targets in each? What do you think of their efforts?

3. Examine the abbreviated list of initiatives listed in B above. Which one do you consider most valuable and why.

4. choose one company that you have been involved with (either as an employee or consumer) and:

4.1 give one example of the CSI projects they are involved in, such as the KFC ……………R2 project (YR get proper name, working without internet at the moment)>………..

4.2 Suggest at least TWO other projects they could tackle to become a more

* Environmentally friendly
* Socially conscious company

**SUMMARY OF LEARNING UNIT 2**

In this unit you learnt that there are other important aspects to a business other than making profit. This section focussed on the responsibility of business to ensure it is operating ethically and takes the environment into account in its quest for profits.

*Corporate social responsibility* described the obligation that businesses have to uplift the community in which they operate and thereby gain the loyalty of the public. They benefit from such exercises.

Corporate social investment describes the actual financial (or otherwise) commitment that businesses make to give effect to this responsibility. There are ways they can achieve this.

Thereafter you were encouraged to do some research on a project in your neighbourhood to see how the CSI exercise played out and whether they were successful.

**ASSESSMENT UNIT 2**

This is a practical exercise.

Find a CSI project that is active in your neighbourhood. Find out who the sponsors are and pay a visit to them. I like this idea, think we can really develop it into a great assessment.

From you own knowledge in this unit do an assessment of the project to identify the target beneficiaries. If possible interview the envisaged beneficiaries and get their input on how well the initiative is working. From your observations, you may be able to identify where the initiative is falling short.

If possible, have a discussion with the sponsors and inform them of your findings.

**UNIT 3: SPECIFIC BUSINESS FUNCTIONS**

**Introduction:**

You are already aware that there are *many* business functions. You have already dealt with this in Unit 1. We mentioned that we will be selecting and discussing some of these functions in detail . This does not mean that others are less important. They are ALL equally important and are necessary to support each other.

In this unit we will be looking at the following:

|  |
| --- |
| 3.1 Marketing *12 hours*  3.2 Human Resources *14 hours*  3.3 Accounting and Information Management *66 hours* |

**3.1 Marketing :**

After this section you will be able to:

3.1.1 Describe the 7 P,s of Marketing

3.1.2 Describe the Product Policy

3.1.3 Distinguish between types of consumer goods

* Convenience goods
* Select goods
* Specialty goods

3.1.4 Describe the purpose of packaging

3.1.5 Describe the types of packaging

3.1.6 List the requirements for good packaging

3.1.7 Describe the pricing policy

3.1.8 Describe the Distribution Policy

3.1.9 Discuss direct and indirect channels

* Reasons for indirect marketing
* Reasons for direct marketing
* Activities involved in marketing

3.1.10 Describe the trade mark policy

3.1.11 Discuss the importance of trade marks

3.1.12 Describe the requirements of a good trade mark

3.1.13 Describe the Promotion Policy (Marketing communication policy)

AIDA

* Ethics of advertising
* Advantages of advertising
* Activities involved in marketing
* The ASA – functions
* Advertising media

3.1.14 Explain:

* People
* Process
* Physical environment in the marketing process

**From Section 1 – see if it is needed here, not in CS there.**

While competition is encouraged, it still has to be fair and follow some rules. Here in South Africa we have two organisations that attend to this:

* The Competition Commission is able to intervene in disputes with regard to unfair competition.
* The Advertising Standards Authority of South Africa is the body that entertains complaints regarding advertisements that may be harmful or offensive to any group of people or a competitor. You will be studying this aspect later in Section 3 under Marketing.

**Rulings**  

Examples of Rulings



[NOV 2016](http://www.asasa.org.za/rulings/securityoutfitterssafetygear-lmunian-2016-4420f)

[SECURITY OUTFITTERS SAFETY GEAR /](http://www.asasa.org.za/rulings/securityoutfitterssafetygear-lmunian-2016-4420f)

[This ruling provides clarity on the practice of advertising VAT exclusive prices.](http://www.asasa.org.za/rulings/securityoutfitterssafetygear-lmunian-2016-4420f)

[Nov2016](http://www.asasa.org.za/rulings/bmw_fuelconsumption-v_demrugaram-2016-4806f)

[BMW FUEL CONSUMPTION /](http://www.asasa.org.za/rulings/bmw_fuelconsumption-v_demrugaram-2016-4806f)

[A discrepancy between claimed fuel consumption and actual fuel consumption gave rise to this dispute.](http://www.asasa.org.za/rulings/bmw_fuelconsumption-v_demrugaram-2016-4806f)

[Nov2016](http://www.asasa.org.za/rulings/isuzu-rubuluza-2016-4905f)

[ISUZU / 2016-4905F](http://www.asasa.org.za/rulings/isuzu-rubuluza-2016-4905f)

[This matter considers whether or not a fleeting scene depicts / encourages or condones a potentially unsafe practice.](http://www.asasa.org.za/rulings/isuzu-rubuluza-2016-4905f)

[Nov2016](http://www.asasa.org.za/rulings/unilever_originalrama_y-shaik_2016-4918f)

[UNILEVER ORIGINAL RAMA MARGARINE /](http://www.asasa.org.za/rulings/unilever_originalrama_y-shaik_2016-4918f)

[The complainant took issue with the reduction in fat on this product variant, arguing that this negated the reference to "original".](http://www.asasa.org.za/rulings/unilever_originalrama_y-shaik_2016-4918f)

[Nov2016](http://www.asasa.org.za/rulings/mtn-note4_jsteyn_2016-4794f)

[MTN SAMSUNG NOTE 4 /](http://www.asasa.org.za/rulings/mtn-note4_jsteyn_2016-4794f)

[The fact that the Samsung Note 4 did not have the CPU advertised gave rise to this dispute.](http://www.asasa.org.za/rulings/mtn-note4_jsteyn_2016-4794f)

***www.asasa.org.za/rulings/***

**Introduction:**

**Activities Involved in Marketing**

Marketing is the function that finally gets the produced goods/services to the customer.

In order to do this, a number of functions need to be performed. They are:

* ***Locating the customer*-** identifying who your target market is
* ***Standardisation and grading***- conforming to specifications ,  *grading* for agricultural products and *standardisation* for manufactured goods
* ***Storage -*** keeping the products until they are needed.
* ***Transport -*** transporting the goods to where they are needed
* ***Financing -*** sourcing funds to have the products marketed
* ***Insurance -*** ensuring products are safe from risks
* ***Buying and selling*** – sourcing raw materials for processing, or finished goods for resale.
* **Activity 3.4 I think the activities are important in theory (they give structure to the complexity of the marketing function) but are not directly in LO’s so don’t think we need activity on it.**

1. Distinguish between *standardisation* and *grading*. Give examples of each.

2. List any five types of risks. Are you able to distinguish between those that are insurable and those that are not insurable?

3. In the description above, for *buying and selling* , what does this tell you about the type of business we are dealing with?

**3.1.1 Marketing Policies:**

Previously, we used to discuss FOUR policies (four P’s). They were (and still are)

* Product policy
* Pricing policy
* Promotion Policy
* Place (Disribution) policy.

Now we have added another three P’s

* People
* Process
* Physical Evidence

**3.1.2 The Product policy:**

This policy describes exactly what is being produced by the business. It is either a product (physical product) like, for example *rice* or *furniture*, or it can be a service for example *medical services* of a doctor, *a motor mechanic* and so on.

**Activity 3.5**

In the table below, identify the most important product/ service you associate with each one:

~~The first one is one for you~~.i would turn this around………….. give them the product/service and let them state what the organisation is. Will make it more personal and connect with what they know and support in terms of businesses.

|  |  |  |
| --- | --- | --- |
| **Organisation** | **Goods** | **Services** |
| Joko | Tea |  |
| Standard Bank |  |  |
| Independent Newspapers |  |  |
| SABC |  |  |
| Parker |  |  |
| Mercer |  |  |
| Toyota |  |  |
| Levis |  |  |
| Laila’s Salon |  |  |
| Chanel |  |  |
| Samsung |  |  |
| Bata |  |  |
| Suncoast Cinemas |  |  |

The Product policy will detail other important aspects related to the product for example:

**3.1.3. Types of Consumer Goods’**

**Give definitions here and paragraph style for easier reading on each type, and then bulleting characteristics are fine. At end we can add some pics for more user friendly……. Section that the candidates cana really enjoy and identify with….**

We distinguish between the following types of goods:

* Convenience goods
* Shopping goods
* Speciality goods

**Convenience goods** are those goods that:

* Are usually low in price
* Can be purchased with little effort, without shopping around
* Have similar prices everywhere’
* Are easily available everywhere
* Several brand are usually available
* Can be purchased without the need for a sales assistant
* Consumers have a good knowledge of

**Activity 3.6 combine these three in pink highlight into one activity at the end of the section.**

Find an example of a **convenience good** in your home.

Look at the characteristics above and apply them to the product you have chosen.

**Shopping goods**.

* Consumers need to compare prices, quality, styles etc. before buying
* Consumers do not have sufficient knowledge of them- need a sales assistant to help
* These goods are bought after careful consideration
* Not as easily available as convenience goods
* Prices are higher than that of convenience goods

**Activity 3.7**

1. Find three examples of shopping goods

2. Match the description above to the goods you have chosen

**Speciality goods**:

* Products have unique characteristics
* Normally expensive
* Available at selected outlets only
* Consumers have their own preferences and will wait if necessary for them
* Consumers require much more information before buying
* Not purchased often

**Activity: 3.8**

1. List three speciality goods you have in your home

2. Match the descriptions above to the goods you have chosen.

**3.1.4 Packaging policy :** -

This refers to the choices you will be offering for example:

*Milk* may be purchased in bottles, (different sizes, like 2-litre, 1- litre, 500ml, 250 ml) in sachets, in carry packs , in plastic bottles and so on. .

*Coffee* can be obtained in bottles, (different sizes), packets, sachets and so on. .

Packaging plays an important part as it:

* Protects the product
* Supplies information on the use of the product
* Promotes the marketing of the product
* Makes the product reusable

**Activity 3.9 Combine the next three activities in blue highlight into one, but lets give pictures so it is more specific, not let them choose the product.**

~~Choose a product from home.~~maybe a tin of fruit juice??

Examine the product carefully and answer the following questions:

1. Does the packaging offer protection? Explain.

2. What information is supplied with the product on the usage? Does this help? Explain.

3. Is the package reusable? Explain. We can use examples like holding liquids, planting something, the tin can cars they make…………. And add some pics to illustrate.

4. In the previous topic you learnt about the “green economy”.

4.1 Is the packaging of this product recyclable?

4.2 Look at some of the alternate options for packaging, e.g. Tetrapacks (we may have to explain what this is??) Are they recyclable??

**3.1.5 Types of Packaging:**

We distinguish between the following types of packaging:

**Speciality packaging:**

* Packed in a special way to enhance the image
* Emphasizes certain characteristics of the product.

**Activity 3.10**

Take an item (example jewellery) and examine it carefully.yes ideal example

1. How does the packaging enhance the qualities of the product?

2. Which quality does it enhance?

**Packaging for double use:**

* The package can be used again for another use.
* Example : plastic containers for food items.

**Reusable packaging:**

* Can be used for the same purpose again
* Example – refills for spices, detergents

**Combination Packaging**

* Related articles are packed together
* Example : car wash shampoo and chamois and polish

**Kaleidoscope Packaging:**

* A theme is chosen
* The theme changes after a while
* Collectibles are enclosed in the product
* Examples: wild life cards, sports heroes, actors’ pictures in cereals

**Packaging for Immediate use:**

* Consumers can use the contents easily after opening it
* Examples – cold drink ; juice ( packaging with straw)

**3.1.6 Good Packaging:**

What are the requirements of good packaging?

* It must attract the customer
* It must be different from that of competitors
* It must suit the product
* It must suit the target market
* It must be strong enough for handling and storage
* It must be suitable for display purposes.

**Activity 3.11**

Choose one of the items targeted at children, for example, the breakfast cereal. Yes…..

1. Look at each one of the characteristics described above and comment on this product;lets give tick list so they don’t have to refer back, make it easier. Also give pics

2. To what extent does it satisfy the requirements of good packaging?

3. Can you suggest another type of packaging that could have been used?

4. Comment on the “green” benefits of both the original and suggested types of packaging.

**3.1.7 Pricing Policy**

A consumer will choose and buy a product depending on the value this product has for him/her. The product may be useful to the consumer, but if the price is not right, then it will not sell.

Price represents a compromise between the highest price that the manufacturer is asking and the lowest price that the consumer is willing to pay. Determining the correct price can be a difficult task since the business wants a price as *high* as possible, while the consumer wants the price as *low* as possible.

**Some simple pricing techniques:**

**Intro paragraph on why different strategies are used……….**

***Cost based pricing*** – is used when the cost price is used as a starting point and a mark-up (for example cost plus 40%) .. The 40% is the profit margin.

***Demand based Pricing*** – refers to determining the demand for the product at different prices.

***Competition based Pricing***- this takes into account the current prices of competing products.

Why is it important to take the ruling market price into account when determining prices?

**What influences Prices?**

**Intro paragraph on why different strategies are used……….**

***Consumers’ needs*-** if the price is right the consumer will buy. If it is too expensive, and the consumer can do without it, he will not buy it.

***Demand for the product-*** if the good is price sensitive, then it will present problems when trying to increase prices.

***Competition* –** if there are competing products, then it will make price adjustments difficult.

***Substitutes* –** if the product has substitutes, it will also make it difficult to change the price of it.

***Production and other costs* –** if the producer is to recover these costs, then it gives him little room especially if there are competing products.

***Type of market* –**this refers to the different types of markets for example –

* ***Free competition* –** many buyers and many sellers; both are involved in determining the final price
* ***Monopoly* –** where there is only one supplier and he will determine the price

**Note**: there are other types of markets in between these two extremes. We will not discuss this here, since you touched on it in Economics.

**Activity3.12:**

1. What factors influence price determination? Let me add pic here from Textbooks and let them add arrows……..

2. Distinguish between the types of pricing techniques. Give table for them to complete to make it easier.

3. What does “price sensitive” mean? Name two products and two services that you are price sensitive to?

**3.1.8 Distribution policy**

**Direct Channel:** Selling to the consumer yourself

**Indirect Channel:** Make use of intermediaries and middlemen

Businesses produce goods and services that are meant to reach the consumer. The path that these goods take to reach the consumer is referred to as the Distribution Channel.

Basically the manufacturer has to decide whether he would prefer direct distribution or indirect distribution.

**3.1.9 Distribution Channels:**

***Direct distribution*** refers to the channel where the goods go direct from the manufacturer to the consumer without passing through any middleman (wholesaler, retailer) or intermediaries.

**P R O D U C E R**

**C O N S U M E R**

***Indirect distribution****,* on the other hand, refers to the goods passing through middlemen before reaching the consumer.

**NOTE:**

**Middlemen**, that is wholesalers and retailers **buy** the goods and thereby accept the risk and ownership.

**Intermediaries**, in the other hand are, for example*, agents’ factors*, *brokers* who pass the goods on from the seller to the buyer for a fee (commission)

**P R O D U C E R**

**W H O L E S A L E R**

**C O N S U M E R**

**R E T A I L E R**

**Why would a producer choose *direct* marketing?**

**Intro paragraph before listing reasons………**

* Middlemen are unwilling to keep stock
* Their (middlemen) marketing efforts are not aggressive enough
* There is need for demonstration of the product (e.g. Fridges, Hi- Fi)
* Middlemen may not be able to provide other services like transport, storage etc.
* Middlemen may demand too high profit margins, and price goods too high.

**Why would a producer choose *indirect* marketing?**

**Intro paragraph before listing reasons………**

* ***Services:*** middlemen are able to provide many services that the producer may not be able to, for example advertising, warehousing, transport etc.
* ***Customer care:*** middlemen may be able to provide the customer with services like advice, repair services etc. which the manufacturer may not be able to do.
* ***Financial resources –*** small manufacturers may not be able to handle all the marketing functions as well as middlemen can
* ***Market position –*** if the market is scattered, it would not be advisable for the manufacturer to take on marketing.

**Activity 3.13 this is too theoretical, lets maybe do something that they can relate too….here we can use the “choose a product etc,” that we took out earlier…….. ie choose two products that you use, one that is direct and one indirect marketing……..**

1. What are the factors that influence indirect marketing?

2. Distinguish between middlemen and intermediaries.

**3.1.10 Trade Marks Policy**

A trade mark is a special mark (image), design, or value on manufactured goods that distinguishes it from other goods of competitors.

[](https://www.google.co.za/imgres?imgurl=http://www.yalelawtech.org/wp-content/uploads/tg4_logos_mcD.jpg&imgrefurl=http://www.yalelawtech.org/ip-in-the-digital-age/trademarks-galore%E2%84%A2/&docid=A0_FdkmAnaQTHM&tbnid=3HjGlYd19mZq_M:&w=228&h=203&hl=en&bih=541&biw=1093&ved=0ahUKEwjOq872v8POAhUpKMAKHUsJAg0QMwhRKBYwFg&iact=mrc&uact=8)[](http://www.google.co.za/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=0ahUKEwi9naaQwMPOAhXM0hoKHeijDSoQjRwIBw&url=http://www.brighthub.com/office/entrepreneurs/articles/37647.aspx&psig=AFQjCNHreH4ijZA7Wd2tmafUwqmyBQAhsw&ust=1471353197712124)[](https://www.google.co.za/imgres?imgurl=http://www.ideanav.co.za/wp-content/uploads/2014/11/Nike_trademark.png&imgrefurl=http://www.ideanav.co.za/trademark-registration/&docid=7741-fI_wy_qVM&tbnid=N1_1vDaDUfCkkM:&w=198&h=137&hl=en&bih=541&biw=1093&ved=0ahUKEwjOq872v8POAhUpKMAKHUsJAg0QMwhfKCQwJA&iact=mrc&uact=8)

**3.1.11 We use a trade mark because:**

* It makes it easy for the consumer to identify the product
* The manufacturer is easily identified
* It ensures a certain standard (quality)
* It makes sourcing spares and service easier
* It ensures that the manufacturer makes the best product.
* The manufacturer can use this mark for advertising
* It creates loyalty for consumers
* New products can easily be added to the range.

Here are some terms you should know:

* *Manufacturers trade mark* is created by the manufacturer e.g. Philips
* A *dealers* mark is created by the dealer e.g. Spar
* *Individual trade mark* – each product has its own mark e.g. beermaybe stay away from alcohol, could be sensitive issue.
* *Family mark* – all the products have the same mark – e.g. ~~Eveready~~

Trade marks are registered for protection under the Trademarks Act. (194 of 1993)

**Activity 3.14**

Take a product from the home.

Examine it thoroughly and decide to what extent the above (use of trade marks) is true.

**3.1.12 Requirements of a good Trade Mark**

When deciding on a trade mark for your business, keep the following in mind:

* It must be different from those of other manufacturers so that it stands out
* Must reflect the good points of a product – quality and usefulness
* Must have been accepted by the general public
* Must be able to adapt to packaging requirements
* Must use suitable language to remember and pronounce it

**3.1.13 Market Communication Policy (Promotion Policy)**

The benefits of a good product are of no use unless this can be communicated to the market. This is done through **market communication** which comprises the following:

|  |  |
| --- | --- |
| **Types of Promotion** | **Explanation** |
| Advertising | Communication through mass media, the firm will usually pay for this  type of communication. |
| Public Relations | Developing a positive relationship between the organisation  and the media and the public.  Good public relationships involves not only creating favourable publicity  through the media but also involves minimising the impact of negative situations. |
| Sales Promotion | Promotions designed to create a short term increase in sales.  Examples of sales promotion include  money off coupons, discount codes and "flash sales". |
| Personal Selling | Sales interaction between the firm's representative and a consumer on  a one to one basis. |
| Direct Mail (post and e-mail) | This involves sending marketing to a named individual or organisation.  Firms often buy lists of names, e-mails and postal addresses for this purpose.  This can be highly effective when the direct mail recipients are  within the firm's target market. |
| Internet Marketing | Placing adverts on internet pages through programmes such as Google's AdWords. |
| Social Media | Firms place daily messages on social media such as Facebook and Twitter  to keep customers interested in their organisation.  They may even run promotions, flash sales and discounts just for their  social media readers. |
| Sponsorship | An organisation or event is paid to use your branding and logos.  Sponsorship is commonly used in sporting events;  Player's clothing and stadiums will be covered in the firm's branding  Even the tournament may be named after the firm.  Although effective sponsorship requires a large audience you may get smaller firms  interested in local business sponsoring small events in their area e.g. school fairs. |

[**www.learnmarketing.net**](http://www.learnmarketing.net)

For our purposes, we shall concentrate on **Advertising:**

**The AIDA technique:**

For an advert to be successful it has to do the following: (AIDA)

* Attract **attention**
* Arouse **Interest**
* Create **Demand** for the product
* Lead to **Action** (buying)

**Insert pic.**

**Ethics of Advertising:**

There are simple rules to follow if you want to be ethical:

* Do not mislead consumers (false advertising)
* Do not make comparisons (pick out competitors by name)
* Do not offend - compete fairly
* Act responsibility
* Claim only what you can prove

**Advantages of advertising**

How do you benefit from advertising?

* Increase in sales could support mass production – reduces cost of production
* Satisfies needs of consumers
* Brings new goods to the attention of consumers
* Consumers are better informed – makes selling easier
* Competitors are aware of what is being offered- leads to product improvement.

**Activities involved in advertising:**

* ***Research*** – to find out the target market, competitors, product prices
* ***Budget –*** determine the budget for advertising and how it will be spent
* ***Medium*** – select the advertising medium – radio, TV, press magazine etc.
* ***Design*** the advert – use advertising practitioners if possible
* ***Launch*** the campaign

**Activity 3.15**

1. List the activities involved in advertising

2. How does advertising benefit consumers?

3. List the ethics of advertising.

**The ASASA (Advertising Standards Authority)add logo again.**

The Advertising Standards Authority of South Africa is an independent body set up by the marketing and communications industry. It ensures that its system for self- regulation works in the public interest. It enforces a Code of Advertising Practice, providing the basis for settling disputes within the industry or between advertisers and consumers.

If anyone has a complaint against any advertisement, for example it may be offending their religious beliefs or it may be offend a specific target group such as women or people that are short, then they are entitled to complain to the ASA, who will conduct an investigation, and act against the advertisers to have the advertisement withdrawn.

Link to recent issues that we used in section 1 ….. so nice as it is updated regularly.

**Activity 3.16**

* Do some research and identify at least three advertisements that were withdrawn in the last months because it was considered offensive. Identify the reasons why they were withdrawn. (we will have to give some examples here).
* The marketing teacher in me wants to do a practical exercise on Nando’s…………. maybe a short case study on how they get away with their cheeky adverts … it is just too good of an example not to make them aware of?????

**Where can I complain?**

Any person can lodge a complaint with the ASASA regarding the content of an advertisement. The ASASA will deal with complaints about advertising content but not with complaints about contractual matters or service standards.

**When do I complain?**

If a person believes that the content of an advertisement is untruthful, misleading or harmful in any way, a complaint may be lodged.



All complaints lodged with the ASASA must meet the following criteria:

* The complaint must be in writing.
* The identity of the complainant(s) must be disclosed.
* The contact details of the complainant(s) should be clearly stated.
* The grounds on which the complaint is based must be clearly stated.
* Where the complaint relates to advertising on broadcast media (e.g. television, radio or on cinema) information should be furnished on where and when the advertisement was screened / transmitted.
* Where signs, posters or any form of outdoor advertising is involved, the nature of the advertisement and the wording should be specified.
* When the complaint is about print advertising, the relevant advertisement should be attached.
* [***www.asasa.org.za***](http://www.asasa.org.za)

**Advertising Media**

The following types of media are common for advertising

* Newspapers
* Magazines
* Mail
* Radio
* Outdoor
* TV
* Internet
* Transit advertising
* Handbills

**Activity 3.17**

1. Look at the illustrations below.put pics in here so they don’t have to go back.

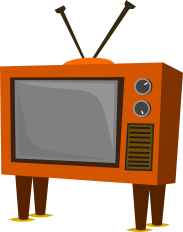
Identify the type of medium illustrated.

Suggest one advertisement that this medium can be used for.

2. What medium will you select for each of the following:

* A new cell phone
* A new shampoo
* Fresh fruit and vegetable specials at a local supermarket.

1. Advertising media that suit you as a consumer:
   1. Which advertising medium is the most effective to reach you as a consumer?
   2. Why is this?
   3. Name ONE product and ONE service that you have personally paid for recently where advertising influenced your decision.



***Source : professional academy.com***

**3.1.14 The extended 3 P’s: did we identify 4P’s to start with??**

In the late 70’s it was widely acknowledged by Marketers that the Marketing Mix should be updated. This led to the creation of the Extended Marketing Mix in 1981, which added 3 new elements to the 4 P’s Principle. This now allowed the extended Marketing Mix ***to include products that are services and not just physical things***.

* **People** – All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
* **Processes** –The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.
* **Physical Evidence** – Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example a hair salon would provide their client with a completed hairdo and an insurance company would give their customers some form of printed material. Even if the material is not physically printed, they are still receiving a “physical product” by this definition .



**3.2 Human Resource Function**

**From Section 1 3.3.2 as details not required there (unions not even mentioned although they should be.) Have just added short sentence.**

Trade unions represent workers in a dispute which is usually with management; this is obviously a problem to business as Trade Unions can influence workers to **strike**, or engage in a “go slow”, all of which are harmful to the smooth running of the business. Workers may have issues with the working conditions, salary or because of a colleague’s unfair dismissal. Whatever the cause, it leads to losses for both the business as well as workers. It is therefore important that the business maintains good relations with workers. You will learn more about this under the Human Resource Function in Section 3.

**Strike** refers to the situation where the worker withholds his labour, and refuses to work.

**Introduction:**

The Factors of Production that you studied in Section 1, are listed as:

* Natural resources
* Labour
* Capital
* Entrepreneurship

In this section we are focussing on the second factor above, that is, labour. Labour is the human contribution in the process of production of goods and services. I like the link back to this.

Finding the right person(s) to complete this function is the task of *Human Resources*, previously known as the *Personnel Function*.

This task is ongoing because:

* Workers leave for other jobs and create a vacancy which needs to be filled
* Workers are promoted and thereby create a vacancy
* Workers retire after reaching a certain age (65)
* Workers die while actively engaged in work

**In this section you will be studying the The Human Resource function, which includes (amongst others):**

* Recruitment
* Employee benefits
* Labour relations

**We must include at least a diagram with more aspects, this is too limited. Even though they will not study the detail, the must have some perspective on the complexity of it???**

**After studying this section you will be able to:**

3.2.1 Explain the importance of the Human Resource function

3.2.2 Explain the processes of:

* + - * Recruitment,
        + Sources (Internal and External)
        + Job analysis
      * Job specifications
      * Process:
        + Screening
        + Testing
        + Interviewing
        + Selecting
      * Selection
      * Placement
      * Interviews
        + How to prepare for an interview as the interviewer
        + How to prepare for an interview as the interviewee

3.2.3 Distinguish between different types of training

* + - * On the job
      * Mentoring
      * Job rotation
      * Institutions

3.2.4 Describe the purpose of a CV

3.2.5 Draw up a CV

3.2.6 Briefly discuss Employee Benefits

* + - * Remuneration
      * Other benefits
        + Pension
        + Medical
        + Travelling

3.2.7. Explain the nature and purpose of Labour Relations

3.2.8. Explain the functions of the trade unions

3.2.9 Discuss the future of labour unions

3.2.10 Briefly describe the purpose of the following Acts:

* + - * EEA (Employment equity)
      * COIDA (Compensation for Occupational Injuries and Diseases)
      * Skills Development Act
      * Basic Conditions of Employment Act (include catering for the disabled)
      * LRA (Labour Relations Act)
      * BBBEE (Broad Based Black Economic Empowerment )

**The employment process**

Job analysis

HR planning Job description

Job specification

Internal – promoting or transferring

Recruitment External – advertising, educational institution, employment agencies, referrals, head hunting

Application forms

Curriculum Vitae

Selection Short listing

Interviews

Employment contract

Induction

Placement

Development and training

Retention of skilled labour

***Guide to Business Studies Gr.12 : TESS panel.***

**3.2.1 The importance of the Human Resource function**

This function provides the human capital investment. The function can be summarized as follows:

* Recruitment - Finding the right person for the job
* Development - Training the person if necessary
* Maintenance - Compensating him with benefits (salary, and other benefits) so he remains with you.

**3.2.2 The Recruitment processes :**

* + - * + **Job analysis**
        + **Sources (Internal and External)**

**Recruitment** is the process of attracting suitably qualified and experienced people to fill vacancies in a business. In order to succeed with this task, we need to proceed as follows:

**Complete a job analysis-** this means get the *details* of the job like the *tasks* involves and the *skills* that are required to complete them. We describe them as follows:

**Job Description (about the job):**

* Details tasks, duties and responsibilities of the job
* The performance required for example ‘*capturing the data from ……’*
* The title attached to the job for example ‘*Shift Foreman’*

**Job specification (about the person):**

* Describes the person needed
* Qualifications required
* Skills and experience required

**Sources available:**

**Internal sources:**

Using people *from the organization* (who are already working for you)

Adverts are placed inside, for example on Notice Boards

This usually means promotions and transfers.

**External recruitment:**

This refers to recruiting people for outside the organization, those not as yet working for you. They can be obtained from various sources like recruitment agencies, educational institutions, referrals and so on.

**Activity 3.18 include this in next practical activity, not as a separate one.**

1. What do you think are the advantages of internal recruitment?

2. What are the advantages of sourcing externally?

****

**The Recruitment Process:**

**Screening**

When the job vacancy is advertised, applicants are invited to apply for the vacancy and submit supporting documents with it.

Some of the documents required are:

* Completed application form
* CV (Curriculum Vitae *see ~~later 3.2.4~~* )
* Work experience references
* Any references from previous employers, colleagues, educators etc.
* Certified copy of educational qualifications
* Certified copy of ID
* Proof of residence
* Any other proof specific to the industry e.g. membership to a professional body, trade union membership etc.

From all the applications received, a screening process is conducted where those applicants who do not meet the minimum criteria are eliminated.

**Testing**

Sometimes the applicant may be required to write a test. These are usually competence tests that will test the applicant’s knowledge of the subject/ work situation and ability to deal with possible challenges should they arise. Other tests may be included for example, intelligence tests, personality test etc.

*Achievement Tests:*   
These are proficiency tests to measure one’s skill or acquired knowledge. The paper and pencil tests seek to test a person’s knowledge about a particular subject. But there is no guarantee that a person who knows most also performs the best. Work sample tests or performance tests using actual task and working conditions provide measures to assess ability. Work sample tests are most appropriate for testing abilities in such skills as typing, stenography and technical trades.   
  
*PIP Tests:*   
PIP tests are those which measure one’s personality, interests and preferences. These tests are designed to understand the relationship between any one of these and certain

jobs.

[*www.chrmglobal.com*](http://www.chrmglobal.com)

**Interviewing**

From the CV’s and/or application forms submitted as well as the results of these tests, possible candidates are identified. They will be informed of their being shortlisted and be invited to an interview.

Interviews are held so that one can meet the prospective employee face to face and interact with him, rather than relying on all the written evidence submitted by him so far. This is an opportunity for the applicant to find out more about the job and the people he will be working for and with.

Some simple rules for the interview:

Tips for the applicant:

* Do not be late for the interview
* Dress appropriately, be courteous and professional
* Switch off cell phones before the interview
* Thank the interviewer for the interview opportunity
* Do your research about the company – about their activities
* Answer the questions concisely and honestly within reasonable time. Sell yourself but not oversell
* Ask for clarification if you are not sure of the question
* Be positive; do not focus on the negatives of the present job.
* Prepare a few success stories beforehand and use them if the opportunity arises.
* Do not show any frustration during the interview
* Ask questions relative to the job; this will indicate your thorough knowledge of the job requirements.

The interviewer should:

* Choose a suitable venue away from distractions
* Explain the format the interview will take
* Mention how long the interview should take
* Keep the questions in context
* Avoid questions that are not permitted e.g. religion, disabilities etc.
* Not become agitated; remain professional.

***wwwmanagementhelp.org***

**Selection**

Depending on the level of the position in question, interviews are either conducted on a one-on-one basis, or by a panel. For more senior appointments, each member of the panel will be scoring (rating) a candidate according to a rating scale, previously decided on by the members of the panel.

By comparing the scores, the panel comes to an agreement of a score for each candidate.

At the end of the interview, the best candidate is chosen – the one who obtained the highest score. It is important to keep the scores in order that is the first second and third at least. This is done in case the chosen candidate decides, later on, to decline the appointment.

**Appointment letter:**

The successful candidate is informed of his success with his application and confirmed in writing with a letter of appointment. The unsuccessful candidates are also informed of the outcome. A position is only legally filled once both the employer and employee have signed the

**Placement and Induction:**    
Placement refers to giving the applicant responsibilities that identifies him with a particular job. If the person adjusts to the job and continues to perform per expectations, it means that the candidate is properly placed. However, if the candidate is seen to have problems in adjusting himself to the job, the supervisor must find out whether the person is properly placed according to his aptitude. Usually, placement problems arise out of wrong selection or improper placement or both. Organisations need to review cases of employees performing below expectation and employee related problems such as absenteeism, accidents etc., and assess how far they are related to wrong placement.   
  
**Induction:**   
Induction refers to the introduction of a person to the job and the organisation. The purpose is to make the employee feel at home and develop a sense of pride in the organisation and commitment to the job.   
The Induction training during the first few weeks after a person joins service in the organisation is to:

* + introduce him to his new colleagues
  + make him aware of the companies policies
  + answer any questions/ doubts that he many have
  + check to see if he needs further help.

wwwchrm.global.com

**Activity 3.20**

1. List the steps in recruitmentmaybe diagram to complete steps……..??

2. Explain the tests involved in the process more practical………… maybe give some examples and let them identify types of tests required???

**link the following with next activity and personalize to own interview and CV>**

3. Draw up a set of rules for your interview (as interviewee) too copy and paste from theory………. Let them identify a specific job and apply to make it more personal………..

4. Explain the term CV. What items would you include in a CV. Also too theoretical…….. maybe apply to personal situation……….. compare your current CV to list, which items are missing, can you add etc.????????/

**3.2.3 Distinguish between different types of training**

**On-The-Job Training**

Jumping right into work from day one can sometimes be the most effective type of training.

On-the-job training gives employees motivation to start the job. Some people learn more efficiently if they learn hands-on, rather than listening to an instructor. However, this method might not be for everyone, as it could be very stressful.

Here are a few examples of on-the-job training:

* Read the manual - a rather boring, but thorough way of gaining knowledge of about a task.
* A combination of observation, explanation and practice.
* Trainers go through the job description to explain duties and answer questions.

.**Example:** New trucking employees could ride with experienced drivers. They could ask questions about truck weigh stations, proper highway speeds, picking up hitchhikers, or any other issues that may arise.

**Coaching/Mentoring**

Coaching/mentoring gives employees a chance to receive training one-on-one from an experienced professional. This usually takes place after another more formal process has taken place to expand on what trainees have already learned.

Here are three examples of coaching/mentoring:

* Hire professional coaches for managers
* Set up a formal mentoring program between senior and junior managers
* Encourage the more experienced employees to coach the less experienced.

Coaching/mentoring gives trainees the chance to ask questions and receive thorough and honest answers - something they might not receive in a classroom with a group of people.

**Example:** Again, truck drivers could gain valuable knowledge from more experienced drivers using this method.

**Lectures**

Lectures usually take place in a classroom-format.

It seems the only advantage to a lecture is the ability to get a huge amount of information to a lot of people in a short amount of time. It has been said to be the least effective of all training methods. In many cases, lectures contain no form of interaction from the trainer to the trainee and can be quite boring. Studies show that people only retain 20 percent of what they are taught in a lecture.

**Example:** Truck drivers could receive lectures on issues such as company policies and safety.

**Group Discussions & Tutorials**

These most likely take place in a classroom where a group of people discuss issues.

For example, if an unfamiliar program is to be implemented, a group discussion on the new program would allow employees to ask questions and provide ideas on how the program would work best.

A better form of training than lectures, it allows all trainees to discuss issues concerning the new program. It also enables every attendee to voice different ideas and bounce them off one another.

**Example:** Truck drivers could have group discussions and tutorials on safety issues they face on the road. This is a good way to gain feedback and suggestions from other drivers.

**Role Playing**

Role playing allows employees to act out issues that could occur in the workplace. Key skills often touched upon are negotiating and teamwork.

A role play could take place between two people simulating an issue that could arise in the workplace. This could occur with a group of people split into pairs, or whereby two people role play in front of the classroom.

Role playing can be effective in connecting theory and practice, but may not be popular with people who don´t feel comfortable performing in front of a group of people.

**Example:** Truck drivers could role play an issue such as a large line-up of trucks is found at the weighing station and one driver tells another that he might as well go ahead and skip the whole thing. Or role play a driver who gets pulled over by a police officer and doesn´t agree with the speeding charge.

**Outdoor Training**

A nice break from regular classroom or computer-based training, the usual purpose of outdoor training is to develop teamwork skills.

Some examples include:

* Wilderness or adventure training - participants live outdoors and engage in activities like white water rafting, sailing, and mountain climbing.

Outgoing and active participants may get the most out of this form of training

**Job rotation**

Job rotation is a well-planned practice to reduce the boredom of doing same type of job everyday and explore the hidden potential of an employee. The process serves the purpose of both the management and the employees. It helps management in discovering the talent of employees and determining what he or she is best at. On the other hand, it gives an individual a chance to explore his or her own interests and gain experience in different fields or operations.

### Job Rotation Objectives

* Reducing Monotony of the Job:

The first and foremost objective of job rotation is to reduce the monotony and repetitiveness involved in a job. It allows employees to experience different type of jobs and motivates them to perform well at each stage of job replacement.

* Succession Planning

The main function of job rotation is to develop a pool of employees who can be placed at a senior level when someone gets retired or leaves the organization. The idea is to create an immediate replacement of a high-worth employee from within the organization.

* Creating Right-Employee Job Fit:

The success of an organization depends on the on-job productivity of its employees. If they’re rightly placed, they will be able to give the maximum output. In case, they are not assigned the job that they are good at, it creates a real big problem for both employee as well as organization. Therefore, fitting a right person in right vacancy is one of the main objectives of job rotation.

* Exposing Workers to All Verticals of the Company:

Another function of job rotation process is to exposing workers to all operations of the organization in order to make them aware how company operates and how tasks are performed. It gives them a chance to understand the working of the organization and different issues that crop up while working.

* Testing Employee Skills and Competencies:

Testing and analyzing employee skills and competencies and then assigning them the work that they excel at is one of the major functions of job rotation process. It is done by moving them to different jobs and assignments and determining their aptitude. Placing them *what they are best* *at* increases their on-job productivity.

* Developing a Wider Range of Work Experience: Employees, usually don’t want to change their area of operations. Once they start performing a specific task, they don’t want to shift from their comfort zone. Through job rotation, managers prepare them in advance to have a wider range of work experience and develop different skills and competencies Along with this, they understand the problems of various departments and try to adjust or adapt accordingly.

***wwwmanagementstudyguide.com***

**Institutions:**

There are a number of institutions offering training in a variety of fields.

A list of thee institutions can be found at:

[*www.rainbownation.com/directiry/index*](http://www.rainbownation.com/directiry/index)

**3.2.4 The Curriculum Vitae (CV).**

What is a Curriculum Vitae?

Curriculum Vitae (CV) is a document submitted by the applicant that includes the applicants’ details, educational qualification, work experience, interests, hobbies, achievements and references.]

**3.2.5 How to write a CV**

You want your CV to show your potential employer the skills and experience you can offer them to improve their organisation. To do that, you need to include the right information

**Your CV Checklist link with next activity and personal CV as part of a checklist…….. I like this………..ie do you have…………….???**

When looking at the best possible employee’s CV lookout for the following:

You are looking for ‘no’ answers to these questions:

* Are there any unexplained gaps in the work history?
* Are there spelling or grammar mistakes on the CV?

You are looking for ‘yes’ answers to these:

* Are there references for all of their previous employers?
* Do they have the relevant qualifications?
* Has the person stayed at the majority of their jobs for more than two years?
* Is this a logical career move for the jobseeker?
* Is the CV well organised and informative?

If there are too many answers that don’t fit then discard the CV.

***Guide to Business Studies : TESS Panel 2008.***

Your CV should include the following information

[Your personal details](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink)

[A personal statement](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-1)

[Details of your education and training](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-2)

[Details of your employment history](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-3)

[Any additional skills you offer](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-4)

[Relevant personal interests](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-5)

[Professional references](http://www.office-angels.com/help-and-advice/news-and-opinion/blogs/cv-writing-guide.aspx#quicklink-6)

**Personal details**

* Name
* Address
* Telephones
* E mail address
* Marital status
* Children
* Drivers licence code

Make sure the address, telephone number, and email address you provide are up to date Make sure your name is spelt correctly, and that your email address is appropriately professional.

If you’ve got a website that will add extra value, then include that as well.

**Education and training**

In this section, you need to include any relevant education or training you have achieved at this point in your career.

The detail you go into for each point will depend on your level of education, and the relevance of each level to the position.

For example, if you’ve just graduated from university, include a description of your degree and the skills it helped you develop – remembering to keep it relevant to the job you’re applying for.

Below that, you should still include your results, but just as a brief list of your grades.

For this section, you should include your education information in reverse chronological order – i.e. putting your most recent qualifications first.

**Employment training and experience**

Next, you need to include your work experience, beginning with your most recent position. When writing your employment history, bear in mind the following:

* Include the job title, company name, start and finish dates as headings
* List relevant responsibilities and achievements, using concrete examples relevant to the job description to back up your points
* Explain any gaps in employment –show your employer what you were doing with that time, for example travelling might have allowed you to learn new languages, or volunteering may have given you a new set of skills

**Additional skills**

There are plenty of skills we develop outside of work that can help us in our jobs.

In this section of your CV, include anything that you think will help you in the role you are applying for.

For example:

* Foreign languages
* Technological skills – e.g. experience with specific software
* Driving licence
* Vocational training

**Interests**

Next, include any interests you have that will be relevant to the position.

Don’t go overboard here – stick to hobbies and interests that give an employer who you are, but avoid completely irrelevant information that won’t make a positive difference to your application.

However, don’t be afraid to think out of the box: you might be surprised what your hobbies say about you.

For example, if you’re a member of an amateur dramatics society, that will show your potential employer that you’re confident, a good public speaker and comfortable around other people.

**Personal statement**

Your personal statement is your chance to sell yourself. These three or four lines are your opportunity to grab your potential employer’s attention and make them want to find out more about you.

Our top tips for creating a powerful personal statement are as follows:

* Keep it simple
* Tailor it for each job you are applying for – for example, “Proficient user of Microsoft Word and advanced user of Microsoft Excel” will be applicable to most office jobs, while this might not be as important for a field sales position
* Always write it yourself – and read it out loud to check it reads well
* Avoid clichés that don’t mean anything – for example, “I have a thirst for knowledge”
* Summarise who you are, your education, the relevant skills and experience you can offer your potential employer, plus your career goals – all in less than 200 words

**Here’s an example of a good personal statement:**

“I am a highly organised Business Management graduate and excellent communicator with two years’ experience in the marketing industry. Looking to build upon the specific marketing and valuable transferable skills I have developed, I hope to continue to pursue a career in this fast-paced sector.”

**References**

Finally, finish your CV off with at least two references, (be aware that some employers may ask for more). Include their name, job title, company, company address, telephone number and email address.

Make sure one of these references is your current or most recent employer.

***www.office-angels.com***

A **CV** is more detailed than a **resume**. A resume focuses primarily on work experience.

Now that you know what to include in a CV, are there any items you should **not** include?

* Private information – like religious beliefs or sexual orientation
* Self praising statements
* Reasons for leaving present job
* Colourful text and decorative font.
* Language/grammar errors

**Activity 3.21 include this is last activity of checking/drawing up own CV>**

1. Assume you are applying for any one of the following jobs:maybe rather a list of skills and jobs to match………. Matching column or complete the sentence…………….

* ~~A clerk in a bank~~
* ~~A clerk in a fashion boutique~~
* ~~A clerk in a travel agency.~~

How do you think the skills required for these jobs differ?then this as an application questions afterwards………..

2. Draw up you own CV.see previous comment, more integrated activity.

**3.2.6 Employee Benefits I think this is important section, needs more detail as it could really benefit them to understand their own situations.**

**Remuneration**

Remuneration is one of the main factors that will influence a worker to remain with the organization. If this is not attractive enough, he will easily be persuaded to leave the organization and find work elsewhere.

The following are types of remuneration:

*Direct:* the salary you receive

*Indirect:* the fringe benefits you receive like *pension fund, housing, medical aid* and other.

Can you think of other benefits beside those mentioned above?

**Salary** is a fixed amount of money or compensation paid to an employee by an employer in return for work performed. Salary is commonly paid in fixed intervals, for example, monthly payments of one-twelfth of the annual salary.

**Annual salary:** when salaries are disclosed in a job advertisement, it is usually indicated as an **annual salary**. This figure is divided by twelve to obtain the monthly salary.

Find an advertisement to confirm this.

An employee who is paid monthly receivesa **salary,** while one paid weekly is paid a **wage**.

Employees are paid according to different systems:

**Time wages:**

Workers are paid for the time they spend of the job and not according to what they complete.

**Piece work :**

Here the employee is paid for every *piece* he completes. The more pieces he completes, the more he will earn.

**Gross salary/wage and Net salary/wage:**

The amount a worker takes home (take home pay) is less than the wage he is promised. This is because deductions are made from his gross , and he receives the balance.

**Activity 3.22much too higher order for the target market.**

1~~. Supply suitable figures to complete the calculations below:~~

~~Gross salary~~ **~~12 000~~**

~~Less:~~

~~PAYE xxx~~

~~Pension fund contributions xxx~~

~~Medical aid xxx~~

~~Union fees xxx~~

~~Net salary ???~~

~~2. What formula can you derive from this?~~

**Other benefits**

**Pension**

This is a saving for the time when the employee will retire and stop earning. Regular deductions are made from the employees salary and invested. The employer also contributes to the deduction according to a percentage.

When the employee retires, the money is paid usually in a lump sum (1/3 for pension funds) and the balance in monthly instalments.

Employees who retire usually take their benefits or they can transfer it to another fund.

*:* ***wwwinvestopedia.com***

**Medical Aid**

Most businesses operate a medical scheme. Employees pay an amount each month (subscriptions) to be part of the scheme. Contributions will determine the benefits the member will receive. He will determine this according to his family circumstances. Contributions will be determined according to the number of members, that is the main member and the dependents. Benefits are paid according to certain rules

.

**Activity 3.23**

1. Who are “dependents?”

2. Can you name three medical schemes?

3. Would you recommend joining a medical scheme? Motivate your answer.

**Travelling**

Sometimes employees receive a travelling allowance especially if they use their transport to perform work for the business. The employee must maintain a log book to record all the details especially for tax purposes.

Employees are usually paid a rate (X cents per km.)

**3.2.7. Labour Relations**

The term labour relations, (also known as industrial relations,) refers to the system in which employers, workers and their representatives and, directly or indirectly, the government interact to set the ground rules for the governance of work relationships.

A labour relations system reflects the interaction between the main actors in it: the state, the employer (or employers or an employers’ association), trade unions and employees (who may participate or not in unions and other bodies affording workers’ representation).

The phrases “labour relations” and “industrial relations” are also used in connection with various forms of workers’ participation. There is some variation in the use of the terms, and this reflects the changing nature of the field over time and place.

The field includes

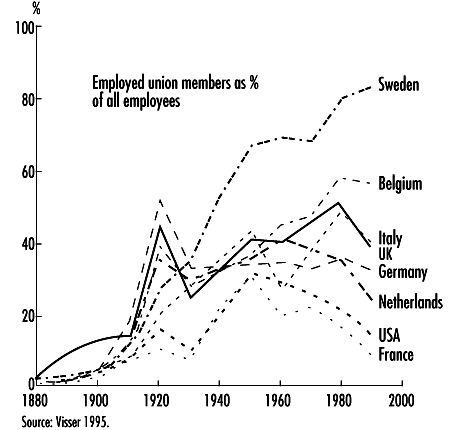
Exploitation : taking advantage of a situation ; in this case of the worker by not giving him what he deserves.

* collective bargaining,
* various forms of workers’ participation (such as workplace forums, and joint health and safety committees)
* mechanisms for resolving disputes.

The employer has a duty to pay fair remuneration and to provide acceptable working conditions. If this is the case then good labour relations exist. However, when there is exploitation, than employees need to protect themselves. They do this by joining a labour union.

~~A labour union~~ (trade union) is n association of employees in a particular industry ( for example the leather workers) paid for, and controlled by members, to represent them at negotiations with the empower. This implies there is an issue on which the employer and employee disagree. This disagreement is called a **grievance.**

Grievance :The cause of a complaint; usually following a feeling of being treated unfairly



Source : Visser 1995

**Some related terms:**

**Strike:** a strike describes the situation where workers refuse to work. According to the Labour relations Act, every employee has the right to strike. A strike is called to:

* Force an employer to agree to demands (usually wage or working conditions)
* Force employers to reinstate a dismissed worker
* Force an employer not to implement an unpopular decision.

**Lock out:**

A lock out occurs when the employer locks workers out of the work area. This is done during a strike to ensure the safety of the premises as well as the equipment.

**Go Slow:**

This is the action taken by employees where they work as slowly as possible to reduce the production output. This is also industrial action taken when there is a dispute between the employer and employees.

**3.2.8 Labour unions:**

**The Nature and Purpose of Labour Unions.**

South Africa’slabour laws have been influences by the struggle against apartheid and the unequal treatment of workers as a result.There are laws passedto correct the imbalances of the past and to restore the dignity of the previously disadvantaged groups. . We shall be studying only some of these laws later.

Labour unions represent the voice of the employees during negotiations; they are the channel of communication bringing to the attention of employers their concerns and disagreements on various matters that affect them directly. It ensures that all workers are included in the negotiation process, and that they are treated fairly and justly.

**The functions of a labour union.**

A labour union performs the following functions:

* Inform employees about their rights
* Act as an employee representative during collective bargaining.
* Negotiate on behalf of the workers for better wages, or better working conditions or some additional benefit, for example medical aid.
* Reduce favouritism or abuse or unfair discrimination in the workplace.
* Seek legal assistance on behalf of the employees

**3.2. 9 The Future of Labour Unions.**

**Activity 3.26needs more scaffolding but important one to keep………**

Now read one of the recent reports on the ~~petrol~~ strikes, below and answer the questions:

1. What was the name of the trade union?

2. What was the issue at stake?

3. What was the final outcome?

4. What is your opinion on the action of the trade union?



[insert article ] reinsert.

**C:\Program Files (x86)\Microsoft Office\MEDIA\CAGCAT10\j0300840.wmf3.2.10 Some Labour Laws:**

**Needs good introduction on importance and the implications for individuals…….**

We will be briefly looking at the following Acts:

1. **Employment equity**
2. **Compensation for Occupational Injuries and Diseases**
3. **Skills development**
4. **Basic Conditions of employment (and disabled)**
5. **Labour Relations**
6. **BBBEE (Broad Based Black Economic Empowerment)**

**wording in this section must be a lot more accessible, not quoted. So important for them to understand but must be scaffolded.**

**Employment Equity:**

**The Employment Equity Act 55 of 1998**

**Key guiding principles (source : *www.saflii.org.za*)**

* Human rights and the respect for inherent dignity;
* Independence and autonomy of individuals;
* Non-discrimination;
* Effective participation and inclusion in society;
* Respect for difference and diversity;
* Equality of opportunity; including equitable representation;
* Accessibility;
* Gender equality;
* Mainstreaming; and
* Health and safety.

The act requires businesses to employ people from all race groups in South Africa.

This is done by:

* Ensuring that all people are aware of vacancies
* Requirements for the job must be reasonable
* Education, training and work experience should inform the choice of applicant.

Some important aspects covered by the act include:

* The establishment of the EE Commission (from 14 May 1999)

**Affirmative action:**

Policy to address past discrimination through measures to promote equal opportunity.

* Policy must accommodate persons with disabilities
* Skills and abilities must be clearly described
* Unfair discrimination muse be eliminated
* There must be an Employment Equity plan
* Employers must take **affirmative action** measures
* Medical testing is generally prohibited unless justifiable
* Psychometric testing must be valid and reliable and not biased
* Dispute resolution procedure to be followed
* Record of employment equity plan must be kept and monitored
* Enforcing legal procedures.

**Compensation for Occupational Injuries and Diseases Act**

Note: This act was as previously known as the *Workmen’s’ Compensation Act.*

This act requires employers to pay compensation to employees who suffer disability as a result of occupational injury.

Employers contribute to the fund which is controlled by the commissioner. It covers temporary disability like fractures, or permanent disability

**Some of the important provisions contained in the Act are:**

The Compensation Board and its functions

The Commissioner and his powers

Compensation:

* Rights of employees
* Accidents
* Liability for compensation

Claims

* Notice of Accidents
* Lodging claims

Calculation of Compensation:

* Total and partial disability
* Provisional settlements

Occupational diseases

Advisory panels

Medical aid

First Aid

Medical expenses

Employers obligations:

* Keep records
* Submit returns
* Employers contributions

Legal Procedures

**Skills development**

**(Skills Development Act 97 of 1998 and amendments )**

Purpose of the Act:

* Improve the quality of labour
* Improve productivity in the workplace
* Promote self employment
* Invest i education and training
* Employers are encouraged to:
  + Us the workplace as a learning environment
  + Provide opportunities for learning new skills
  + Allow new workers to gain experience
* Encourage participation in learnership programmes and
* Improve prospects of previously disadvantages groups , work seekers, retrenched workers

This is achieved by:

* Establishing the National Skills Authority, Skills Development Fund, Skills Development levy
* Establishing SETAS
* Developing a Skills Development Plan

National Skills Authority :

* Advises the minister on skills development strategy
* Allocates subsidies
* Advises on regulations needed

SETAS: (Sectoral Education and Training Authorities )

* SETA’S are established for specific industries e.g. Education, Insurance etc.
* They develop and implement a skills development plan
* Identify workplaces and assist in the implementation of the plan
* Promote learnerships ; register learnership agreements
* Liaise with National Skills Authority
* Apply for accreditation from the SAQA
* Allocate grants
* Monitor education and training

A SETA receives its funding from 80% of skills development levies, grants and donations.

Learnership Agreements

* This is an agreement entered into by the learner, employer and a training service provider.
* The learner is employed for a specific period
* He obtains work experience
* He also attends education and training sessions.

Skills Programmes:

* These are provided by skills providers
* On completion, a credit is obtained towards a qualification
* The skills provider may apply for a grant.

The institutions involved in this exercise are the Skills Development Planning Unit and Labour Centres.

The National Skills Fund is strictly controlled and the Director General is the accounting Officer. Proper records are kept.

**Basic Conditions of Employment Act**

This act protects employees against unfair labour practices or exploitation. It lays down the minimum conditions of employment.

A brief summary of the Act:

**Working time:**

*Normal time:*

* 45 hours per week
* 9 hours in a 5 day working week
* 8 hours in a week more than 5 days

*Overtime:*

* 3 hours in any one day or 10 hours in any one week
* Paid at 1.5 time normal wage.

*Meal breaks*

* 60 minutes after 5 hours of work

*Sunday work:*

* Worker must get double pay for Sunday work

**Leave:**

* Workers are entitled to 21 days continuous annual leave

*Sick Leave :*

* Workers are entitled to six weeks in a 36 month cycle
* Medical certificate required for more than two days sick leave

*Family responsibility Leave:*

* 3 days per year on request
* Taken when a child is born, or sick
* Death of spouse, parent, grandparent, grandchild
* Female workers are entitled to 4 months maternity leave

*Worker Particulars:*

* Job Information records need to be kept (workers details, payments payslip information approved deductions

*Termination*

* Notice must be given as follows:
  + 1 week if the worker is working for less than 4 weeks
  + 2 weeks if the worker is working for up to a year
  + 4 weeks of the worker is working for more than one year.
* Notices must be in writing.

*Severance Pay:*

* Paid to a dismissed worker
* Calculated at 1 week for every year of continuous service.
* Certificate of service must be issued on termination.

**Child labour:**

* It is illegal to employ children less than 15 years
* Children less than 18 years may not do dangerous work
* It is against the law to force someone to work.

**Variations:**

Variations are allowed by collective agreements as long as it does not:

* Lower the employee protection
* Lower annual leave
* Lower maternity leave
* Lower sick leave
* Allow child labour

**Sectoral determinations:**

These may be made for workers in a particular sector.

**Monitoring and Legal Proceedings:**

* Labour inspectors inform workers and employers of their rights
* Inspectors investigate complaints and inspect records
* The decisions can be challenged in a court of law.

**Catering for the Disabled.**

**Introduction**

People with disabilities, like the majority of people in this country during the apartheid era, were denied fundamental human rights. However, people with disabilities as a group experience further discrimination on the basis of their disability. Changing this means that society as a whole needs to change its attitudes towards disabled people both at an individual and systemic level.

People with disabilities are marginalised and excluded from many aspects of life. Under the new Constitution, people with disabilities are entitled to substantive equality, which includes the right to corrective (affirmative) action to overcome the effects of past discrimination.

Equality and dignity are enshrined in the Constitution. However, in order for this to happen, legislation needs to be enacted and sometimes amended

**Legislation**

There is, at present, no coherent or comprehensive legislation pertaining to people with disabilities and their rights.

One of the legacies of apartheid is an inheritance of many pieces of fragmented legislation. It has also not been possible to use the common law to promote the rights of disabled people.

Legislation, if correctly administered, can be used to promote the rights of people with disabilities. It provides an important reference point for redress and offers enforceable support.

Legislation must be based on the principles enshrined in the Constitution. It must ensure equality, non-discrimination and protection for people with disabilities. Existing legislation must be scrutinised for compliance with the constitutional principles.

Hence, all new and amended legislation should not only aim at ending discrimination faced by many disabled people, but should also promote the fundamental rights enshrined in the Constitution.

**Mechanisms**  
All legislation should be framed within the context of the agreed policy objectives relating to disability. In line with these objectives, it should:

* involve the disabled sector in discussions with regard to proposed legislation, and
* seek inter-sectoral co-operation amongst all public and private sector stakeholders.

**Scope**

Particular groups include:

1. Women and girls with, particularly, intellectual disabilities;
2. Disabled elderly people;
3. Disabled women and rural disabled persons in the workplace;
4. Abused children in institutes for disabled children;
5. Parents with disabled children;
6. Disability groups with specific needs.

**South African Human Rights Commission (SAHRC)**

The SAHRC, in terms of its mandate, is the body responsible for the monitoring of human rights violations in South Africa.

**Progress to Date**

**Office on The Status of Disabled Persons, Office of The Deputy President** An Office on the Status of Disabled Persons was established as a directorate in the Office of the Deputy President in June 1997.

**Some other government and parastatal initiatives include:**

* **Commission on gender equality -** An important first step has been taken in highlighting and redressing the problems faced by women with disabilities through the inclusion of a disabled woman on the Commission on Gender Equality.
* **Department Of Health: Rehabilitation Policy** The Department of Health has established a Technical Committee on Rehabilitation Policy whose purpose is to work with all interested parties to develop a comprehensive policy on rehabilitation.
* **Department Of Labour: New Employment Services Division** The Department of Labour is restructuring traditional career guidance and placement services into a more coordinated New Employment Services Division. One of its many functions is to assist, among others, people with disabilities to acquire the basic capabilities required to take advantage of other support services: for example, to equip people with disabilities with interview skills, job search skills, time management, communication skills, etc.
* **Government Departments: Funding Allocations** The successful integration of people with disabilities in the mainstream of society is dependent on the optimal rehabilitation of people with disabilities. It is noted that very few departments make provision for specific disability related programmes. Those which do include the Departments of Health, Welfare and Population Development, Education, Labour, Environmental Affairs and Tourism, and Public Works.
* **People with mental and/or intellectual disabilities** The Declaration of Rights for Persons affected by Mental Handicap provide clear guidelines for the protection and promotion of the human rights of people with mental and/or intellectual disabilities.
* **The South African Human Rights Commission** The South African Humans Rights Commission has proposed a special unit to monitor human rights violations against people with disabilities. A disabled commissioner is appointed to the Commission.
* **South African Qualifications Authority** The South African Qualifications Authority includes a representative from the South African Federal Council on Disability.

***www.independent .org.***

**Labour Relations Act 86 0f 1995**

The relationship is between the state, employer and the employee. Relevant legislation is used to control these relationships, to ensure just treatment, no exploitation, or discrimination.

The purpose of the LRA:

* Give effect to international LRA requirements
* Promote employee participation
* Promote collective bargaining at the workplace
* Regulate the right to strike
* Provide procedures for the resolution of disputes
* Establish labour courts and labour appeal courts
* Amend/repeal certain laws relating to labour relations

**The LRA applies to everyone except:**

* National Defence force
* National Intelligence Agency
* SA Secret service

**The main sections deal with:**

**Freedom of Association :**

* Employees right to freedom of association
* Employers right to freedom of association
* Rights of trade unions
* Procedure for disputes

**Collective bargaining:**

* Trade unions and representatives
* Subs and fees payable
* Rights of trade unions
* Organisational rights in collective agreements
* Disputes
* Effect of collective agreements
* Agency Shop/ Closed Shop Agreements
* Bargaining councils

**Strikes and lockouts:**

* Right to strike/ picket
* Limitations of rights
* Essential services
* Replacement labour

**Workplace forums:**

* Establishing workplace forums
* Meetings
* Consultation

**Trade Unions and employer Organisations**

* Registration and regulation
* Federation of trade unions
* Registrar of Labour relations
* Appeals

**Dispute resolution**

* CCMA and its functions
* Resolution of disputes
* Labour Court
* Labour Appeal Court

**Unfair Dismissal**

* Employees rights
* Disputes and remedies
* Compensation
* Severance pay

The main benefits of the LRA are the following:

* Organisational rights
* Procedure for recruiting, appointing and dismissing workers
* Dispute resolution

**BBBEE (Broad Based Black Economic Empowerment)**

**Introduction:**

Broad based Black Economic empowerment is a government initiative to address the exclusion of the majority of South Africans from participating fully in the economy.

The use of race was critical in excluding the majority of black persons; this resulted in the underdevelopment of black communities and reduced them to suppliers of cheap labour.

* In addition limited access to technical and science teaching made the situation worse and it resulted in a landless black majority.
* Black people were confined to homelands with poor living conditions, lacking infrastructure.
* The Group Areas Act uprooted millions of people
* Denial of property ownership made ti impossible for black people to acquire assets
* An inferior education system led to them being left behind especially in the technical and scientific skills
* Millions were inadequately equipped to participate in the modernised economy and this led to a total distortion of the South African Economy.
* South Africa had its first democratic elections in 1994 with the government receiving the mandate to address the injustice; economic transformation is underway.

Broad-Based Black Economic Empowerment (B-BBEE) aims to ensure that the economy is structured and transformed to enable the meaningful participation of the majority of its citizens and to further create capacity at all levels through

* skills development,
* employment equity,
* socio economic development,
* preferential procurement,
* enterprise development, especially small and medium enterprises,
* promoting the entry of black entrepreneurs into the mainstream of economic activity, and
* the advancement of co-operatives.

B-BBEE needs to be implemented in an effective and sustainable manner in order to unleash and harness the full potential of black people and to foster the objectives of a growth path.

The purpose of this programme is to develop and re-shape policies to give greater effect to these objectives. In doing so, EDD will work in close co-operation with the DTI who will drive the implementation of these polices, and other departments involved in processes.

South Africa's policy of black economic empowerment (BEE) is not simply a moral initiative to redress the wrongs of the past. It is a pragmatic growth strategy that aims to realise the country's full economic potential while helping to bring the black majority into the economic mainstream.

*Readmore:* [***http://www.southafrica.info/business/trends/empowerment/bee.htm#.V8gYBPl97Z4#ixzz4J0Mk3jIN***](http://www.southafrica.info/business/trends/empowerment/bee.htm#.V8gYBPl97Z4#ixzz4J0Mk3jIN)

Through its BEE policy, the government aims to achieve the following objectives:

* Empower more black people to own and manage enterprises. Enterprises are regarded as black-owned if 51% of the enterprise is owned by black people, and black people have substantial management control of the business.
* Achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises.
* Promote access to finance for black economic empowerment.
* Empower rural and local communities by enabling their access to economic activities, land, infrastructure, ownership and skills.
* Promote human resource development of black people through, for example, mentorships, learnerships and internships.
* Increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills.
* Ensure that black-owned enterprises benefit from the government's preferential procurement policies.
* Assist in the development of the operational and financial capacity of BEE enterprises, especially small, medium and micro enterprises (SMMEs) and black- owned enterprises.
* Increase the extent to which black women own and manage existing and new enterprises, and facilitate their access to economic activities, infrastructure and skills training.

#### BEE codes and scorecard

The Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice emerged in 2007 to provide a standard framework for the measurement of BEE across all sectors of the economy.

The codes require that all entities operating in the South African economy make a contribution towards the objectives of BEE.

The first phase of the codes encourages all entities, public and private, to implement proper BEE initiatives through the issuing of licences, concessions, sale of assets and preferential procurement.

The second phase of the codes covers the seven components of the B-BBEE scorecard, namely: ownership;

* management control;
* employment equity;
* skills development;
* preferential procurement;
* enterprise development; and
* socioeconomic development (including industry-specific and
* corporate social investment initiatives).

The Strategy on B-BBEE, released in 2003, assigns points values to the seven elements of the B-BBEE scorecard as follows:

|  |  |
| --- | --- |
| B-BBEE SCORECARD | |
| Element | Points |
| Ownership | 20 |
| Management control | 10 |
| Employment equity | 10 |
| Skills development | 20 |
| Preferential procurement | 20 |
| Enterprise development | 10 |
| Residual (sector determined) | 10 |
| TOTAL | 100 |
| Source: [***Strategy on B- BBEE***](http://bee.thedti.gov.za/docs/Strategy%20for%20Broad-Based%20Black%20Economic%20Empowerment.pdf) |  |

The B-BBEE Act of 2003 makes the codes binding on all state bodies and public companies, and the government is required to apply them when making economic decisions on:

* procurement,
* licensing and concessions,
* public-private partnerships, and
* the sale of state-owned assets or businesses.

Private companies must apply the codes if they want to do business with any government enterprise or organ of state – that is, to tender for business, apply for licences and concessions, enter into public-private partnerships, or buy state-owned assets.

Companies are also encouraged to apply the codes in their interactions with one another, since preferential procurement will affect most private companies throughout the supply chain.  
  
*Readmore:* [***http://www.southafrica.info/business/trends/empowerment/bee.htm#.V8gYBPl97Z4#ixzz4J0hw2SyD***](http://www.southafrica.info/business/trends/empowerment/bee.htm#.V8gYBPl97Z4#ixzz4J0hw2SyD)



**[reinsert the article]**

**Activity 3.27**

Look at the article above and answer the questions below:

1. What does “compliance” mean?

2. Why do businesses strive to be compliant?

3. What are they saying about being compliant?

4. What are your views on this?

3.3 Accounting and Information Management

Introduction.

Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business, and it also refers to a [systematic](http://www.businessdictionary.com/definition/systematic.html) [process](http://www.businessdictionary.com/definition/process.html) of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial [information](http://www.businessdictionary.com/definition/information.html). It reveals [profit](http://www.businessdictionary.com/definition/profit.html) or loss for a given [period](http://www.businessdictionary.com/definition/period.html), and the [value](http://www.businessdictionary.com/definition/value.html) and nature of a firm's assets, liabilities and [owners' equity](http://www.businessdictionary.com/definition/owners-equity.html) as well as summarizing, analysing and reporting these transactions to oversight agencies and tax collection entities. Accounting is one of the key functions for almost any business; it may be handled by a bookkeeper and accountant at small firms or by sizable finance departments with dozens of employees’ at large companies.

Note that Accounting, like Mathematics or Quantitative Literacy, needs to be practiced and may require repeated activities in order to master the skills. If you do an activity and your answers so not correspond with the memorandum, make sure that you go back and redo the activity until you understand where you went wrong. If you move on before understanding each step, you will experience problems later.

Information management on the other hand is the application of [management](http://www.businessdictionary.com/definition/management.html) techniques to collect [information](http://www.businessdictionary.com/definition/information.html), communicate it within and outside the [organisation](http://www.businessdictionary.com/definition/organization.html), and [process](http://www.businessdictionary.com/definition/process.html) it to enable managers to make quicker and better decisions. An accounting information system (AIS) is a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies.

After completing this section, you should be able to:

3.3.1 Explain the meaning of information management

3.3.2 Explain the sources and importance of information management

3.3.3 Describe the guiding principles of information management

3.3.4 Explain the importance of correct information

3.3.5 Describe the underlying principles of GAAP (Generally Accepted Accounting Practice) and IFRS (International Financial Reporting Standards)

3.3.6 Show the stages of the Accounting Cycle graphically.

3.3.7 Explain basic accounting concepts

3.3.8 Differentiate between basic and expanded forms of the equation.

3.3.9 Analyse transactions according to basic accounting equation (A = O + L)

3.3.10 Analyse transactions using the expanded accounting equation

3.3.11 Interpret completed/given journals

3.3.12 Identify the different types of ledgers

3.3.13 Interpret Ledger Accounts

3.3.14 Draw up a Pre-Adjustment Trial Balance from a given General Ledger

3.3.15 Apply year-end adjustments to Pre-adjustment Trial Balance

3.3.16 Draw up a Post-adjustment Trial Balance

3.3.17 Draw up a Statement of Financial Performance (Income Statement)

3.3.18 Draw up a Statement of Financial Position (Balance Sheet)

3.3.19 Analyse financial statements using the following ratios

3.3.20 Show applications of accounting to the other forms below: (differences / additions only)

* Partnerships
* companies

3.3.1 Meaning of information management

Information management is the application of [management](http://www.businessdictionary.com/definition/management.html) techniques to collect [information](http://www.businessdictionary.com/definition/information.html), communicate it within and outside the [organisation](http://www.businessdictionary.com/definition/organization.html), and [process](http://www.businessdictionary.com/definition/process.html) it to enable managers to make quicker and better decisions. An accounting information system (AIS) is a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors and regulatory and tax agencies.

3.3.2 Sources and importance of information management

Sources of information management

Business information comes in general surveys, data, articles, books, references, search-engines, and internal records that a business can use to guide its planning, operations, and the evaluation of its activities. Such information also comes from friends, customers, associates, and vendors. Published sources may be daily newspapers; financial, trade, and association magazines; databases, government statistics, directories, technical manuals, and much else. In effect, since "information" is defined more by context than by content, business information is whatever information helps a business know its environment.

Primary Documents

A **primary document** is a document that was written at the time of an event or period of research.  Primary documents therefore include literary texts, letters, speeches and historical documents such as birth certificates and diaries.  A live news-feed (or the transcript of) is a primary source – recording events as they unfold.  Of course, any major news event (like the Olympic Games) is likely to have several primary sources, accounts from different broadcasters.  To get a fuller idea of the event you may look at more than one primary source of information – taking into account biases, points-of-view and personal or cultural perceptions.

**Primary document**: document written at the time of the event

Secondary Documents

A **secondary document** is written after an event - usually the authors will not have witnessed the event themselves.  Such documents are usually written with reference to primary documents and attempt to provide an interpretation.  Core texts - academic texts related to the topic being studied - are an example of secondary documents.  In current affairs a secondary source would be a standard news story, a story that has been reported after the event.  As a secondary source is a writer’s interpretation of what happened (a primary source) it is more likely to contain observations, bias and subjective commentary that try to explain the event and put it into some sort of context.

**Secondary document** is any source about an event, period, or issue in history that was produced after that event, period or issue has passed

Tertiary Documents

**Tertiary documents** usually act as pointers to primary and secondary documents.  They are indexes, directories, bibliographies and other categorised collections of information - documents that you can turn to and be guided to other, potentially relevant, documents on a particular subject.  For example, checking the bibliography of books can help to lead you to further research material or to looking at a list of similar stories on a news website.

**Tertiary documents** consist of information from both primary and secondary documents.

Importance of information management

To gain the maximum benefits from your company's information system, you have to exploit all its capacities. Information systems gain their importance by processing the data from company inputs to generate information that is useful for managing your operations. To increase the information system's effectiveness, you can either add more data to make the information more accurate or use the information in new ways. Information management is also useful in the following ways:

Communication

Part of management is gathering and distributing information, and information systems can make this process more efficient by allowing managers to communicate rapidly. Email is quick and effective, but managers can use information systems even more efficiently by storing documents in folders that they share with the employees who need the information.

Operations

How you manage your company's operations depends on the information you have. Information systems can offer more complete and more recent information, allowing you to operate your company more efficiently. You can use information systems to gain a cost advantage over competitors or to differentiate yourself by offering better customer service.

Decisions

The company information system can help you make better decisions by delivering all the information you need and by modeling the results of your decisions. A decision involves choosing a course of action from several alternatives and carrying out the corresponding tasks.

Records

Your company needs records of its activities for financial and regulatory purposes as well as for finding the causes of problems and taking corrective action. The information system stores documents and revision histories, communication records and operational data. The trick to exploiting this recording capability is organizing the data and using the system to process and present it as useful historical information. You can use such information to prepare cost estimates and forecasts and to analyze how your actions affected the key company indicators.

3.3.3 Guiding principles of information management

Information Management Principles provide a framework for how information is to be shared, captured, stored and modeled and kept reliable across the environment. They are the first step in the definition of the Information Development environment. As companies need to be able to clearly enunciate the principles by which it leverages information, Information Management Principles are particularly important.

Fact-based decision making

The first and most important information principle is that the information asset should be leveraged every day in every decision. Both strategic and operational decisions should be based on facts which can be sourced back to data which is held by the enterprise.

Integrated data with consistent definitions

Involves combining [data](https://en.wikipedia.org/wiki/Data) residing in different sources and providing users with a unified view of these data. There is no value in each unit of the enterprise being part of the whole unless it is able to leverage that enterprise asset in an integrated way (i.e. not just the specific part that applies to the one unit).

Appropriate retention of detailed data

Information should be retained whenever physically possible. While data is of greatest value when interpreted, it is important that the most detailed data be retained to allow for other interpretations.

Quality of data will be measured

Data quality is relative to the purpose to which it is to be applied. Decision makers need to not only have access to data; they also need to understand the timing, reconciliation, completeness and accuracy of that data. Data quality is neither abstract nor qualitative, rather it should be measured in absolute terms.

Appropriate enterprise access

Information needs to be classified, in accordance with the security principles of the organisation, which will determine the levels of access by employees, contractors, vendors, partners, suppliers, customers, general release, etc. The underlying data security definitions may be different to the information security aspects, particularly once the data is combined and given context it may have 'new' levels of sensitivity inherent within it.

Every data item has one person or role as ultimate custodian

Every item of data requires unique and ultimate ownership by a single role or person. This does not imply that all customers, products or other items of data maintain common ownership, rather than a matrix of responsibilities is managed which ensures that issues or conflicts always have an ultimate point of escalation.

3.3.4 Importance of correct information

One of the essential duties of managers of entities is to ensure to the best of their ability that the information they are sharing is accurate. Whether they are giving a presentation to an audience of hundreds, writing a letter to the editor, or even having a conversation with a single person, truthful, credible, accurate information is paramount. Here are 8 tips to consider about providing accurate information:

* Use reliable sources and double check them.
* Whenever possible use primary sources.
* Use industry and government sources when possible and appropriate.
* Be able to cite your sources.
* Never exaggerate or mislead.
* Tell them “Don’t take my word for it.”
* Admit when you’re wrong.

3.3.5 Underlining principles of GAAP and IFRS

What is IFRS?

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB), and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.

In South Africa, the Accounting Practices Board plays a major role in the development of GAAP and IFRS. The South African Institute of Chartered Accountants issues the Accounting standards used in South Africa. Public accounting rules in the United States are governed by its generally accepted accounting principles, or GAAP, which is considered a "rules-based" approach to bookkeeping standards. Conceptually, IFRS as used by nations around the globe is more "principle-based" than GAAP, which makes it somewhat less complicated and more consistent, offering fewer exceptions and unique applications. With a principle-based framework there is the potential for different interpretations of similar transactions, which could lead to extensive disclosures in the financial statements. The only downside is the IFRS is a little less adaptable.

Principles of IFRS

The following IFRS principles are used when writing up the books of all businesses and affect the amounts shown in the financial statements. They are six principles according to IFRS are:

* Accrual accounting- revenue should be recorded in the period it is earned, regardless of the time the cash is received.
* Going concern- it assumes that an entity will continue to operate indefinitely.
* Materiality- business transactions that will affect the decision of a user are considered important or material, thus, must be reported properly
* Consistency -similar and consistent accounting procedures is used by the business, year after year, unless change is necessary -
* Reporting frequency- how often you update an objective, measure, or initiative
* Aggregation- material items of same nature should be reported separately in financial statement and dissimilar items may be aggregate if these are immaterial.
* Compar*ative* information- items over several accounting periods may be presented together to detect the emerging trends in the company's operations and results.
* No offsets- cancel an accounting entry with an equal but opposite entry
* Fairly presented- present fairly the state of affairs and business of the company, and explain the transactions and financial position of the business of the company

You can view the following YouTube video for more clarity over this principle. https://www.youtube.com/watch?v=TFPLEbHOCFM

3.3.6 Stages of Accounting Cycles

The accounting cycle has eight basic steps, which you can see in the following illustration. These steps are described in the list below.

1. Transactions

Financial transactions start the process. Transactions can include the sale or return of a product, the purchase of supplies for business activities, or any other financial activity that involves the exchange of the company’s assets, the establishment or payoff of a debt, or the deposit from or payout of money to the company’s owners.

1. Journal entries

The transaction is listed in the appropriate journal, maintaining the journal’s chronological order of transactions. The journal is also known as the “book of original entry” and is the first place a transaction is listed.

1. Posting

The transactions are posted to the account that it impacts. These accounts are part of the General Ledger, where you can find a summary of all the business’s accounts.

1. Trial balance

At the end of the accounting period (which may be a month, quarter, or year depending on a business’s practices), you calculate a trial balance.

1. Adjusting journal entries

You post any corrections needed to the affected accounts once your trial balance shows the accounts will be balanced once the adjustments needed are made to the accounts. You don’t need to make adjusting entries until the trial balance process is completed and all needed corrections and adjustments have been identified.

1. Financial statements

You prepare the balance sheet and income statement using the corrected account balances.

1. Closing the books

You close the books for the revenue and expense accounts and begin the entire cycle again with zero balances in those accounts.

Watch the following YouTube to enhance your knowledge of the accounting cycle before attempting the next activity: <https://www.youtube.com/watch?v=7KBi6RDlosk>.

Activity 3.27: Accounting and Information Management

Purpose

The purpose of this activity is to ensure that you understand the basics of accounting and the accounting equation, as well as some of the terminology that is important in the accounting process.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 45 Minutes

What you will do:

* Read and understand the activity question
* Answer the questions set on the activity in your notebook.

1. Define what Accounting is.
2. List and explain the steps in the accounting cycle:

1. Match the terms in Column A with the descriptions in Column B in respect of IFRIS principles. write only the number and the correct letter e.g. 7 = G

|  |  |
| --- | --- |
| Column A | Column B |
| 1. Materiality | 1. Revenue should be recorded in the period it is earned, regardless of the time the cash is received |
| 1. Consistency | 1. Present fairly the state of affairs and business of the company, and explain the transactions and financial position of the business of the company |
| 1. Fairly presentation | 1. Assumes that an entity will continue to operate indefinitely. |
| 1. Going-concern concept | 1. business transactions that will affect the decision of a user are considered important or material, thus, must be reported properly |
| 1. Accrual accounting | 1. Similar and consistent accounting procedures is used by the business, year after year, unless change is necessary |

Guided reflection

Check your answers against those that are provided at the back of your workbook. It is quite important to understand what accounting is and what steps are involved before you engage with basic accounting concepts.

For the accounting steps, ensure that you place them in order, as it informs you the process you are going to follow from the moment a transaction is entered into until financial statements are developed. If you find that your understanding does not match the explanations provided in the answer section, you should re–read this section in your workbook and discuss them with a friend or family member till you are more familiar with the concepts.

* + 1. Basic Accounting concepts

Assets

**Assets** are things that are resources owned by a company and which have future economic value that can be measured and can be expressed in rands. Examples include cash, investments, accounts receivable, inventory, supplies, land, buildings, equipment, and vehicles.

Assets are reported on the balance sheet usually at cost or lower. Assets are also part of the accounting equation: Assets = Liabilities + Owner's (Stockholders') Equity.

|  |
| --- |
| **Assets:** Resources being controlled by an entity from which future economic benefits are expected to flow to the entity e.g. inventory |

Liabilities

Liabilities are things that are probable future economic sacrifices of future economic benefits arising from present obligations of a company to transfer assets or provide services to other entities in future, as a result of past transactions. These are obligations of a company or organisation. Amounts owed to lenders and suppliers. Liabilities often have the word "payable" in the account title. Liabilities also include amounts received in advance for a future sale or for a future service to be performed.

A current liability is an obligation that

* Is due within one year of the date of a company's balance sheet and
* Will require the use of a [current asset](http://www.accountingcoach.com/blog/what-is-a-current-asset) or will create another current liability.
* The parties who are owed the current liabilities are referred to as [creditors](http://www.accountingcoach.com/blog/what-is-a-creditor).

The amount of current liabilities is used to determine a company's [*working capital*](http://www.accountingcoach.com/blog/what-is-working-capital) (current assets minus current liabilities) and the company's [*current ratio*](http://www.accountingcoach.com/blog/current-ratio-2) (current assets divided by current liabilities).

|  |
| --- |
| **Liabilities**: Any present obligation which will result in an outflow of resources |

Non- current/ long term liabilities.

Obligations of the enterprise those are *not* payable within one year of the balance sheet date. Two examples are bonds payable and long-term notes payable.

Owners’ Equity

Owner’s Equity is the owner‘s interest in the business. Owner's equity represents the owner's investment in the business minus the [owner's draws](http://www.accountingcoach.com/blog/what-is-meant-by-owners-draws) or withdrawals from the business plus the [net income](http://www.accountingcoach.com/blog/what-is-net-income) or minus the net loss since the business began. Owner's equity is viewed as a *residual claim* on the business assets because [liabilities](http://www.accountingcoach.com/blog/what-is-a-liability) have a higher claim. Owner's equity can also be viewed (along with liabilities) as a *source* of the business asset

|  |
| --- |
| **Owners’ Equity**: The amount of owner's equity is the amount of assets minus the amount of liabilities. The residual amount left after paying for the liabilities |

Revenue / income

Fees earned from providing services and the amounts of merchandise sold. Under the accrual basis of accounting, revenues are recorded at the time of delivering the service or the merchandise, even if cash is not received at the time of delivery. Often the term income is used instead of revenues.

Examples of revenue accounts include: Sales, Service Revenues, Fees Earned, Interest Revenue, and Interest Income.

|  |
| --- |
| **Revenue/Income**: Money that an individual or business receives in exchange for providing a good or service or through investing capital |

Expenses

Money spent, or cost incurred in an organisation's efforts to generate revenue, representing the cost of doing business.

**Expenses** may be in the form of actual cash payments (such as wages and salaries), a computed expired portion (depreciation) of an asset, or an amount taken out of earnings (such as bad debts). Expenses are summarized and charged in the income statement as deductions from the income before assessing income tax. Whereas all expenses are costs, not all costs (such as those incurred in acquisition of income generating assets) are expenses.

|  |
| --- |
| **Expenses:** Money spent or cost incurred in an organisation's efforts to generate revenue, representing the cost of doing business. |

Drawings

This refers to money or assets taken out of the company by the owners for personal use. Drawings by the owner of the company will need to be recorded in the balance sheet as a reduction in the assets and a reduction in the owners’ equity as an accounting record needs to be maintained to track money withdrawn from the business by its owners. An account is set up in the balance sheet to record the transactions taken place of money removed from the company by the owners.

|  |
| --- |
| **Drawings**: Money or assets taken out of the company by the owners for personal use. |

These are not to be confused with expenses or wages for the owners as these will be recorded in the company profit and loss account separately.

Profit

Accounting profit is a company's total earnings, calculated according to generally accepted accounting principles (GAAP). It includes the explicit costs of doing business, such as operating expenses, depreciation, interest and taxes.

Accounting profit differs from economic profit in that accounting profit only represents the monetary expenses a firm pays and the monetary revenue it receives; it tends to be higher than economic profit since it omits certain implicit costs, such as opportunity costs.

|  |
| --- |
| **Profit:** financial results(performance) or benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses incurred |

Activity 3.28: Basic Accounting Concepts

Purpose

The purpose of this activity is to introduce you to the fundamentals of accounting as a subject. These aspects are important as they form the foundation for your future learning.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 20 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Choose the correct words from column B to match the descriptions in column A. Write only the number in column A and the letter in column B.

e.g. 12 = P

|  |  |  |  |
| --- | --- | --- | --- |
| Column A | | Column B | |
| 1 | Money the owner gives to start up a business. | A | Current assets |
| 2 | The owner and his business are seen as separate. | B | Profit |
| 3 | The owner’s interest in his business | C | Capital |
| 4 | Money received by business for rendering a service | D | Mortgage bond |
| 5 | Their value changes continually and easily are converted into cash. | E | Tangible assets |
| 6 | Money acquired from a commercial bank in order to buy property | F | Income |
| 7 | Outsiders to whom the business money for stock sold. | G | Entity rule |
| 8 | They primary reason why an entrepreneur will start a business. | H | Owner’s equity |
| 9 | Assets that have a reasonably long life- span. | I | Creditors |
| 10 | Outsiders who owe the business money for stock sold | J | Debtors |

a = c + l {\displaystyle a=c+l}

Guided reflection

Check your depth of understanding of the elements and components of the financial statements by comparing your answers with the answers at the back of your workbook. Does your understanding of these accounting concepts match what is there? If not, you need to go back to the relevant section on the workbook and practice the concepts again.

It’s worth noting that in order to understand the significance of the accounting equation, first we must explore the meaning of the three words; assets, liabilities and capital. These terms are often used in accounting but can have very different meanings.

You will need to learn and familiarize yourself with the accounting concepts relevant in the performance of the accounting procedures as you need to apply these concepts during the accounting process.

* + 1. Basic and expanded forms of the accounting equation

Basic accounting equation

The basic accounting equation, also called the balance sheet equation, represents the relationship between the [assets](https://en.wikipedia.org/wiki/Asset), [liabilities](https://en.wikipedia.org/wiki/Liability_(accounting)), and [owner's equity](https://en.wikipedia.org/wiki/Equity_(finance)) of a business. It is the foundation for the [double-entry bookkeeping system](https://en.wikipedia.org/wiki/Double-entry_bookkeeping_system). For each transaction, the total debits equal the total credits

The relationship between an Assets (A), liabilities (L) and owner’s Equity (OE) is represented in the accounting equation as follows.

The accounting equation can be expressed in one of three ways:

**A= OE + L or OE=A - L or L= A - OE**

In all cases the accounting equation must balance, because any transaction will bring changes in the two transactions of the equation caused by double entry system.

|  |  |  |
| --- | --- | --- |
| **Assets =** | **Owner’s equity +** | **Liabilities** |

To understand the accounting equation better, look at how it is set out in the table below.

|  |  |  |
| --- | --- | --- |
| **Assets =** | **Owner’s equity +** | **Liabilities** |
| These belong to the business | This belongs to the owner. | This belongs to the outsiders. |
| Possessions of the business such as cars, computers, land and money | Money the owner invested, and the profit earned by the business | Debt owed to outsiders, such as loans and creditors made from the bank. |

The following table will help you to understand the accounting equation

|  |  |  |
| --- | --- | --- |
| Tangible assets or Intangible assets  Current assets  Non-current assets | Capital | Non – curent liabilities  Curent liabilities |
| Drawings  Income  Expenses |

Activity 3.29: Accounting equation and accounting terminology

Purpose

The purpose of this activity is to ensure that you know and understand the basics accounting terminology as well as the elements and components of financial statements. These are important in the accounting process and will help you when you get to the accounting application activities.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 20 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

1. Redraw the table of the accounting equation in your notebook.
2. Take the words/terms from the graffiti wall below and write each one under the correct heading in the columns.

|  |
| --- |
| **Stationery, Float, Wages, Cost of sales, Equipment, Rent income, Packing materials, Telephone, Trade and other receivables, Loans, Rent expenses, Salaries, Bank, Advertising, Trading Inventory, Land and buildings, Trade and other payables, Cash,**  **Sales, Vehicle, Postage, Current Income, Trading License, and Rates and taxes.** |

|  |  |  |
| --- | --- | --- |
| **Assets =** | **Owner’s equity +** | **Liabilities** |
|  |  |  |

Guided reflection

Check your understanding of the elements and components of the financial statements by comparing you answers with the answers at the back of your workbook. How did you find your performance? Highlight all the incorrect answers and go back to the theory to ensure that you understand why it is classified as it is.

These elements and components of financial statements are very crucial as you will not be able to work with the accounting equation unless you are very familiar with all of them. Having cleared up the terminology, we can start to explain the purpose of the accounting equation in the next section.

3.3.9 Analysis of transactions using the basic accounting equation.

Having cleared up the terminology, we can start to explain the purpose of the accounting equation. The accounting equation is how double-entry bookkeeping is established. The equation represents the relationship between the assets, liabilities, and owner's equity of a small business. Since every business transaction affects at least two of a company’s accounts, the accounting equation will always be “in balance,” meaning the left side should always be equal to the right side. Thus, the accounting formula essentially shows that what the firm owns (its assets) is purchased by either what it owes (its liabilities) or by what its owners invests (its shareholders equity or capital).

For example: A student buys a [computer](https://en.wikipedia.org/wiki/Computer) for R945. To pay for the computer, the student uses R445 in cash and borrows R500 for the remainder. Now his [assets](https://en.wikipedia.org/wiki/Asset) are worth R945,however the cash has now **been reduced by R445 and** [**liabilities**](https://en.wikipedia.org/wiki/Liability_(accounting)) **are R500.**

|  |  |  |
| --- | --- | --- |
| **Assets =** | **Owners’ equity +** | **Liabilities** |
| **R945 – R445 (cash)** | **No effect on the equity** | **R500** |
| **R500** | **0 change in equity** | **R500** |

**The equation remains in balance**

The formula can be rewritten:

Assets - Liabilities = (Shareholders' or Owners' Equity)

Now it shows owners' interest is equal to [property](https://en.wikipedia.org/wiki/Property) (assets) minus [debts](https://en.wikipedia.org/wiki/Debts) (liabilities). Since in a company owners are [shareholders](https://en.wikipedia.org/wiki/Shareholders), owner's interest is called [shareholders' equity](https://en.wikipedia.org/wiki/Shareholders%27_equity). Every [accounting](https://en.wikipedia.org/wiki/Accounting) [transaction](https://en.wikipedia.org/wiki/Financial_transaction) affects at least one element of the equation, but always balances.

Access the following YouTube to consolidate your learning on the accounting equation. The video is 12 minutes long, but it is a very useful recap of the information that you have learnt. <https://www.youtube.com/watch?v=yoN_feo9uHo>

Activity 3.30: Analysis and interpretation of accounting transactions

Purpose

The purpose of this activity is to ensure that you are able to reflect on the transactions that occur in the accounting environment on a daily basis and translate them into an accounting equation. The basic accounting equation shows that a business is composed of useful items (assets), which are owned by the owner or owners (equity), and that there are certain business debts (liabilities). In other words, the assets are partly *owned* and partly *owed* to people outside the business.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 20 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book
* Calculator

Analyse the following transaction of Rother Consultants for the month of March 20.8 using the table format.

* Rother set himself up as a financial consultant. He drew R100 000 from a savings account and opened a bank account in the name of Rother consultant in which he paid R100 000
* Rother found premises to operate in Sandton. The monthly rental for the office was R1 000. The business paid R1 000 for March rent.
* Rother consultants purchased computer equipment for R15 000 and office equipment for R25 000. This was paid from the funds in the bank account.
* Purchased a motor vehicle for R100 000 on Credit.
* Filled the vehicle with R1 000 petrol, **on** credit.
* Mr. Ernest paid Rother Consultants R7 000 for a financial plan to be prepared by Rother during March and April.
* Received R3 000 from Mr. MH Smith, a debtor in payment of the account.
* Rother withdrew R6 000 cash from the business for personal use.

Guided reflection

Check your answers carefully against those provided at the back of the workbook. Analysing transactions in an important part of the accounting system as it allocates the transaction to the elements and components of the financial statements and to the relevant subsidiary journals.

You will note that the reason why the accounting equation is so important is that it is always true - and it forms the basis for all accounting transactions. This means that whenever there is a recordable transaction, the choices for recording it all involve keeping the accounting equation in balance. It's vitally important that this happens because, if it does not balance, your financial reports will not make sense.

You will also note that if you know any two of the three components of the accounting equation, you can calculate the third component.

* + 1. Expanded accounting equation

There is also an expanded accounting equation which shows the relationship between the income statement and the balance sheet. The expanded accounting equation, after you consider sales revenue and expenses, is:

Assets = Liabilities + Owner's Equity - Drawings + Revenue – Expenses.

The capital or (owner's equity) part of the accounting equation can be divided into two parts - revenue and expenses. Until now, the accounting equation has focused on the balance sheet components. Now, splitting the owner's equity part of the accounting equation into revenues and expenses highlights the relationship between the balance sheet and the income statement because the key components of the firm's income statement are revenue and expenses.

The expanded accounting equation allows you to see separately

(1) The impact on equity from net income (increased by revenues, decreased by expenses), and

(2) The effect of transactions with owners (draws, dividends, sale or purchase of ownership interest)

Example

1. Owner invested cash in the business R10 000
2. Rendered services and received the full amount in cash for R500
3. Rendered services on account *(receivable from customer)*, R750
4. Purchased office supplies on credit *(payable to supplier)*, R200
5. Equipment repaired for R400, to be paid after 15 days

Using basic accounting equation, the transactions will result in the following effects:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction | Assets | = | Liabilities | + | Equity |
| 1. Owner's investment | + 10 000 | = | 0 | + | + 10 000 |
| 2. Service revenue for cash | + 500 | = |  | + | + 500 |
| 3. Service revenue on account | + 750 | = |  | + | +750 |
| 4. Supplies on account | + 200 | = | + 200 | + |  |
| 5. Repair of equipment | (400) | = | + 400 | + | (400)  - 400 |

NB: As repair work will be paid after some days the business has incurred a liability on the transaction date. It will only reduce the assets when paid.

Using the expanded accounting equation, the transaction will result in the following effects

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | = | Owners’ Equity | + | Liabilities | + | Revenue | - | Expenses | - | Drawings |
| 1. 10 000 | = | 10 000 | + | 0 | + | 0 | - | 0 | - | 0 |
| 1. 500 | = | 0 | + | 0 | + | 500 | - | 0 | - | 0 |
| 1. 750 | = | 0 | + | 0 | + | 750 | - | 0 | - | 0 |
| 1. +-200 | = | +-200 | + | 0 | + | 0 | - | 0 | - | 0 |
| 1. -200 | = | 0 | + | 0 | + | 0 | - | 200 | - | 00 |

Activity 3.31: Accounting transaction and Expanded equation

Purpose

The purpose of this activity is to ensure that you learn to know and understand that the expanded accounting equation demonstrates the relationship between the balance sheet and the income statement by seeing how revenues and expenses flow through into the equity of the company.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 10 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Use the below transaction and prepare the Basic accounting equation and Expanded accounting equation:

1. Cash sales R500.
2. Paid a creditor R500 to settle the account.
3. Cost of sales amount to R300 for goods sold.
4. Withdrawal of R450 was made by the business owner for personal use.
5. Received rent for the month. R1 000

Guided reflection

Check your answers carefully against the answers at the back of the workbook on the accounting equation and expanded equation. Analysis of transactions is an important part of accounting system as it allocates the transaction to the elements and components of the financial statements as well as to the relevant subsidiary journals, and this can be done by also getting the accounting equation right.

You will also note that the expanded accounting equation is nothing more than the basic equation with the owner's equity section broken down into the three categories of revenue, expenses, and dividends.

It is also important to note that the components of equity differ between sole proprietorships, partnerships and companies. The expanded accounting equation is therefore also different for different forms of business. For example, a corporation will use:

Assets = Liabilities + Paid-in Capital - Treasury Stock + Incomes - Expenses - Dividends

For sole proprietorship, it will be:

Assets = Liabilities + Owner Capital + Incomes - Expenses - Withdrawals

3.3.11 Books of first entry / Source Documents.

Source documents

Every transaction has a paper trail. A source document is the original record containing the details to substantiate a transaction entered in an accounting system. For example, a company's source document for the recording of merchandise purchased is the supplier's invoice supported by the company's purchase order and receiving ticket.

**Source document:**

An original record to substantiate an accounting entry.

Source documents are the physical basis upon which business transactions are recorded. Source documents are typically retained for use as evidence when auditors later review a company's financial statements, and need to verify that transactions have, in fact, occurred.

They usually contain the following information:

* A description of a business transaction
* The date of the transaction
* A specific amount of money
* An authorizing signature

Note: A source document does not have to be a paper document. It can also be electronic, such as an electronic record of the hours worked by an employee, as entered into a company's timekeeping system through a smart phone.

Examples of source documents, and their related business transactions that appear in the financial records, are:

* Bank statement. This contains a number of adjustments to a company's book balance of cash on hand that the company should reference to bring its records into alignment with those of the bank.
* Cash register tape. This can be used as evidence of cash sales, which supports the recordation of a sale transaction.
* Credit card receipt. This can be used as evidence for a disbursement of funds from petty cash.
* Packing slip. This describes the items shipped to a customer, and so supports the recording of a sale transaction.
* Supplier invoice. This is a source document that supports the issuance of a cash, check, or electronic payment to a supplier. A supplier invoice also supports the recordation of an expense, inventory item, or fixed asset.
* Time card. This supports the issuance of a paycheck or electronic payment to an employee. If employee hours are being billed to customers, then it also supports the creation of customer invoices.

BOOKS OF FIRST ENTRY

Books of first entries are the first step in the accounting cycle and are used to record all [business transactions](http://www.myaccountingcourse.com/accounting-basics/business-events) and events in the accounting system. As business events occur throughout the accounting period, first entries are recorded in the books to show how the event changed in the accounting equation. This involves recording the details of all of the source documents into multi-column journals (also known as books of first entry). For example, all credit sales are recorded in the sales journal; all cash payments are recorded in the cash payments journal.

Types of Books of first entry

|  |  |
| --- | --- |
| Books of first entry | Used for |
| 1. Cash Receipts Journal | Recording all cash that has been received. E.g. Sold goods for Cash or payment by debtors or payment by tenants(rental) or interest received |
| 1. Cash Payment Journal | Recording all transactions where cash has been paid out. E.g. Paid rent for the month |
| 1. Debtors Journal | Recording all sales on credit. E.g. sold good on credit |
| 1. Creditors Journal | Recording all credit purchases made. E.g. purchased stationery on credit. |
| 1. Allowance Journal | Recording all credit purchase return and credit sales return. E.g. Smith (Debtor) returned damaged goods or goods returned to creditors |
| 1. General journal | Recording all journal entries for anything not recorded in any of the journals above |

1. The receipts as a source document

The business will give a receipt when money is received, for example,

* From a tenant for rent income.
* From owners when they contribute capital

The receipt is issued to acknowledge the money being received and the duplicate receipt is too kept in order to make an entry in the books of the business. This transaction will affect the cash receipts journal. Receipts are sources documents of cash receipts journal.

Example:

On 29 February 2020 the bookkeeper issued receipt number 48 to M. Martin, the owner, who contributed R200 000 to start her business, Chisa Box Traders

CASH RECIEPTS JOURNAL CRJ1

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Bank | Sales | Debtors | Sundry accounts | | |
| Amount | Fol | Details |
| 48 | 29 | M Martin |  | 200 000 |  |  | 200 000 |  | Capital |

Note: The entry is made in the Cash Receipts Journal (CRJ), the book of first entry. R800.ccounting e Internatiord)?

2. The cheque counterfoil and EFT payments

Businesses can either issue cheques to make cash payment or do it by means of an EFT (Electronic Funds Transfer). The cheque is legal tender and represents the cash the business has in its bank account. EFT is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff. These payments can be made for:

* Payment of expenses
* Purchase of inventory
* Purchase of fixed assets.

The cheque is issued to the payee and the business keeps the cheque counterfoil in order to record the information on it in the Cash Payment Journal (business).

In the case of an EFT, the Proof of Payment becomes the source document.

Example:

On 15 May 2022, Chisa Box Traders issued a cheque to the city power in payment of the water and electricity account, R800.

CASH PAYMENT JOURNAL CPJ1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Bank | Creditors | Sundry accounts | | |
| Amount | Fol | Details |
| 001 | 15 | City Power |  | 800 |  | 800 |  | Water & electricity |

* 1. The credit sales invoice

The business issues a credit sales invoice each time it sells trading inventory on credit. The details on the credit invoice must be accurate to ensure that the debtor owes the correct amount to the business. This source documents must be reflected under debtor’s journals.

* 1. The credit purchases invoice

The business receives the original credit invoice from a supplier when credit purchases are made. It uses the original credit invoice as a source document, and this information or transaction it’s a source document of creditor’s journal.

Double entry system

The double entry system of accounting or bookkeeping means that every business transaction will involve two accounts (or more). For example, when a company borrows money from its bank, the company's Cash account will increase, and its liability account Loans Payable will increase. If a company pays R200 for an advertisement, its Cash account will decrease, and its account Advertising Expense will increase.

Double entry also allows for the accounting equation (assets = liabilities + owner's equity) to always be in balance. In our example involving Advertising Expense, the accounting equation remained in balance because expenses cause owner's equity to decrease. In that example, the asset Cash decreased and the owner's capital account within owner's equity also decreased.

A third aspect of double entry is that the amounts entered into the general ledger accounts as debits must be equal to the amounts entered as credits.

The Double Entry Principle

Accounting is based on the double entry principle, which means that for every debit entry there must be a corresponding credit entry and for any credit entry there must be a debit entry. The double entry principle is best expressed by using a T-account. This T-account is a representation of the general ledger accounts, which will be covered later on this unit.

Watch the following YouTube that clearly explains the double-entry system in Accounting: <https://www.youtube.com/watch?v=-7XeZLQ2hYQ>.

|  |  |
| --- | --- |
| Ledger Account | |
| Left side of  The T- account  Debit (Dr) | Right side of the T-account  Credit (Cr) |

* The left side of an account is the debit side.
* The right side of an account is the credit side.

The accounting equation works with the double entry principle and is expressed as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Assets =  Dr Cr  + - | | Owner’s Equity  Dr Cr - + | | Liabilities  Dr Cr   * + | |
| Increase s  With a debit  entry | Decreases with a credit entry | Decreases with a debit entry | Increases with accredit entry | Decreases  With a credit entry | Increase with a credit  entry |

Examples:

Draw up an accounting equation using the following transaction and give reason on each transaction.

* Michael Mooi paid the monthly salary to the employees by cashing a cheque for R8700.
* Received a cheque for R54000 from the owner for his capital contribution.
* Bought a computer from Campus stores for R4000. Issued a cheque for the amount due.

Suggested solutions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Assets | | Owner’s Equity | | Liabilities | |
| Effect | Reason | Effect Reason | | Effect Reason | |
| -8 700  +54000  +4000  -4000 | Bank decrease  Bank increase  Equipment  Increase  Bank decrease | -8 700  +54 000 | Salary  expense  Capital contribution | \_ | \_ |

Activity 3.32: The double entry system

Purpose

The purpose of this activity is to ensure that you understand that the purpose and goal of the double-entry system is to enter financial transaction records so that when financial statements and reports are run: The Company’s assets are equal to its liabilities plus owners' equity (net worth).

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 5 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Prepare the accounting equation using the following transactions and showing the reasons i.e. which account is affected and whether it is a decrease or increase.

* 01 Mooi B started hiring out ball gowns. He contributed R28 000 to start his business. Issued a receipt.
* 02 Bought vehicle from Ayob Motors for R125 800 and paid by cheque.

Rented a small take-shop at the Magaga. Paid the monthly rental by cheque. R750.

* 04 paid the water and electricity account by cheque. R800

Bought equipment for R8 900 for the business. Paid by cheque.

Mooi B cashed a business cheque for R750 for his personal use.

Guided reflection

Check your answers carefully against the answers provided at the back of the workbook. You should note that double-entry bookkeeping, in accounting, is a system of bookkeeping so named because every entry to an account requires a corresponding and opposite entry to a different account.

The double entry has two equal and corresponding sides known as debit and credit. It would take some time to master this system and it’s advisable to work on more examples provided.

Watch the following interesting YouTube that explicitly explain the double entry system. (<https://www.youtube.com/watch?v=yoN_feo9uHo>).

Cash Journals as books of first entry

The cash receipts journal is the journal where you record all cash that has been received. The format of the cash receipts journal is as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Details | Folio | Bank | Income | Debtors | Sundry |
|  |  |  |  |  |  |  |
| Total |  |  |  |  |  |  |

Major categories of receipts, such as from income or from debtors, receive their own column. The category called sundry is used to represent various miscellaneous (and less regular) items, such as capital or receiving cash from a loan. The word sundry actually means "various," "miscellaneous" or "general." The "bank" column is added up to show the total cash received for the period concerned.

The cash payments journal is the opposite of the cash receipts journal. It is the journal where you record all transactions where cash has been paid out. The format of the cash payment journal is as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Details | Folio | Expense | Creditors | Sundry | Bank |
|  |  |  |  |  |  |  |
| Total |  |  |  |  |  |  |

Once again, the "bank" column is added up to show the total payments. The totals of the other three columns show how much was paid to what. "Expenses" and "creditors" would be the major categories towards which payments would be made. Bear in mind that the cash receipts journal and cash payments journal can be replaced by the cash book, which is simply a combination journal showing all receipts and all payments together.

Worked Example:

Record the following transactions in the Cash Receipts journal of Thuthuka Traders for May 20xx. Provide columns for: Analysis of receipts, Bank, current income, and sundry accounts.

Transactions for May 20xx.

* 01 T Martin started the business with a capital contribution of R70 500 that was deposited into current bank account of Tutu’s salon. Issued receipt 001.
* 16 Cash received for services rendered for the R2 300.
* 31 Receipt book shows services rendered for the day amounted to R4 600.

T Martin decided to increase his capital contribution to R76000.

He issued the business with a cheque for the amount and received a receipt.

Solution

Cash Receipts Journal of Thuthuka Traders for May 20xx CRJ1

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Analysis of receipts | Bank | Current income | Sundry accounts | | |
| Amount | Fol | Details |
| 001 | 01 | T Martin |  | 70 500 | 70 500 |  | 70 500 |  | Capital |
|  | 16 | Services rendered |  | 2 300 | 2 300 | 2 300 |  |  |  |
|  | 31 | Services rendered |  | 4 600 | 4 600 | 4 600 |  |  |  |
|  |  | T Martin |  | 76 000 | 76 000 |  | 76 000 |  | Capital |
|  |  |  |  |  | 153 300 | 6 900 | 146 500 |  |  |

Activity 3.33: Book of First entry

Purpose

The purpose of this activity is to ensure that you know how to record the transactions in the books of first entry (Journals). You should note that Journal entries provide foundational information for all other financial reports and are used by auditors to analyze how financial transactions impact a business.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 15 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

On 1 August 20xx, T M started a catering food business called Mzansi. Record the following transactions in the Cash Receipts and Cash Payment Journal of Mzanzi catering for August 20xx. Provide columns for: Bank, material costs, Wages, and sundry accounts.

*Transactions for August 20xx.*

* 01 issued cheque 01 to the municipality to pay for the trading licence, R320.
* 02 Drew a cash cheque for R560 for the cash float for the cash register.
* 03 Rented a shop from central Mall and issued a cheque for R500 for the rent for August.
* 04 Bought equipment from Wella Catering for R3 120 and paid by cheque.
* 05 cashed a cheque to pay the weekly wages. R500.
* 07 issued a cheque to Bargain Busters for R3 500 for:
* Materials, R3 000
* Packing material, R130
* Stationery, R370
* 10 Purchased a vehicle for the business from fast food for R25 000.
* 12 Cashed a cheque to pay the wages, R500, and for the owner’s personal use, R325.

Guided reflection

Check your answers carefully against the memo on books of first entry. Analysing of transactions is an important part of accounting system as it allocates the transaction to the relevant subsidiary journals (book of first entry). Repeat the activity until you grasp the core principles of recording transaction in the book of first entries.

It is important to note that a journal is a record of transactions listed as they show the specific accounts affected by the transaction. Going through this activity once more will enable you to understand that a journal is the original source of the information contained in your financial reports, sometimes referred to as the book of original entry. After entries are posted to the journal, you should note that your accounting system transfers the information to the ledger, which then is used to produce your income statements and balance sheets.

Watch the following YouTube which thoroughly explains the link within the accounting cycle. It’s worth to note that the video is too long but very good for revision after going through this section. <https://www.youtube.com/watch?v=0R0SNfYgmjc>.

The Debtors’ Journal

The debtor’s journal is a book of first entry into which the credit transaction is recorded. The information for the transaction is extracted from the credit sales invoice. The source document for this book is the invoice.

Example

Required:

* Prepare the debtor’s journal for April 20xx for Decorforus.
* Post to the relevant accounts in the debtors ledger.

The information:

|  |  |  |
| --- | --- | --- |
| Day | Details | Amount  R |
| 3 | Sold sofa to Mike Interiors (D4) on credit-credit receipts 140 | 7 750 |
| 5 | Sold 2 wingback chairs to Decor world (D5) on credit-price per chair | 1 900 |
| 10 | Sold light fittings on credit to World interiors(D6) | 1 740 |
| 16 | Sold a mattress on credit to Mike interiors(D4) | 1 470 |
| 20 | Sold Moyo carpet to World interiors on credit | 6 700 |
| 24 | Sold the following to Playa Decor (2)  5 lamp shades-price per lamp shade  1 coffee table  2 lamp stands-price per lamp stand | 105  750  390 |

Suggested solution:

DEBTORS JOURNAL of April 20xx DJ1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Doc  No | Day | Debtor | Fol | Sales | Cost of sales |
| 140 | 3 | World interiors | D4 | 7 750 | 6 200 |
| 141 | 5 | Mike | D5 | 3 800 | 3 040 |
| 142 | 10 | Moyo | D6 | 1 740 | 1 392 |
| 143 | 16 | Mike | D5 | 1 470 | 1 176 |
| 144 | 20 | Moyo | D6 | 6 700 | 5 360 |
| 145 | 24 | Playa décor | D7 | 2 085 | 1 668 |
|  |  |  |  | 23 545 | 18 836 |

Calculations:

Cost of sales:

1. 7 750x100/125 = 6 200
2. 3 800x100/125 = 3 040
3. 1 740x100/125 = 1 392
4. 1 470 x100/125 = 1 176
5. 6 700x100/125 = 5 360
6. Playa Decor: = R750+R780+R525=R2 085 x100/125= R1 668

Access the following website that could assist you in understanding journals better: <http://www.accounting-basics-for-students.com/accounting-journals.html>.

3.3.12 Ledger accounts

The ledger is the book in which accounts are maintained. Generally, one account is opened on each page of this book, but if transactions relating to a particular account are numerous, it may extend to more than one page. All transactions relating to that account are recorded chronologically. From journal each transaction is posted to at least two concerned accounts - debit side of one account and credit side of another account. Remember that, if there are two accounts involved in a journal entry, it will be posted to two accounts in the ledger and if the journal entry consists of three accounts (compound entry) it will be posted to three different accounts in the ledger. The process of transferring information from journal to ledger accounts is known as posting. The goal of all transactions is ledger. Ledger is known as the destination of entries in journal but it must be remembered that transactions cannot be recorded directly in the ledger - they must be routed through journal. This concept is illustrated below:

|  |
| --- |
| Transaction |
| ↓ |
| Journal |
| ↓ |
| Ledger |

So, the books in which all the transactions of a business concern are finally recorded in the concerned accounts in a summarized form is called ledger.

Characteristics of Ledger Account:

The ledger has the following main characteristics:

1. It has two identical sides - left hand side (debit side) and right-hand side (credit side).
2. Debit aspect of all the transactions are recorded on the debit side and credit aspects of all the transactions are recorded on credit side according to date.
3. The difference of the totals of the two sides represents balance. The excess of debit side over credit side indicates debit balance, while excess of credit side over debit side indicates the credit balance. If the two sides are equal, there will be no balance.
4. Generally, the balance is drawn at the year end and recorded on the lesser side to make the two sides equal. This balance is known as *closing balance*.
5. The closing balance of the current year becomes the opening balance of the next year.

Posting Procedure:

Transferring information i.e. entries from journal to ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

**Posting**: transferring information from the journal to the ledger.

1. Locate the ledger account from the first debit in the journal entry.
2. Record the date in the date column on the debit side of the account. The date is the date of transaction rather than the date of the posting.
3. Record the name of the opposite account (account credited in entry) in the particular (also known as reference column, description column etc.) column.
4. Record the page number of the journal in the journal reference (J.R) column from where the entry is being posted.
5. Record the amount of the debit in the "amount column"
6. Locate the ledger account for the first credit in the journal and follow the same procedure.

Balancing an Account:

The difference between the values of the two sides of an account is its balance. The balance is written on the lesser side to make sure that the two sides are equal. The process of equalizing the two sides of an account is known as *balancing* the equation.

You may need to revisit the following YouTube in order to understand how to balance an account in accounting: <https://www.youtube.com/watch?v=yoN_feo9uHo>.

The *rules for balancing an account* are stated as below:

1. Add up the amount columns of both the sides of an account and write the totals in a separate slip of paper.
2. Find out the difference of the two totals.
3. Write down the difference on the lesser side of the account.
4. Now total up both the sides and write the totals and draw double lines under them.
5. Again write the difference on the opposite side below the double line.

If the debit side of an account is heavier, its balance is known as debit balance. And if the credit side of an account is heavier its balance is known as credit balance. If the two sides are equal, that account will show zero balance. The rules for determining the balance is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total debit | = | More than total credit | = | Debit balance |
| Total credit | = | More than total debit | = | Credit balance |
| Total debit | = | Total credit | = | Nil balance |

It may be noted that at the time of balancing an account debit balance is placed on the credit side and credit balance on debit site. This balance is known as closing balance. What is closing balance in this year is the opening balance of the next year.

3.3.13 Interpreting ledger accounts:

Different types of ledgers

A general ledger account is an account or record used to sort and store [balance sheet](http://www.accountingcoach.com/blog/balance-sheet) and [income statement](http://www.accountingcoach.com/blog/what-is-the-income-statement) transactions. Examples of general ledger accounts include the asset accounts such as Cash, [Accounts Receivable](http://www.accountingcoach.com/blog/what-is-accounts-receivable), [Inventory](http://www.accountingcoach.com/blog/what-is-inventory), Investments, Land, and Equipment. Examples of the general ledger liability accounts include Notes Payable, [Accounts Payable](http://www.accountingcoach.com/blog/what-is-an-account-payable), Accrued Expenses Payable, and [Customer Deposits](http://www.accountingcoach.com/blog/what-is-a-customer-deposit). Examples of [income statement accounts](http://www.accountingcoach.com/blog/what-are-income-statement-accounts) found in the general ledger include Sales, Service Fee Revenues, Salaries Expense, Rent Expense, Advertising Expense, Interest Expense, and Loss on disposal of assets.

Some general ledger accounts are summary records which are referred to as [control accounts](http://www.accountingcoach.com/blog/accounts-receivable-control-account-subsidiary-ledger). The detail that supports each of the control accounts will be found outside of the general ledger in what is known as a [subsidiary ledger](http://www.accountingcoach.com/blog/subsidiary-ledgers-control-account). For example, Accounts Receivable could be a control account in the general ledger, and there will be a subsidiary ledger which contains each customer's credit activity. The general ledger accounts Inventory, Equipment, and Accounts Payable could also be control accounts and for each there will be a subsidiary ledger containing the supporting detail.

You may need to watch the following YouTube that explains the general ledger better: <https://www.accountingformanagement.org/general-ledger/>.

Activity 3.34: Ledger account

Purpose

The purpose of this activity is to provide you an opportunity to works with ledger in the facilitation of the posting process.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 15 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Prepare General Ledger accounts for the following transaction of B Mooi for January 20xx; then prepare a trial balance.

* Mooi B started hiring out ball gowns. He contributed R28 000to start his business. Issued a receipt
* Bought vehicle from Ayob Motors for R125 800 and paid by cheque
* Bought equipment for R8 900 for the business. Paid by cheque
* Mooi B cashed a business cheque for R750 for his personal use
* Bought trading stock on credit for R5 000
* Sold stock on credit to a debtor for R2 000, cost of sales amounted to R1 000
* R2 500 was paid to the creditor

Guided reflection

Check your answers carefully against the memo on books of first entry. Analysing of transactions is an important part of accounting system as it allocates the transaction to the relevant subsidiary journals (book of first entry). The major step after analysing and recording to the subsidiary journals is to prepare a general ledger account.

Repeat the activity until you grasp the core principles of preparing a general ledger. It is worth noting that the purpose of the General Ledger is therefore to organise and summarise the individual transactions listed in all the journals.

**Trial Balance** is a bookkeeping worksheet in which the balances of all ledger accounts are compiled into debit and credit columns

3.3.14 Pre-adjustment trial balance

Suppose you are an artist. Before you put the paintbrush to canvas, you would probably use a pencil to sketch an outline to make sure you don't make any big mistakes. Similarly, accountants use a trial balance before writing up a Statement of Financial Position to detect any errors and make sure these errors don't appear on the Statement of Financial Position

A trial balance is a list of accounts and their balances at a given time. It is usually prepared at the end of an accounting period. The accounts are listed in the order in which they appear in the general ledger.

The trial balance includes debit balances listed in the left column and credit balances in the right column. The totals of the two columns must be equal. The main purpose of trial balance is to check that the total of all debit entries is equal to the total of all credit entries after posting.

Importance of a trial balance

 A trial balance may detect the following errors:

* Debit or credit omitted: When a trial balance does not balance, the difference between the total debits and total credits should be determined;
* Two debits or credits for one transaction: in this case, the error can be detected by determining the difference in the trial balance totals and dividing this number by two;
* Transporting errors: this type of error can be located by dividing the difference in the trial balance by 9. This will identify a transporting error where by a rand value has been incorrectly entered into a ledger account.

Limitations of a trial balance

Errors listed below usually could not be detected by a trial balance:

* Leaving out both the debit and credit entry for a transaction;
* Debiting an account which should have been credited, and vice versa;
* Entering the wrong amount on both debit and credit sides;
* Making a debit and credit entry but in the wrong accounts;
* Making two errors, which cancel each other out;
* Entering a transaction twice.

Because these errors comply with the rules of double entry rules, the trial balance will in fact still balance. A trial balance does not guarantee that all transactions have been recorded or that the ledger is correct.

How to prepare a trial balance

Step 1:   List the accounts titles

Step 2:   Find the balance of each account by adding up the total of the left side and the right side of the account and subtracting the smaller total from the larger total. The result is the balance of the account. The balance should be written on the same side of the ledger as the largest total and circled. This is called footing the account.

Step 3:   Total the debit and credit columns of the balance of accounts.

Step 4: Check the equality of the two columns.

Worked Example

Enter the following transactions in the General Journal and post them into the ledger and also prepare a trial balance.

|  |  |  |
| --- | --- | --- |
| 20xx |  | |
| Jan. 1 | Mr. X started business with cash R80 000 and furniture R20 000. |
| Jan. 2 | Purchased Inventory on credit worth R30 000 from Y Ltd. | |
| Jan. 3 | Sold goods for cash R16 000. | |
| Jan. 4 | Sold goods on credit to S Ltd for R10 000 | |
| Jan. 8 | Cash received from S Ltd R9 000. | |

Solution

General journal GJ1

|  |  |  |  |
| --- | --- | --- | --- |
| Details | Fol | Debit | Credit |
| Dr Bank  Dr Furniture  Cr Capital | 2  3  1 | 80 000  20 000 | 100 000 |
| DrTrading stock  Cr Y Ltd (Creditor) | 4  5 | 30 000 | 30 000 |
| Dr Bank  Cr Sales | 2  6 | 16 000 | 16 000 |
| Dr S Ltd (Debtor)  Cr Sales | 7  6 | 10 000 | 10 000 |
| Dr Bank  Cr S Ltd (debtor) | 2  7 | 9 000 | 9 000 |

Ledger Accounts

DR CAPITAL 1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 2015  Jan | 31 | Bank  Furniture | GJ | 80 000  20 000 |

DR BANK 2 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Jan | 31 | Bank  Sales  S Ltd | GJ | 80 000  16 000  9 000 | 20xx  Jan |  | Balance | c/d | 105 000 |
| 105 000 | 105 000 |

DR FURNITURE 3 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Jan | 31 | Capital | GJ | 20 000 |  |  |  |  |  |

DR Trading Stock 4 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Jan | 31 | Y Ltd | GJ | 30 000 |  |  |  |  |  |

DR Y Ltd 5 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx  Jan | 31 | Inventory | GJ | 30 000 |

DR SALES 6 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx  Jan | 31 | Bank  S Ltd | GJ | 16 000  10 000 |

DR S Ltd 5 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Jan | 31 | Sales | GJ | 10 000 | 20xx  Jan | 31 | Bank  Balance | GJ  c/d | 9 000  1 000 |
| 10 000 | 10 000 |

Trial Balance of X Traders for the month of January 20xx

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| Bank Account | 105 000 |  |
| Furniture Account | 20 000 |  |
| Capital Account |  | 100 000 |
| Inventory Account | 30 000 |  |
| Y Account |  | 30 000 |
| Sales Account |  | 26 000 |
| S Account | 1 000 |  |
| Total | 156 000 | 156 000 |

Activity 3.35: Posting from ledger accounts to trial balance

Purpose

The purpose of this activity is to ensure that you are able to prepare the trial balance after you have mastered the preparation of general ledger and analysis of transactions.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 30 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Use the following ledger accounts to draw up a Trial Balance:

DR CAPITAL 1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx Aug  July | 2  31 | Bank  Bank | CRJ1  GJ | 76 000  85 000 |

DR BANK 3 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| Sep 20xx  July 20yy | 1  31 | Balance  Capital | b/d | 150 000  85 000 |  |  | Balance | c/d | 235 000 |
| 235 000 | 235 000 |
|  |  |

DR DEBTORS CONTROL 5 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Balance | b/d | 6 000 | 20yy  July | 31 | Bad debts  Balance | GJ  c/d | 2 500  3 500 |
| 6 000 | 6 000 |
|  |  |

DR Bad Debts 22 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20yy  July | 31 | Debtors control | GJ | 2 500 |  |  |  |  |  |

DR Depreciation CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20yy  July | 31 | Accumulated depreciation | GJ | 13 500 |  |  |  |  |  |

Guided reflection

Check your answers carefully against the memo on the preparation of a trial balance at the end of the workbook. If you did not get nor understand this activity, repeat the activity until you grasp the core principles of posting from journals to the general ledger and then preparing the trial balance.

Going through a number of similar activities will enable you to understand that it necessary, from time to time, to check the General Ledger for accuracy. The process of drawing up a trial balance checks the arithmetic accuracy of the general ledger and whether all postings to the ledger observed the rules of double-entry bookkeeping.

3.3.15 Applying year-end adjustment to Pre-adjustment Trial balance

Adjusting Journal Entries

An adjusted trial balance is prepared after adjusting entries are made and posted to the ledger. This is the second trial balance prepared in the accounting cycle. Its purpose is to test the equality between debits and credits after adjusting entries are entered into the books of the company.

Adjustment refers to the recognition and inclusion of a business transaction that has not yet been included in the accounting records of a business as of a specific date

Adjustment refers to the recognition and inclusion of a business transaction that has not yet been included in the accounting records of a business as of a specific date. Most transactions are eventually recorded through the recordation of (for example) a supplier invoice, a customer billing, or the receipt of cash.

However, if such transactions have not yet been recorded as of the end of an accounting period, or if the entry incorrectly states the impact of the transaction, the accounting staff makes accounting adjustments in the form of [adjusting entries](http://www.accountingtools.com/adjusting-entries). These adjustments are designed to bring the company's reported financial results into compliance with Generally Accepted Accounting Principles or International Financial Reporting Standards. The adjustments are primarily used under the [accrual basis](http://www.accountingtools.com/definition-accrual-basis) of accounting

For example: Rent paid for December have not yet been recorded in the accounting records of the company at year end, R500

Suggest solution:

|  |  |  |
| --- | --- | --- |
| Details | Debit | Credit |
| Rent paid  Bank  Rent paid for December | 500 | 500 |

To illustrate how it works, here is a sample unadjusted trial balance:

|  |
| --- |
| Push Electronic Repair Services |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Unadjusted Trial Balance | | | | |
| December 31, 20xx | | | | |
|  |  |  |  |  |
| Account Title |  | Debit |  | Credit |
| Cash |  | R  7 480 |  |  |
| Debtors |  | 3 400 |  |  |
| Service |  | 1 500 |  |  |
| Furniture and Fixtures |  | 3 000 |  |  |
| Service Equipment |  | 16 000 |  |  |
| Creditors |  |  |  | 9 000 |
| Loans Payable |  |  |  | 12 000 |
| Mr. Push, Capital |  |  |  | 13 200 |
| Mr. Push, Drawing |  | 7 000 |  |  |
| Service Revenue |  |  |  | 9 550 |
| Rent Expense |  | 1 500 |  |  |
| Salaries Expense |  | 3 500 |  |  |
| Taxes and Licenses |  | 370 |  |  |
| Totals |  | R  43 750 |  | R 43 750 |

Additional information that was not taken into account.

1. Credit sale to a debtor for R300 on 29 December 20xx
2. On December 31, the company Electricity bill was R1 800
3. During December company repairs a machine for R900
4. Depreciation for the year of R720 was not yet recorded.

At the end of the period, the following adjusting entries were made:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dec | 31 | Debtors | 300 |  |
|  |  | Service Rendered |  | 300 |
|  |  |  |  |  |
|  | 31 | Electricity Expense | 1 800 |  |
|  |  | Accrued expense |  | 1 800 |
|  |  |  |  |  |
|  | 31 | Repairs Expense | 900 |  |
|  |  | Services |  | 900 |
|  |  |  |  |  |
|  | 31 | Depreciation Expense | 720 |  |
|  |  | Accumulated Depreciation |  | 720 |

After posting the above entries, the values of some of the items in the unadjusted trial balance will change. Take the first adjusting entry. Debtors are debited hence is increased by R300. Service Revenue is credited for R300. The balance of debtors are increased to R3 700, i.e. R3 400 unadjusted balance plus R300 adjustment. Service Rendered will now be R9 850 from the unadjusted balance of R9 550.

Electricity Expense and accrued expense did not have any balance in the unadjusted trial balance. After posting the above entries, they will now appear in the adjusted trial balance. Repairs Expense is debited for R900. Services are credited for R900. The Services account had a debit balance of R1 500. After incorporating the R900 credit adjustment, the balance will now be R600 (debit). There were no Depreciation Expense and Accumulated Depreciation in the unadjusted trial balance. Because of the adjusting entry, they will now have a balance of R720 in the adjusted trial balance.

3.3.16 Post adjustment Trial Balance

An adjusted trial balance is a listing of all the account titles and balances contained in the [general ledger](http://www.accountingcoach.com/blog/what-is-a-general-ledger-account) after the [adjusting entries](http://www.accountingcoach.com/blog/appreciating-adjusting-entries) for an [accounting period](http://www.accountingcoach.com/blog/what-is-an-accounting-period) have been posted to the accounts.

The adjusted trial balance is an internal document and is not a [financial statement](http://www.accountingcoach.com/blog/what-is-a-financial-statement). The purpose of the adjusted trial balance is to be certain that the total amount of [debit balances](http://www.accountingcoach.com/blog/what-is-a-debit-balance) in the general ledger equals the total amount of [credit balances](http://www.accountingcoach.com/blog/what-is-a-credit-balance)

After incorporating the adjustments above, the adjusted trial balance would look like this. Just like in the unadjusted trial balance, total debits and total credits should be equal.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Push Electronic Repair Services | | | | |
| Adjusted Trial Balance | | | | |
| December 31, 20xx | | | | |
|  |  |  |  |  |
| Account Title |  | Debit |  | Credit |
| Cash |  | R   7 480 |  | R |
| Debtors |  | 3 700 |  |  |
| Service Supplies |  | 600 |  |  |
| Furniture and Fixtures |  | 3 000 |  |  |
| Service Equipment |  | 16 000 |  |  |
| Accumulated Depreciation |  |  |  | 720 |
| Creditors |  |  |  | 9 000 |
| Accrued expense |  |  |  | 1 800 |
| Loans Payable |  |  |  | 12 000 |
| Mr. Push, Capital |  |  |  | 13 200 |
| Mr. Push, Drawings |  | 7 000 |  |  |
| Service Revenue |  |  |  | 9 850 |
| Rent Expense |  | 1 500 |  |  |
| Salaries Expense |  | 3 500 |  |  |
| Taxes and Licenses |  | 370 |  |  |
| Electricity Expense |  | 1 800 |  |  |
| Service Supplies Expense |  | 900 |  |  |
| Depreciation Expense |  | 720 |  |  |
| Totals |  | R 46 570 |  | R  46 570 |
|  |  |  |  |  |

Activity 3.36: Post-adjustment trial balance

Purpose

The purpose of this activity is to ensure that you are able to journalise the adjustment and prepare a post-adjustment trial balance. You will also be able to reflect on the undertaking that the purpose of the post-closing trial balance is to test the equality between debits and credits after closing entries are prepared and posted.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 30 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

The financial year end for Global Traders ends on the 31 December. The following must be recorded in the books of Global Traders for the financial year ending 31 December 20xx:

Journalise all the adjustment of Global Traders and prepare a post-adjustment trial balance on 31 December 20xx

Information

Pre-adjustment trial balance of Global Traders at 31 December 20xx

|  |  |  |  |
| --- | --- | --- | --- |
| Balance Sheet Section | Fol | Debit | Credit |
| Capital |  |  | 315 260 |
| Drawings |  | 18 400 |  |
| Land and building |  | 238 000 |  |
| Vehicles |  | 160 000 |  |
| Equipment |  | 90 500 |  |
| Accumulated depreciation: Vehicles |  |  | 32 000 |
| Accumulated depreciation: Equipment |  |  | 8 500 |
| Trading stock |  | 24 300 |  |
| Debtors control |  | 14 600 |  |
| Bank |  | 18 400 |  |
| Petty cash |  | 600 |  |
| Cash float |  | 500 |  |
| Creditors control |  |  | 28 830 |
| Fixed deposit: AB Investors (10% p.a.) |  | 20 000 |  |
| Loan: SA Bank (12% p.a.) |  |  | 100 000 |
| Nominal account section |  |  |  |
| Sales |  |  | 380 900 |
| Cost of sales |  | 200 000 |  |
| Discount allowed |  | 3 900 |  |
| Discount received |  | 480 |  |
| Debtors allowance |  |  | 640 |
| Bank charges |  | 1 340 |  |
| Interest on fixed deposit |  |  | 1 500 |
| Interest on loan |  | 7 200 |  |
| Bad debts |  | 840 |  |
| Bad debts recovered |  |  | 180 |
| Telephone |  | 11 480 |  |
| Stationery |  | 8 140 |  |
| Packing material |  | 4 380 |  |
| Advertisement |  | 3 710 |  |
| Insurance |  | 8 340 |  |
| Rent income |  |  | 65 000 |
| Salaries |  | 60 800 |  |
| Wages |  | 22 300 |  |
| Water and electricity |  | 14 600 |  |
|  |  | 932 810 | 932 810 |

Adjustments:

* Closing inventories shows stock on hand on 31 December 20xx:
  + Trading stock R23 800
  + Stationery R2 180
  + Packing material R890
* Included in the amount of advertisement is contract of 18 months with the local newspaper for R1 800 as from October 20xx
* Telephone account was received on 28 December 20xx but not paid, R1 200
* The fixed deposit with AB investors was invested on 1 January 20xx at an interest rate of 10% per year. Interest is received every three months. Provide for the outstanding amounts.
* The account of S Molly (debtor) to the value of R300 must be written off as irrecoverable
* Loan account with SA bank is as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Dr Loan: SA Bank Cr | | | | | | | |
| Month | Day | Details | Amount | Month | Day | Details | Amount |
| 20xx Jun | 30 | Bank | 20 000 | 2010 Jan | 1 | Balance | 120 000 |

Interest needs to be paid every six month and has only been paid for the first six month

* Rent received for 13 months.
* Included in the amount of insurance is an amount of R900 for three months period from 1 December 20xx to 28 February 20yy
* Depreciation should be calculated as follows:
  + On Vehicles at 20% per year on cost and Equipment at 10% per year on diminishing balance method.
  + Include in the amount of for equipment is an additional equipment purchased on 1 July 20xx for R10 000

Guided reflection

Check your answers carefully against the memo on the preparation of the post-closing trial balance. This engagement requires that you revisit the section on the adjustment of activities on the initial the trial balance to the section on year-end adjustment. Kindly note that the post-closing trial balance contains real accounts only since all nominal accounts have already been closed at this stage.

It’s worth noting that the preparation of post-closing trial balance is the last step of the accounting cycle and its purpose is to be sure that sum of debits equal the sum of credits before the start of new accounting period. It provides the openings balances for the ledger accounts of the new accounting period.

3.3.17 Statement of Financial Performance (Income Statement) OR STATEMENT OF PROFIT OR LOSS

The Income Statement—also called the Profit and Loss Statement or statement of Financial Performance—is used to weigh a company’s revenue against its expenses in order to calculate its profits. Comparing Income Statements over a period of time helps a company evaluate where they can reduce expenses, grow revenue and increase profit overall.

**Revenue** is the income that a [business](https://en.wikipedia.org/wiki/Corporation) has from its normal business activities, usually from the sale of goods to customers.

**Expenses** are cost that occurs as part of a company's operating activities during a specified accounting period

**Income statement** is a financial statement that reports a company's financial performance over a specific accounting period.

1. Revenue

The first number to tally on an Income Statement is your total sales. For cash-based businesses, which document sales based on when a customer makes a payment, you will add up the total cash you have already acquired. If your company operates on the accrual method, this means you recognize transactions when the goods have been delivered but your business has not necessarily been paid. In this case you will also include accounts receivable (money owed) as revenue.

Depending on the service or product your company provides, the source of your income may differ. Total sales can be added up from the records in a cash register, receipts or [invoices](http://quickbooks.intuit.com/invoicing/) from client payments, or transactions that have processed through online payment systems.

1. Expenses

Expenses include all of the money spent by the business in order to produce revenue in a direct or indirect way. This includes:

* Cost of Goods (physical product): raw materials, production, equipment, packaging, etc.
* Cost of Services (service or online product): web hosting fees, cost of service delivery, data storage, site maintenance, etc.
* General and Administrative Expenses (G&A): day-to-day office management costs like rent, utilities, depreciation, telephone bills, etc.
* Employee Compensation: salaries, payroll services, benefits, etc.
* Marketing and Advertising: online marketing, email marketing services, mobile marketing, company website (for physical businesses), billboards, PR firm expenses, etc.

While you can add these items together as groups—for example, lump together the total G&A expense every month—it’s also a good idea to keep individual items on separate lines so you can compare specific expenses and consider where they can be reduced. For example, if most of the G&A expenses remain static but the utilities start going up dramatically, you can start encouraging more employees to turn off lights and computers when they leave.

1. Determine Profit

There are several different types of profit that you can evaluate, and each can be useful to compare on a monthly and quarterly basis. If you subtract the Cost of Goods sold from the Sales, you will be left with the Gross Profit. Subtract the remaining costs (General and Administrative expenses, salaries, marketing, etc.) from that number to get the Operating Profit. To determine the Net Income, in other words, the actual income the business takes home, subtract the tax amount for that period.

The Income Statement is a key component of a company’s financial statements, which should be prepared on at least a quarterly basis to evaluate the financial health, value and growth of a company. The Income Statement, Balance Sheet and Cash Flow Statement are generally considered the most important documents for evaluating the financial state of a company, and each should be completed on at least a quarterly basis.

Before engaging the following worked example visit the following website for more explanation on the Statement of Financial Position (Income statement): <https://www.accountingcoach.com/income-statement/explanation>.

FINANCIAL STATEMENT AND ADJUSTMENTS

* Worked Example

Required

Draw up an Income Statement and Balance Sheet for the year ended 28 February 2015 of Box Traders.

Post adjustment Trial Balance on 28 February 2015

|  |  |  |  |
| --- | --- | --- | --- |
| *Balance sheet accounts section* | Fol | Debit | Credit |
| Capital | B1 |  | 264 125 |
| Drawings | B2 | 30 120 |  |
| Land and buildings | B3 | 200 000 |  |
| Vehicle | B4 | 80 000 |  |
| Equipment | B5 | 26 000 |  |
| Accumulated dep on vehicle | B6 |  | 35 200 |
| Accumulated dep on equipment | B7 |  | 12 300 |
| Fixed deposit: xy bank | B8 | 20 000 |  |
| Trading inventory | B9 | 24 100 |  |
| Debtors control | B10 | 14 264 |  |
| Bank | B11 |  | 2 570 |
| Cash float | B12 | 200 |  |
| Petty cash | B13 | 100 |  |
| Mortgage loan: ac bank | B14 |  | 30 000 |
| Creditors control | B15 |  | 16 890 |
| Accrued income | B16 | 310 |  |
| Income received in advance | B17 |  | 650 |
| Accrued expense | B18 |  | 980 |
| Prepaid expense | B19 | 560 |  |
| Consumable stores on hand | B20 | 336 |  |
| *Nominal accounts* |  |  |  |
| Sales | N1 |  | 436 125 |
| Cost of sales | N2 | 240 000 |  |
| Debtors allowance | N3 | 4 125 |  |
| Rent income | N4 |  | 14 400 |
| Interest on fixed deposit | N5 |  | 2 800 |
| Telephone | N6 | 2 892 |  |
| Water and electricity | N7 | 2 993 |  |
| Insurance | N8 | 4 500 |  |
| Stationery | N9 | 2 166 |  |
| Packing material | N10 | 1 654 |  |
| Bad debts | N11 | 1 400 |  |
| Advertising | N12 | 2 600 |  |
| Interest on mortgage loan | N13 | 6 000 |  |
| Interest on overdraft | N14 | 120 |  |
| Depreciation | N15 | 14 400 |  |
| Interest received on current account | N16 |  | 480 |
| Interest received | N17 |  | 1 640 |
| Interest paid | N18 | 1 770 |  |
| Discount received | N19 |  | 2 450 |
| Salaries | N20 | 140 000 |  |
|  |  | **820 610** | **820 610** |

Additional Information

1. The owner V Michael increased his capital contribution by R100 000 during the year.
2. Land and Buildings were purchased during the year for R80 000.
3. A vehicle was purchased for R40 000 during the year.
4. Depreciation for the year was as follows:

Vehicle R8 800

Equipment R5 600

1. The mortgage loan is repaid in equal annual installment of R10 000 on 1 July every year.

SOLUTION

INCOME STATEMENT OF BOX TRADERS FOR THE YEAR ENDED- 28 FEB 20xx

|  |  |  |
| --- | --- | --- |
| Sales (436 125 - 4 125) |  | 432 000 |
| Cost of sales |  | (240 000) |
| *GROSS PROFIT* |  | 192 000 |
| *Other operating income* |  | 16 850 |
| Rent income |  | 14 400 |
| Discount received |  | 2 450 |
| *Gross operating income* |  | 208 850 |
| Operating expenses |  | (172 605) |
| Telephone |  | 2 892 |
| Water and electricity |  | 2 993 |
| Insurance |  | 4 500 |
| Stationery |  | 2 166 |
| Packing material |  | 1 654 |
| Bad debts |  | 1 400 |
| Advertising |  | 2 600 |
| Depreciation |  | 14 400 |
| Salaries |  | 140 000 |
| *Operating profit* |  | 36 245 |
| Interest income | 1 | 4 920 |
| *Profit before interest expense* |  | 41 165 |
| Interest expenses | 2 | (7 890) |
| *NET PROFIT FOR THE YEAR* | 7 | * + 1. 275 |

Activity 3.37: Statement of financial performance (Income Statement)

The purpose of this activity is to ensure that you are able to prepare the statement of financial performance (Income Statement) of a company from a pre-adjustment trial balance.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 45 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

PRE-ADJUSTMENT TRIAL BALANCE OF SMITH

TRADERS AS AT 30 JUNE 20xx

|  |  |  |
| --- | --- | --- |
|  | DEBIT | CREDIT |
| Balance Sheet Accounts Section | R | R |
| Capital Contribution |  | 3 504 460 |
| Mortgage loan: Joy Bank |  | 804 500 |
| Land and buildings | 2 358 800 |  |
| Vehicles | 814 000 |  |
| Equipment | 616 000 |  |
| Accumulated depreciation on vehicles |  | 294 800 |
| Accumulated depreciation on equipment |  | 341 000 |
| Trading stock | 955 000 |  |
| Cash float | 15 000 |  |
| Bank | 717 900 |  |
| Petty cash | 3 300 |  |
| Debtors' control | 396 000 |  |
| Creditors' control |  | 487 300 |
| Provision for bad debts |  | 18 000 |
| Fixed deposit: Broad Bank (8% p.a.) | 495 000 |  |
|  |  |  |
| Nominal Accounts Section |  |  |
| Sales |  | 10 500 000 |
| Debtors' allowances | 145 200 |  |
| Cost of sales | 7 487 000 |  |
| Rent income |  | 176 880 |
| Interest income (on fixed deposit) |  | 26 630 |
| Bad debts recovered |  | 2 300 |
| Drawings | 840 000 |  |
| Delivery expenses | 73 800 |  |
| Salaries and wages | 660 000 |  |
| Packing material | 23 100 |  |
| Marketing expenses | 480 000 |  |
| Sundry expenses | 63 770 |  |
| Bad debts | 12 000 |  |
|  |  |  |
|  | **16 155 870** | **16 155 870** |

Additional information

1. A physical stock-taking on 30 June 20xx revealed the following inventories on hand:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | | Trading stock | R902 150 |  |  |
|  |  | | Packing material | R4 260 |  |  |
| B. | Drawings of R22 500 were not yet recorded | | | | | |
| C. | Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalized | | | | | |
| D. | A debtor who originally owed R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded | | | | | |
|  | Remaining balance must be written off as irrecoverable | | |  |  |  |
| E. | Provision for bad debts must be adjusted to 5% of debtors. | | | | | |
| F. | The rent increased by R1 320 on 1 April 20xx. The tenant has paid rent until the end of July 20xx | | | | | |
| G. | A vehicle was sold on credit for R90 000 on 31 December 2016. The | | | | | |
|  | fixed-asset register revealed the following regarding this vehicle: | | | | | |
|  |  |  |  |  |  |  |
|  |  |  |  |  | R |  |
|  |  |  | Cost price |  | 235 000 |  |
|  |  |  | Accumulated depreciation on 1 July 20xx | | 105 750 |  |
|  | This transaction has not yet been recorded by the bookkeeper. | | | | | |
| H. | Make provision for depreciation as follows: | | | |  |  |
|  | Vehicles at 15% p.a. on cost price | | | |  |  |
| F. | Equipment at 10% p.a. on the diminishing balance method. | | | | | |
|  | NOTE: New equipment to the value of R48 000 was purchased on | | | | | |
|  |  |  | 1 September 2010. This has been correctly recorded. | | | |
| I. | The loan statement received from Joy Bank on 30 June 20xx reflected the following | | | | | |
|  |  | | |  |  |  |
|  |  |  |  |  |  | |
|  |  |  |  |  | R |  |
|  |  |  | Balance at the beginning of the financial year | | 1 125 000 |  |
|  |  |  | Repayments during the year | | 458 000 |  |
|  |  |  | Interest capitalized |  | ? |  |
|  |  |  | Balance at the end of the financial year | | 804 500 |  |
|  |  | | | |  |  |

Required

Complete the Income Statement for the year ended 30 June 20xx

Guided reflection

Check your answers carefully against the memo on the preparation of the statement of financial position. Analysing of transactions is an important part of accounting system, as it also forms part of analysing for the preparation of the statement of financial position. If you could not understand the preparation of the statement of financial performance, revisit the example provided above and also repeat the activity until you grasp the core principles on the preparation of the statement of financial performance.

Watch the following video for a more elaborative explanation of the Income Statement: <https://www.youtube.com/watch?v=EdHQ646zrDI>.

3.3.18 Statement of Financial Position

Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. It is comprised of three main components: Assets, liabilities and equity. Statement of Financial Position helps users of financial statements to assess the financial soundness of an entity in terms of liquidity risk, financial risk, credit risk and business risk.

**Balance Sheet**. A statement of the assets, liabilities, and capital of a business or other organisation at a particular point in time, detailing the balance of income and expenditure over the preceding period

Statement of financial position helps users of financial statements to assess the financial health of an entity. When analyzed over several accounting periods, balance sheets may assist

* To identify underlying trends in the financial position of the entity.
* It is particularly helpful in determining the state of the entity's liquidity risk, financial risk, credit risk and business risk.
* When used in conjunction with other financial statements of the entity and the financial statements of its competitors, balance sheet may help to identify relationships and trends which are indicative of potential problems or areas for further improvement.
* Analysis of the statement of financial position could therefore assist the users of financial statements to predict the amount, timing and volatility of entity's future earnings.

Watch the following YouTube for a brief explanation of the basic statement of financial position before working on the following activity. <https://www.youtube.com/watch?v=GC8roRCwNjQ>.

Activity 3.38: Statement of Business financial position (Balance sheet)

Purpose

The purpose of this activity is to ensure that you are able to prepare a statement of financial position (Balance Sheet) of a company from the given information. One of the aims of the financial documents is to allow key decision makers to evaluate the company's current situation and make changes as needed. The aim of the balance sheet is to reveal the financial status of a business as of a specific point in time i.e. to provide an idea of a company’s financial position. This is a crucial step after the preparation of a trial balance.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 30 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Read the following information of Morgan Traders financial statement and answer the required question

Morgan Traders Trial balance for the year end 20xx

|  |  |
| --- | --- |
| BALANCE SHEET ACCOUNTS SECTION |  |
| Capital contribution | R1 826 000 |
| Long-term loan: Oka Lenders | 235 200 |
| Fixed assets at carrying value (1 March 20xx) | 2 106 500 |
| Trading stock | 61 200 |
| Debtors' control | 52 000 |
| Provision for bad debts (1 March 20xx) | 2 500 |
| Creditors' control | 279 500 |
| Bank – debit | 54 500 |
| Cash float | 12 500 |
| Fixed deposit at Leakage Bank | 80 000 |
| Deposit: Water and electricity | 1 100 |
| ML Pension Fund | 11 500 |
| NOMINAL ACCOUNTS SECTION |  |
| Drawings | 80 000 |
| FINAL ACCOUNTS SECTION |  |
| Trading account (gross profit) | 459 000 |
| Profit and Loss Account (net profit) | 344 000 |
|  |  |

Additional information

* The following adjustments must still be considered:
  + Personal withdrawal of R87 500 was made by the owner
* The net profit of R344 000 was arrived at after the following items were taken into account
  + Packaging material on hand on 28 February 20xx, R4 600
  + Provision for bad debts at 5% of net debtors
  + Insurance prepaid, R1 000
  + Depreciation on fixed assets, R32 400
  + An adjustment to the Rent Income Account (The total on the Rent Income Account was R101 500 which included rent for March and April 20xx – rent was increased by R900 from 1 October 20xx.)
* The loan from Oka Lenders was originally received on1 September 20xx. The loan is to be repaid in equal monthly years. The first installment was paid on 30 September 20xx.

Required

Prepare the Balance Sheet on 28 February 20xx

Guided reflection

How did you find the activity? Difficult? Check your answers carefully against the memo on the preparation of the statement of financial position.

It’s also worthwhile to note that the purpose of the balance sheet is essentially to inform all stakeholders such as the owners, creditors and potential investors about the financial status of the organisation.

* + 1. Analysis of financial statement using the ratios

Ratio analysis

Ratio analysis is the comparison of line items in the financial statements of a business. It is the process of examining and comparing financial information by calculating meaningful financial statement figure percentages instead of comparing line items from each financial statement. It is usually used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements. It is however, less useful to corporate insiders, who have better access to more detailed operational information about the organization.

You need to watch the following YouTube that will give you the necessary background of ratio analysis before you engage with any activity. <https://www.youtube.com/watch?v=GoKIZqSFMIE>.

Profitability (risk/return)

Profitability ratios are a class of financial ratios that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time. Profitability ratios compare income statement accounts to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations.

A **profitability ratio** is a measure of profitability, which is a way to measure a company's performance

Profitability ratios can be used to judge whether companies are making enough operational profit from their assets.

1. Return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

The **return on total assets (ROTA)** is a ratio that measures a company's [earnings](https://www.investopedia.com/terms/e/earnings.asp) before interest and taxes ([EBIT](https://www.investopedia.com/terms/e/ebit.asp)) relative to its total net assets

Formula

The return on assets ratio formula is calculated by dividing net income by average total assets.

Return on Assets Ratio = Net Income

Average Total Assets

Example

Peter's Construction Company is a growing construction business that has a few contracts to build storefronts in Durban. Peter’s balance sheet shows beginning assets of R1, 000,000 and an ending balance of R2, 000,000 of assets. During the current year, Peter’s company had net income of R20, 000,000. Peter's return on assets ratio looks like this.

Return on asset= R20, 000, 000

(R1, 000, 000 + R2, 000,000)/2

=1, 3333%

As you can see, Peter’s ratio is 1,333.3 percent. In other words, every Rand that Peter invested in assets during the year produced R13.3 of net income. Depending on the economy, this can be a healthy return rate no matter what the investment is.

Investors would have to compare Peter’s return with other construction companies in his industry to get a true understanding of how well Peter is managing his assets.

1. Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many dollars in profits each dollar of capital employed generates. This ratio is based on two important calculations: operating profit and capital employed. Net operating profit is often called EBIT or earnings before interest and taxes. EBIT is often reported on the income statement because it shows the company profits generated from operations. EBIT can be calculated by adding interest and taxes back into net income if need be.

**Return on Capital Employed (ROCE)** measures how efficiently a company is using its capital. ROCE measures how well a company is using its capital to generate profits

Formula

Return on capital employed formula is calculated by dividing net operating profit or EBIT by the employed capital.

Return on Capital Employed = Net Operating Profit

Total Assets- Current Liabilities

Example

Fred's Auto Body Shop customizes cars for celebrities and movie sets. During the year, Fred had a net operating profit of R100, 000. Scott reported R100, 000 of total assets and R25, 000 of current liabilities on his [balance sheet](http://www.myaccountingcourse.com/accounting-dictionary/balance-sheet) for the year.

Accordingly, Fred's return on capital employed would be calculated like this:

Return on capital employed= R100, 000/ (R100, 000-R25, 000)

=1.33

As you can see, Fred has a return of 1.33. In other words, every rand invested in employed capital, Fred earns R1.33. Fred's return might is high because he maintains low asset levels.

1. The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each dollar of common stockholders' equity generates ROE is also an indicator of how effective management is at using equity financing to fund operations and grow the company.

Return on equity (ROE) is a ratio that provides investors with insight into how efficiently a company is handling the money that shareholders have contributed to it. In other words, it measures the profitability of a corporation in relation to stockholders' equity.

## Formula

The return on equity ratio formula is calculated by dividing net income by shareholder's equity.

Return on Equity Ratio = Net income

Shareholder’s Equity

Example

Suzan's Tool Company is a retail store that sells tools to construction companies across the country. Suzan reported net income of R100, 000 and issued preferred dividends of R10, 000 during the year. Suzan also had 10,000, R5 per ordinary shares outstanding during the year. Dineo would calculate her return on common equity like this:

Return on equity ratio= R100, 000-R10, 000

10,000 X R5

= 1.80

As you can see, after preferred dividends are removed from net income Dineo's ROE is 1.8. This means that every Rand of ordinary shareholder's [equity](http://en.wikipedia.org/wiki/Equity) earned about R1.80 this year. In other words, shareholders saw a 180 percent return on their investment. Dineo's ratio is most likely considered high for her industry. This could indicate that Dineo's is a growing company

Solvency and liquidity ratios

**Solvency** refers to an enterprise's capacity to meet its long-term financial commitments whilst **liquidity** refers to an enterprise’s [ability to pay](http://www.investopedia.com/terms/a/abilitytopay.asp) short-term obligations; the term also refers to its capability to sell assets quickly to raise cash.

[Solvency](http://www.investopedia.com/terms/s/solvency.asp) and [liquidity](http://www.investopedia.com/terms/l/liquidity.asp) are both terms that refer to an enterprise’s state of [financial health](http://www.investopedia.com/terms/f/financial-health.asp), but with some notable differences.

Solvency refers to the entity’s ability to be able to settle its debts in the long-run where as liquidity refers to the entity’s ability to be able to settle its debts in the short-term.

A solvent company is one that owns more than it owes; in other words, it has a positive [net worth](http://www.investopedia.com/terms/n/networth.asp) and manageable [debt](http://www.investopedia.com/terms/d/debt-load.asp) . On the other hand, a company with adequate liquidity may have enough cash available to pay its bills, but it may be heading for financial disaster down the road.

Solvency and liquidity are equally important, and healthy companies are both solvent and possess adequate liquidity. A number of financial ratios are used to measure a company’s liquidity and solvency, the most common of which are discussed below.

Liquidity Ratios

* Current ratio

The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets

The [current ratio](http://www.investopedia.com/terms/c/currentratio.asp) measures a company’s ability to pay off its [current liabilities](http://www.investopedia.com/terms/c/currentliabilities.asp) (payable within one year) with its current assets such as cash, [accounts receivable](http://www.investopedia.com/terms/a/accountsreceivable.asp) and inventories. The higher the ratio, the better [the company’s liquidity position](http://www.investopedia.com/articles/basics/07/liquidity.asp).

Formula

Current ratio= Current assets /Current liabilities

* Quick ratio or Acid-test ratio

The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets.

The quick ratio measures a company’s ability to meet its short-term obligations with its most liquid assets, and therefore excludes inventories from its current assets. It is also known as the “acid-test ratio.”

Formula

Quick ratio = (Current assets – Inventories) /Current liabilities

= (Cash and equivalents + [Marketable securities](http://www.investopedia.com/terms/m/marketablesecurities.asp) + Accounts receivable) / Current liabilities

* Days sales outstanding

[DSO](http://www.investopedia.com/terms/d/dso.asp) refers to the average number of days it takes a company to collect payment after it makes a sale. A higher DSO means that a company is taking unduly long to collect payment and is tying up capital in [receivables](http://www.investopedia.com/terms/r/receivables.asp). DSOs are generally calculated quarterly or annually.

**Days sales outstanding (DSO)** is the average number of days that [receivables](https://www.accountingtools.com/articles/2017/5/7/accounts-receivable) remain outstanding before they are collected

Formula

DSO = (Accounts receivable / Total credit sales) x Number of days in sales

Solvency Ratios

* Debt to equity

The debt-to-equity ratio (D/E) is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets

This ratio indicates the [degree of financial leverage](http://www.investopedia.com/terms/d/dfl.asp) being used by the business and includes both short-term and [long-term debt](http://www.investopedia.com/terms/l/longtermdebt.asp). A rising debt-to-equity ratio implies higher [interest expenses](http://www.investopedia.com/terms/i/interestexpense.asp), and beyond a certain point it may affect [a company’s credit rating](http://www.investopedia.com/articles/03/102203.asp), making it more expensive to raise more debt.

The debt equity ratio normally refers to long-term liabilities to the entity’s total equity.

Formula = Total debt / Total equity

* Debt to assets

**The debt to asset ratio** is a leverage ratio that measures the amount of total assets that are financed by creditors instead of investors

Another [leverage](http://www.investopedia.com/terms/l/leverage.asp) measure, this ratio measures the percentage of a company’s assets that have been financed with debt (short-term and long-term). A higher ratio indicates a greater degree of leverage, and consequently, [financial risk](http://www.investopedia.com/terms/f/financialrisk.asp).

Formula = Total debt / Total assets

The entity with the higher debt equity ratio will be considered to be high risk which entails high gearing and vice-versa

Activity 3.39: Ratio analysis

Purpose

The purpose of this activity is to ensure that you are able to interpret the calculated ratios and provide informed observation/decision based on those ratios.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator

Suggested time: 20 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Part 1: Alpha Ltd and Omega Ltd

* Consider two companies – Alpha Ltd and Omega Co Ltd – with the following assets and liabilities on their [balance sheets](http://www.investopedia.com/terms/b/balancesheet.asp) (figures in millions of Rands). We assume that both companies operate in the same manufacturing sector, i.e. industrial glues and solvents.

|  |  |  |
| --- | --- | --- |
| Balance Sheet  (in millions of Rands) | Alpha Ltd | Omega Ltd |
| Cash | R5 | R1 |
| Marketable securities | R5 | R2 |
| Debtors control | R10 | R2 |
| Inventories | R10 | R5 |
| Current assets (a) | R30 | R10 |
| Plant & equipment (b) | R25 | R65 |
| Intangible assets (c) | R20 | R0 |
| Total assets (a + b + c) | R75 | R75 |
| Current liabilities\* (d) | R10 | R25 |
| Long-term debt (e) | R50 | R10 |
| Total liabilities (d + e) | R60 | R35 |

* \*In our example, we assume that “current liabilities” only consist of [accounts payable](http://www.investopedia.com/terms/a/accountspayable.asp) and other liabilities, with no [short-term debt](http://www.investopedia.com/terms/s/shorttermdebt.asp). Since both companies are assumed to have only long-term debt, this is the only debt included in the solvency ratios shown below. If they did have short-term debt (which would show up in current liabilities), this would be added to long-term debt when computing the solvency ratios.

Required:

1. Calculate the following ratios for both companies:
2. Current ratio.
3. Quick ratio.
4. Debt to equity.
5. Debt to assets.
6. On each ratio calculated state whether it is acceptable or not acceptable and give a reason why? For both companies.

Part 2: Interpretation

Two other companies Beta Ltd and Gamma Ltd have the following ratios:

|  |  |  |
| --- | --- | --- |
| Ratio | Beta Ltd | Gamma Ltd |
| Current ratio | R40/R20 = 2.0 | R50/R100 =0.5 |
| Quick ratio | R40-R10/R10 =3.0 | R20-R10/40 =0.25 |
|  |  |  |

1. Are both companies’ performing well in terms of the ratios calculated? Compare the two company ratios and state which company is performing better?

Guided reflection

Check your answers carefully against the memo on the ratio analysis. Also note that the interpretation of a ratio is very important as it talks back to the performance of a company. It is highly advisable that you rework those ratios on your own and compare them with the provided solution in order to understand their basis.

Gross Profit Ratios

1. Gross profit on sales

In accounting, gross profit or sales profit is the difference between revenue and the cost of making a product or providing a service before deducting overhead, salaries and wages, and interest payments. Note that this is different from operating profit (earnings before interest and taxes)

**Gross profit margin** is a profitability ratio that measures how much of every rand of [revenues](https://investinganswers.com/node/5108) is left over after paying [cost of goods sold (COGS)](https://investinganswers.com/node/2478).

Formula

Gross profit: sales- cost of sales.

Net Sales: total (cash and credit) sale – debtors allowances)

Gross Profit Percentage = Gross Profit

Total Sales

Worked example

Johan owns a clothing business that designs and manufactures high-end clothing for children. She has several different lines of clothing and has proven to be one of the most successful brands in her space. Here’s what appears on Johan’s income statement at the end of the year.

* Total sales: R1 000 000
* COGS: R350 000
* Rent: R100 000
* Utilities: R10 000
* Office expenses: R2 500

Johan has an upcoming meeting with investors and wants to know how to find gross profit and what method to use

Gross profit percentage= R1 000 000-R350 000/ 1 000 000

= 65%

Johan is currently achieving a 65 percent GP on his clothes. This means that for every dollar of sales Johan generates, he earns 65 cents in profits before other business expenses are paid

1. Gross profit on cost of sales

Gross profit margin is a profitability ratio that calculates the percentage of sales that exceed the cost of goods sold. In other words, it measures how efficiently a company uses its materials and labor to produce and sell products profitably.

Gross profit: sale – cost of sale

Cost of sales: total cost of sale- creditors allowances.

Formula

Gross Profit Percentage = Gross Profit

Cost of Sales

1. Net profit on sales

The profit margin ratio formula can be calculated by dividing net income by net sales. A net sale is calculated by subtracting any returns or refunds from gross sales. Net income equals total revenues minus total expenses and is usually the last number reported on the income statement

Net profit: all income minus all expenses, including interest earned and paid.

Sales: Total (cash + credit) sales- debtor’s allowances.

Formula:

Net profit on sales = Net profit x 100

Total Sales

## Worked example:

|  |  |  |
| --- | --- | --- |
| Sales | R | 210 000 |
| Returns inwards |  | 10 000 |
| Gross profit |  | 80 000 |
| Administrative expenses |  | 15 000 |
| Selling expenses |  | 15 000 |
| Interest on investment |  | 10 000 |
| Loss on account of fire |  | 6 000 |
| Income tax |  | 5 000 |

Net profit ratio would be computed as follows:

Net profit (NP) ratio= Net profit after tax

Net sales

= (R45 000\* / 200 000\*\*)

= 0.225 or 22.5%

*\*Computation of net operating profit after tax:*

|  |  |  |
| --- | --- | --- |
| Gross profit |  | 80 000 |
| Less operating expenses: |  |  |
| Administrative expenses | 15 000 |  |
| Selling expenses | 15 000 | 30 000 |
|  | ——- | ——- |
| Net operating profit before tax |  | 50 000 |
| Less income tax |  | 5 000 |
| Net operating profit after tax |  | 45 000 |

*Note:* Interest on investment and loss on account of fire has been ignored because interest on investment is a non-operating income and loss on account of fire is a non-operating loss.

\*\* *Computation of net sales:*

210 000 – 10 000 = 200 000

1. Operating expenses on sales

The operating ratio compares production and administrative expenses to net sales. The ratio reveals the cost per sales dollar of operating a business. A lower operating ratio is a good indicator of operational efficiency, especially when the ratio is low in comparison to the same ratio for competitors and benchmark firms.

Operating expenses: administration and selling expense as per the income statement, excluding interest payments.

Sales: total: (cash and credit) sales figure- debtors allowances.

Formula: Operating expenses x 100

Sale

3.3.20: Accounting for other forms of ownership.

Introduction:

Now that you have learnt how accounts are kept for sole traders, the next step would be to show how it would differ if the form of ownership was different. We will not go into detail but show the main differences between what you already know and the accounts of other forms of ownership. Here we will touch on the main differences regarding the following only:

a) The Partnership

b) Companies.

Partnership

A type of [business](http://www.businessdictionary.com/definition/business.html) [organisation](http://www.businessdictionary.com/definition/organization.html) in which two or more individuals [pool](http://www.businessdictionary.com/definition/pool.html) [money](http://www.businessdictionary.com/definition/money.html), skills, and other resources, and [share](http://www.businessdictionary.com/definition/share.html) [profit](http://www.businessdictionary.com/definition/profit.html) and loss in accordance with terms of the [partnership agreement](http://www.businessdictionary.com/definition/partnership-agreement.html). In absence of such [agreement](http://www.businessdictionary.com/definition/agreement.html), a partnership is assumed to [exit](http://www.businessdictionary.com/definition/exit.html) where the participants in an [enterprise](http://www.businessdictionary.com/definition/enterprise.html) agree to share the [associated](http://www.businessdictionary.com/definition/associated.html) risks and rewards proportionately.

[](https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=2ahUKEwiF7-DHyordAhUQtRoKHU7gCp8QjRx6BAgBEAU&url=https://smokefreepartnership.eu/&psig=AOvVaw0Ez79goqejlGSi7UOs6Upf&ust=1535368231488776)

The partnership agreement

Although a contract can be entered into verbally it is better for it to be written down to prevent possible arguments between the partners. The contract that is drawn up is known as a partnership agreement and it contains the following information:

* The name of the business.
* The kind of business it is, for example, whether it trades
* The amount and type of capital invested by each partner.
* The right of the partner to a salary, commission or bonus, and how much that should be.
* Provisions about drawings.
* The right of the partners to interest and the rate of the interest.
* The proportion in which profit or losses will be shared between the partners.
* An arbitration clause that sets out disputes will be settled between partners.
* Which partner/s with be authorized to sign cheques.

Partner’s Capital and Current accounts

Capital account

The partnership capital account is an equity account in the accounting records of a partnership. It contains the following types of transactions:

* Initial and subsequent contributions by partners to the partnership, in the form of either cash or the market value of other types of assets

**Capital account** is an equity account in the accounting records of a partnership

* Profits and losses earned by the business, and allocated to the partners based on the provisions of the partnership agreement
* Distributions to the partners

The ending balance in the account is the undistributed balance to the partners as of the current date.

For example, if Rabs originally contributed R50 000 to a partnership, was allocated R35 000 of its subsequent profits, and has previously received a distribution of R20 000, the ending balance in his account is R65 000, calculated as:

R50 000 initial contribution + R35 000 profit allocation - R20 000 distributions and shown as follows:

Dr Capital Account Rabs Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Details* | *Fol* | *Amount* | *Details* | *Fol* | *Amount* |
| Distribution |  | 20 000 | Balance | b/f | 50 000 |
| Balance | c/d | 65 000 | Share profit allocation |  | 35 000 |
|  |  | 85 000 |  |  | 85 000 |

This capital account keeps a record of the capital contributed by each partner to the business and the balance usually remains unchanged for most of the time. The capital contribution of each partner can be in the form of fixed assets or cash.

The amount of capital contributed by each partner is often used as basis for calculating the profit share among that partner.

Example:

Melanie and Mike are in partnership trading as M&M traders, sharing profits and losses according to their capitals. Their capital contributions are as follows:

1. Melanie O capital contribution is R150 000.
2. Mike Z capital contribution is R50 000.
3. Their partnership agreement says profit will be shared in the same ratio as capital contribution.
4. The year’s profit is R400 000.

Calculate each partner’s share of the profit

Solution:

Melanie O share of the profit = R400 000x 150/200= R300 000

Mike Z share of the profit = R400 000x 50/200 = R100 000.

Current account

Each and every partner has separate current account in which his or her share of profits and losses are recorded. The current account is also used at the end of the financial year to record any accrued salaries, bonuses and interest on capital account transactions for the partner. A current account is used to record the profits retained in the business by the partner

The main differences between the capital and current account in accounting for partnerships are as follows.

**Current account** is a separate current account in which partners share of profits and losses are recorded

* The balance on the capital account remains static from year to year.
* The current is continually fluctuating up and down, as the partnership makes profits which are shared out between the partners, and as each partner takes out drawings.
* A further difference is that when the partnership agreement provides for interest on capital, partners receive interest on the balance in their capital account, but not on the balance in their current account.

Current account of Bacca for the year end June 20xx

Dr Current Account -Bacca Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| June 20xx | Interest on drawings | 2 750 | June 20xx | Balance b/d | 101 375 |
|  | Drawings | 20 000 |  | Partners salaries | 180 000 |
|  |  |  |  | Interest on capital | 60 000 |
|  | Balance c/d | 370 000 |  | Appropriation | 51 375 |
|  |  | 392 750 |  |  | 392 750 |

Drawings account

Partners in a partnership, like sole traders, may wish to take cash out from the business for their own use. All these transactions are recorded in the Drawings account of the partner. At the end of every financial period the balance on the Drawings account is transferred to the partner’s current account.

Just in a sole trader business, the balance on the balance on the partner’s Drawings account is closed off at the end of every financial year. In partnership, the drawings account is closed off to the partner’s current account is also shown in the equity section of the Balance sheet of the partnership.

Drawings account of Bacca for the year end June 20xx

Dr Drawings – Bacca Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| June 20xx | Cash | 40 000 | June 20xx | Current - Bacca | 40 000 |
|  |  | 40 000 |  |  | 40 000 |

Salaries to partners

Salaries can be agreed between the partners’ so they can have an income during the year, and these amounts will be paid and debited against the partners Drawings account. Partner salaries debited against drawing drawings may be equal amounts if the partners do equal work or the salary amount can be more for a partner who does a greater share of work in the business.

Partner’s salaries are not part of an income statement for the partnership. The salary amounts are deducted from the profits of the partnership and leave a lower amount available for sharing between them at the end of the financial period. Partnership salaries are a part of the distribution or appropriation of the partnership’s profit and are dealt with by journal entry in the Final accounts of the partnership.

LEDGER ACCOUNTS OF PARTNERS

Appropriation accounts

The appropriation account is used to divide the net profit between the partners according to the partnership agreement.

Watch the following YouTube for a thorough explanation of how to treat partners ‘current and appropriation accounts: <https://www.youtube.com/watch?v=4_I2xTL0PH8>.

Example:

The following balances appeared in the financial records James Partners Stores as at 28 February 20xx. With partners Like and More

* Capital : More R100 000
* Capital: Like R50 000
* Current account: More R26 000(d r)
* Current account: Like R140 000
* Drawings : More R60 000
* Drawings : Like R200 000

The partnership agreement provided for the following:

* More’s salary for the year R120 000
* Like’s salary for the year R80 000
* Interest on capital: More R40 000, Like R20 000.
* The remaining profit or loss must be shared between the partners in the 2:1.

Required:

Prepare the following account properly balance off in the general ledger of James Partners store for the year ended 28 February 20xx.

* Appropriation account.

Solutions

General Ledger of .......James Partners Store....................................20xx..

Balance sheet section account

Example:

Dr Appropriation Account N1 Cr

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20xx  Feb | 28 | Interest on capital  Salary: More  Salary: Like  Current Account :More  Current account :More |  | 72 000    120 000  120 000  192 000  96 000 |  | 20xx  Feb | 28 | Profit and loss |  | 600 000 |
| 600 000 | 600 000 |

Income Statement and Balance Sheet

Prepare the financial statements of the partnership.

Below you will find an illustrative example of the financial statements of the partnership.

Names of partners: Michael and Marcus

Trading as : KJ Distributors

Post- adjustment trial balance as at 28 February 20xx of KJ Distributors

|  |  |  |
| --- | --- | --- |
|  | Dr  R | Cr  R |
| Balance sheet account section  Capital : Michael  Capital: Marcus  Drawings: Michael  Drawings: Marcus  Current acc: Michael  Current acc: Marcus  Land and Buildings  vehicle  equipment  acc depreciation on vehicle  acc depreciation on equipment  investment :Africa bank( 10% p.a)  Loan : DA Bank  Trading inventory  Debtors control  Provision for bad debts  Creditors control  Bank  Petty cash  Cash float  SARS(PAYE)  Short term loan  NOMINAL ACCOUNT SECTION  Sales  Cost of sale  Debtors allowance  Rent income  Interest on investment  Packing material  Salaries  Advertising  Bad debts  Bad debts recovered  Repairs  Interest on loan  Interest on bank overdraft  Sundry expense  Provision for bad debts adjustment  Depreciation(28 000 + 2 000)  Interest on capital (48 000 + 28 000)  Salary: Michael  Salary: Marcus | 68 000  80 000  1025 600  140 000  48 000  25 000  38 500  22 200  300  1 500  259 000  12 600  11 800  70 000  9 800  2 500  6 600  3 575  3 000  60 000  100  30 000  76 000  60 000  80 000  2136 075 | 480 000  280 000  126 000  28 000  90 000  28 000  30 000  1 100  195 210  45 685  7 800  16 400  650 000  62 280  2 500  1 600  2136 075 |

SUGGESTED SOLUTION

Income statement of KJ Stores for the year ended 28 February 20xx

|  |  |
| --- | --- |
| Sales (650 000-12 600)  Cost of sales  Gross profit  Other operating income  Rent income  Bad debts recovered  Gross operating income  Operating expense  Packing material  Salaries  Advertisement  Bad debts  Repairs  Sundry expenses  Provision for bad debts adjustment  Depreciation  Operating profit  Interest income  Profit before interest expense  Interest expense  Net profit for the year | 637 400  (259 000)  378 400  63 800  62 280  1 600  442 280  (190 800)  11 800  70 000  9 800  2 500  6 600  60 000  100  30 000  251 480  2 500  253 980  (6 575)  **247 405** |

Balance Sheet of KJ Stores for the year ended 28 February 20xx

|  |  |  |
| --- | --- | --- |
| ASSETS |  |  |
| NON-CURRENT ASSETS |  | 1 120 600 |
| Land and buildings | 1 025 600 |  |
| Vehicle at carrying value | 50 000 |  |
| Equipment at carrying value | 20 000 |  |
| Financial assets : Investment : Africa Bank | 25 000 |  |
| CURRENT ASSETS |  | 59 500 |
| Trading inventory | 38 500 |  |
| Debtors control | 22 200 |  |
| Petty cash | 300 |  |
| Cash float | 1 500 |  |
|  |  |  |
| TOTAL ASSETS |  | 1 180 100 |
| EQUITY AND LIABILITIES |  |  |
| EQUITY |  | 885 005 |
| Capital accounts | 760 000 |  |
| Current accounts 1 | 125 005 |  |
| NON-CURRENT LIABILITIES |  | 30 000 |
| Loan : DA Bank | 30 000 |  |
| CURRENT LIABILITIES |  | 248 695 |
| Creditors control | 195 210 |  |
| Bank overdraft | 45 685 |  |
| PAYE | 7 800 |  |
| Short term loan | 16 400 |  |
| TOTAL EQUITY AND LIABILITIES |  | 1 180 100 |

Notes

1. Current accounts

|  |  |  |  |
| --- | --- | --- | --- |
| Appropriation of the net profit | Michael | Marcus | Total |
| Interest on capital | 48 000 | 28 000 | 76 000 |
| Salaries | 60 000 | 800 00 | 140 000 |
| Primary distribution of profit | 108 000 | 108 000 | 216 000 |
| Final distribution of profit | 18 843 | 12 562 | 31 405 |
| Profits as per income statement | 126 843 | 120 562 | 247 405 |
| Drawings | (68 000) | (80 000) | (148 000) |
| Balance on the last day of previous year | 58 843  18 000 | 40562  7 600 | 99 405  25 600 |
| **Balance on the last day of current year** | **76 843** | **48 162** | **125 005** |

Profit share ratios

The partnership agreement should stipulate how the net profit or lost should be divided amongst the partners. The final distribution will be after salaries, bonus and interest on capital are appropriated.

Net profit- primary distribution = final distribution

The final distribution of profits or losses is determined by the ratio of the capital contribution or may be equal divided between the partners. Two partners should first agree on the methods that they are going to use, and this is depending on their contribution.

Worked Example: Muezo’s Restaurant

Muezo’s Restaurant is a partnership with a profit for the financial year ended 31 December 20xx of R90 000. After the primary distribution (salaries, interest on capitals) the remaining profit (final distribution) was R18 000).

The capital contribution is as follows:

* Partner Zozo : R70 000
* Partner Muele: R30 000

Required:

1. Determine each partner’s distribution amount if they share profit equally.
2. Determine each partner’s distribution amount if they share the profits in the ratio of 1:2.
3. Determined each partner’s distribution amount if they share the profits in the same ratio as that of their capital contribution.

Suggested solutions:

|  |  |
| --- | --- |
| 1. Zozo: R9 000(50%of R18 000)  Muele R9 000(50% of R18 000) | EQUALLY |
| 2. Zozo: R6 000(1/3 x R18 000)  Muele: R12 000(2/3 x R18 000)  They share in 1/3 and 2/3 | SHARED 1:2 |
| 3. Zozo: R12 600(70/100 xR18 000)  Muele: R5 400(30/100 xR18 000) | SHARED ACCORDING TO CAPITAL |

Activity 3.40: Partnership

Purpose

The purpose of this activity is to ensure that you are able to use partner’s appropriation accounts to determine their total drawings, interest on capital, salaries and other related amounts.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Calculator.

Suggested time: 20 Minutes

What you will do:

* Read and understand the activity question
* Answer the questions in your note book

Information:

The following are currents accounts of Pro Sports partners for the end June 20xx

Dr Current a/c-Ernie Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| June 20xx | Interest on drawings | 2 400 | June 20xx | Interest on loan | 12 000 |
|  | Drawings | 24 000 |  | Partners salaries | 120 000 |
|  |  |  |  | Interest on capital | 28 000 |
|  | Balance c/d | 208 540 |  | Appropriation | 74 940 |
|  |  | 234 940 |  |  | 234 940 |

Dr Current a/c-Gary Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| June 20xx | Interest on drawings | 3 000 | June 20xx | Partners salaries | 80 000 |
|  | Drawings | 30 000 |  | Interest on capital | 32 500 |
|  |  |  |  | Appropriation | 49 960 |
|  | Balance c/d | 129 460 |  |  |  |
|  |  | 162 460 |  |  | 162 460 |

Answer the following question based on the information above:

1. How much is the total drawings of both partners?
2. How much did Gary earn as interest on capital?
3. Were the salaries to partnership equal? Explain your answer.

Guided reflection

Check your answers carefully against the memo of a partnership. Note that in this activity you are dealing with partnership accounts which are different from those related to the accounting treatment of a company. You, therefore need to have more depth on the different forms of ownership and how the accounting system for each form of ownership works.

Companies

The basic information on Companies was covered in Section 2. Please revise this before continuing.

A Company is a [legal entity](https://en.wikipedia.org/wiki/Legal_personality) made up of an [association](https://en.wikipedia.org/wiki/Voluntary_association) of persons, be they [natural](https://en.wikipedia.org/wiki/Natural_person), [legal](https://en.wikipedia.org/wiki/Legal_personality), or a mixture of both, for carrying on a commercial or industrial enterprise. Company members share a common purpose and unite in order to focus their various [talents](https://en.wikipedia.org/wiki/Desire) and organize their collectively available [skills](https://en.wikipedia.org/wiki/Skill) or [resources](https://en.wikipedia.org/wiki/Resource) to achieve specific, declared [goals](https://en.wikipedia.org/wiki/Goal).

Some basics regarding companies:

A company needs funds to start and then run a business. They can get these funds in the following ways:

* Borrowing through loans
* Generating profit
* Raising funds from the shareholders.

Shares

Shares are the units into which the ownership interest in a profit company is divided. The share capital of a company is made up of the funds contributed by shareholders to the company in exchange for their shares in the company

Shareholders are people who own shares in a company, also known as owners of the company. If the company makes a profit, it belongs to the shareholders. If it is a new company, you will buy the shares as indicated in the prospectus (this is called issuing of shares). The company receives cash or assets and in return gives the shareholders shares.

**Shares** are the units into which the ownership in a profit company is divided.

The shareholders have limited liability in the company and thus cannot be held responsible for the debts of the company. Shareholders receive their portion of the profit in the form of dividends. The different types of shares, with their rights and responsibilities, are defined in the Memorandum of Incorporation, but the two basic types include:

Types of shares

* Ordinary shares

Ordinary shares denote a percentage of ownership and give the shareholders voting rights at the AGM (Annual General Meeting). These owners therefore have a say in running the company as well as an investment from which they may earn dividends if the company makes profits.

* Preference shares

Preference shares generally do not have voting rights, but their dividends are paid out before those of ordinary shares when a company makes profit and a dividend is declared. It is therefore purely an investment, so they generally attract a higher dividend.

Debentures

A debenture is a loan to the company and earns interest at a specified rate. A debenture holder is therefor NOT an owner but a creditor. Debentures enable the company to borrow money from sources other than banks and financial institutions.

|  |  |
| --- | --- |
| **Shares** | **Debentures** |
| Percentage of company owned by shareholders | Loan to the business by creditors |
| Reward: Dividends | Reward: Interest |
| Dividends are dependent on profits being earned, and a dividend being declared. | Interest must be paid whether profit is earned or not. |
| Examples of different types of shares:  Cumulative Preference Shares – shares with a fixed rate dividend which, if there are no profits one year, will be accumulated and paid when profits are available as dividends. | Examples of different types of shares:  Debenture to Bearer – debentures which are not registered by name, so the interest is payable to the holder of the debenture. |

Differences between shares and debentures:

* NOTE: Candidates are encouraged to look at publishes financial statements and see the different types of shares and debentures that various companies register.

Dividends

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

Profits for a specific financial period belong to the company (because it is a separate legal entity) and not to the shareholders. It is the director’s function to decide the distribution of dividends. The directors of a company look at the profits the company made before deciding how much of the profits they should distribute to the shareholders’

Income tax and dividend

Income tax

A dividend is in essence any payment by a company to a shareholder for a share held in that company, excluding the return of contributed tax capital (i.e. consideration received by a company for the issue of shares).

The company is a separate taxpayer from its shareholders because it is a separate legal entity. The company pays income tax in its own name on the profit it makes. Income tax payable in South Africa has two components; tax on the profits and tax on the dividends to shareholders. The income tax payable is calculated annually at the end of the financial period. Although the income tax for the year is calculated only at the end of year, the company should make some Income tax payments during the year. These payments are called provisional tax payments and are based on the calculations done by the South Africa Revenue Services (SARS).

Two provisional tax payments are made each year. The first is after the six months of the company financial year. The second provisional tax payment is made at the end of the year for the six months of the company’s financial year. Provisional tax payments are an estimate of the tax payable for that financial year. The provisional tax payments seldom equal the actual tax payable for a specific financial year. The SARS (income tax) account in the General Ledger can therefore either be an asset (debit balance\_ or a liability (credit balance).

The company should be registered as a provisional income tax payer as it pays tax throughout the year, i.e. half-year basis and an assessment is made at the end of the year to determine the tax payable or receivable.

Income tax a direct tax imposed by the government on the INCOME (wages, rent, dividends) received by persons or entities.

Dividends

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property. Many profitable companies pay interim dividends after preparing interim financial statements (usually after six months) in accordance with statutory requirements and for provisional tax purposes.

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

The interim dividend declared and paid during the financial year and the final dividend declared at the end of the financial year represent the total dividends for the year. This amount will be shown in the appropriation account.

Every shareholder listed in the share register of the company will be entitled to the dividend and payment will be made by EFT or cheque. The transaction will be recorded in the Cash Payments Journal.

|  |  |
| --- | --- |
| When the payment takes place | Dr shareholders for dividends  Cr Bank |
| To account for the interim dividend | Dr dividends on ordinary shares( expense)  Cr Bank |
| If an interim declared and not paid immediately | Dr dividends on ordinary shares  Cr shareholders for dividends |

When the payment takes place:

Dr Bank Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
|  |  |  | Shareholders for dividend |  | XXX |

Dr Shareholders for dividend Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
| Bank |  | XXX |  |  |  |

To account for the interim dividend:

Dr Bank Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
|  |  |  | Dividends on ordinary shares( expense) |  | XXX |

Dr Dividend on ordinary shares Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
| Bank |  | XXX |  |  |  |

If an interim declared and not paid immediately:

Dr Dividend on ordinary shares Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
| Shareholders for dividends |  | XXX |  |  |  |

Dr Shareholders for dividend Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
|  |  |  | Dividend on ordinary shares |  | XXX |

As with income tax, the proposal and declaration of the final dividend will occur only after the last day of the financial period. The final dividend will still be owing to the shareholders and will appear as a current liability in the Balance Sheet. Transaction will be recorded in the General ledger.

|  |  |  |  |
| --- | --- | --- | --- |
| Dr  Cr | Dividend on ordinary share( expense)  Shareholders for dividends( liability) | xxxxx | Xxxx |

Dividends are regarded as an appropriation of profit and therefore the dividends on ordinary shares account should be closed off in the appropriation account.

|  |  |  |  |
| --- | --- | --- | --- |
| Dr  Cr | Appropriation account  Dividends on ordinary share | xxxx | Xxxx |

Appropriation account of a company

Dr Appropriation Account Cr

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Details | Fol | Amounts | Details | Fol | Amounts |
| Income tax |  | XXX | Profit and loss account |  |  |
| Dividends on ordinary shares |  | XXX | Retained income at the beginning of the year |  |  |
| Retained income at year end |  |  |  |  |  |

3.3.21 Budgets

Learning outcomes:

Learners should be able to:

a. Draw up a household budget

b. Draw up a 3-month cash budget for a sole trader

Household Budgeting

A personal budget or home budget is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending and personal debt are considered when creating a personal budget

How to draw up a household budget

Writing up a household budget helps you reduce expenses and avoid spending more than you earn. It also helps you plan for emergencies and meet your future goals. Creating a budget doesn't have to be a difficult task, and you don't need to buy any expensive programs or hire a professional. You just need to take a little time and commit to tackle your budget

* Look at Your Current Spending

The best way to create a new budget is to look at your current spending. Gather up your credit card statements, check logs and monthly bills for the past year. If you buy a lot of things with cash, save receipts or write down expenses for a few months. You don't need to buy a fancy software program. Plug everything into a basic spreadsheet, and you'll have a reasonable guideline. Do sweat the small stuff. When you track even the tiniest costs you'll see how quickly they add up.

* Factor in Your Income

Factor in your income. You may hope for, or even expect, a promotion or raise, bonus or even a cost of living increase. It is better, however, to work with a budget based on what you are currently making, since no increase is salary are certain.

* Cut Down on Unnecessary Costs

The process of creating a budget is the best time to analyze your current spending. Maybe you don't need so many TV channels or a fancy cocktail every time you go out. Your gym may be top-of-the-line, but if you only go a couple of times a month, you should reconsider it. You might amaze yourself with how much money you're wasting and find some painless ways you can trim excess.

* Budget for Non-Controllable Expenses

Some expenses are essentially beyond your control, like the cost of fuel, or car repairs. Look at expenses for the prior year and then budget for a 5 percent increase. Take an average for the entire prior year; for example, your electric bill may significantly higher in summer when the air conditioning is running than in winter, so using a single month is not accurate.

* Set Up Emergency and Reserve Funds

You also cannot control the unexpected, like unforeseeable home repairs. Put a line item in your budget each year for a reserve account. This is distinct from establishing an “emergency fund,” which most financial experts recommend. The emergency fund contains money for approximately six months’ worth of expenses, as determined by your household budget, for use if you are unable to work.

* Plan for Savings

Meeting your monthly expenses is your first priority. Don't forget, though, to budget for your future. If you're planning to buy your first home or upgrade your existing one, you'll need to start saving for that. A baby, new car, kitchen remodel or even small vacations are all events to plan for by adding a line in your budget for them. Most important of all, don't forget to budget for retirement. That day may be decades away, but you need to plan now and start saving

Benefits of household budget

A household budget helps you to identify the areas in which you spend and take necessary steps to curtail expenditure on those items that are non-essential and unnecessary. Household expenses often spiral out of control because we have no idea about how the family’s total outgoings are created. Once a household budget is in place, it becomes much easier to bring things under control. It can also teach younger members of the family the importance of money, so that they stop wasting money on unnecessary things. They can utilize this knowledge when they grow up and start their own families.

* Preparation for rainy days

Another important benefit of a household budget is that it can alert you against possible cash flow problems in the future. For example, it will let you know if you have more direct debits from your bank account than your wage can cover. And once alerted, you can then take some necessary measures, such as seeking a small loan or overdraft facility to cover the deficit or get in touch with the concerned companies regarding the direct debits so that you can change your payment plans. As a household budget also gives you a clear picture of the money which is coming into the house, you can then try to increase it in various ways that suit you – like finding a better job, seeking a pay rise, or starting a small new business

* Affordable credit limit

The most important benefit of a household budget is that it gives you an idea of how much credit you are in a position to take on without landing in serious debt problems. Those who do not follow a household budget often find themselves in a debt trap, making extravagant purchases on credit without knowing where the money will finally come from. Last but not the least, making a household budget is a good habit that helps a family to run in a smooth manner.

Example of Monthly Household Budget

|  |  |
| --- | --- |
| Expenditure | Budgeted Amount |
| Savings (to set aside) | R5 000 |
| Child support, Alimony, etc. | R1 500 |
| Other | R2 000 |
| Total | R8 500 |
| **Housing** |  |
| Rent or Mortgage payment | R5 000 |
| Utilities | R500 |
| Home insurance & Taxes | R500 |
| Other | R1 500 |
| Total | R7 500 |
| **Debt Payment** |  |
| Credit Card Payment | R1 000 |
| Student Loan Payment | R650 |
| Other | R1 000 |
| Total | R2 650 |
| **Food & Others** |  |
| Groceries | R2 000 |
| Eating Out | R1 000 |
| Coffee & Bar | R600 |
| Other | R1 500 |
| Total | R5 100 |
| GROSS TOTAL | **R23 750** |

Cash Budget for a business

Learning outcomes

Learners should be able to:

* Prepare a debtors collection schedule
* Prepare a creditors payment schedule
* Evaluate and interpret Cash budgets

What is a Cash Budget?

Cash Budget is a detailed budget of cash inflows and outflows incorporating both revenue and capital items. It is thus a statement in which estimated future cash receipts and payments are tabulated in such a way as to show the forecasted cash balance of a business at defined intervals.

The cash budget is one of the most important planning tools that an organisation can use. It shows the cash effect of all plans made within the budgetary process and hence its preparation can lead to a modification of budgets if it shows that there are insufficient cash resources to finance the planned operations.

It can also give management an indication of the potential problems that could arise and allows them the opportunity to take action to avoid such problems.

Why Budget?

* Many potential funders will require you to provide a budget statement in addition to a business plan (or as part of the business plan), particularly if you are a new business starter
* They help you manage your money
* They help you plan for the future
* They help meet objectives
* Gives you the confidence that your business will make a profit (in some cases)
* They can identify problems before they occur (such as the need for finance, etc)
* Improves decision making
* Increases staff motivation, as they have to meet targets
* Monitors performance (are you capable of meeting targets - recognized from previous budgets)

⇒The cash budget deals only with cash transactions

⇒It is a plan of future cash:

* To be received (expected receipts); and
* To be paid (expected payments).

|  |  |  |
| --- | --- | --- |
|  | Sources of Receipts | Sources of Payments |
| 1 | Cash sales (main source) | Cash purchases of trading stock |
| 2 | Receipts from debtors (schedule) | Payments to creditors (payment schedule) |
| 3 | Incomes e.g. rent income | Expenses e.g. insurance |
| 4 | Sale of fixed asset (cash received) | Purchases of fixed assets |
| 5 | Loans received | Loans repaid |
| 6 | Interest from investments | Interest on loans |
| 7 | Fixed deposits on maturing | Investments made |
| 8 | Additional shares issued | Dividends, taxation, etc. |

The following items must be excluded from the cash budget because they do not involve the flow of cash i.e. they are non-cash items:

* Depreciation
* Bad debts
* Discount allowed or received
* Profit or loss on sale of asset.

EXAMPLE OF A CASH BUDGET

**Jumbo Pty Ltd**

**Cash budget for a period from April to May 20XX**

|  |  |  |
| --- | --- | --- |
|  | April | May |
| CASH RECEIPTS |  |  |
| Cash sales | 20 000 | 25 000 |
| Cash from debtors | 33 000 | 30 400 |
| Other receipts (e.g. Capital) | 15 600 | 17 400 |
| TOTAL RECEIPTS | 68 000 | 72 800 |
| CASH PAYMENTS |  |  |
| Cash purchase of trading inventory | 22 000 | 28 000 |
| Payments to creditors | 15 900 | 12 100 |
| Operating expenses (e.g. rent expenses, bank charges ) | 16 000 | 13 300 |
| Interest on borrowed money | 6 800 | 7 000 |
| Taxation | 10 000 | 6 500 |
| Dividends | 5 000 | 4 000 |
| Other payments (e.g. equipment, furniture) | 1 800 | 1 000 |
| TOTAL PAYMENTS | 77 500 | 71 900 |
|  |  |  |
| Cash Surplus/Shortfall | (9 500) | 900 |
| Bank- opening balance/(overdraft) | 11 600 | 2 100 |
| Bank-closing balance/(overdraft) | 2 100 | 3 000 |

Debtors Collection Schedule

* It is drawn to determine the amounts we expect to collect from debtors every month.
* Such collections are to be made from credit sales. If total sales are given, calculate the amount of credit sales. Then calculate the collections from debtors.
* The amounts calculated are taken to the cash budget.

Worked Example

Brukedo Pty Ltd

Use the given information to prepare the Debtors collection schedule for Brukedo Pty Ltd for March, April and May 20xx.

Information: Total sales

|  |  |  |
| --- | --- | --- |
|  | ACTUAL | BUDGETED |
| January | 640 000 |  |
| February | 720 000 |  |
| March |  | 680 000 |
| April |  | 790 000 |
| May |  | 980 000 |

Note:

1. Credit sales amount to 60% of total sales.
2. Credit sales are normally collected as follows:

* 40% pay during the same month and are entitled to 5% discount.
* 30% pay after one month i.e. after 30 days.
* 28% pay after 60 days i.e. after 2 months.
* 2% are written off after 60 days.

SUGGESTED SOLUTION

Brukedo Pty Ltd

Debtors’ collection schedule

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Credit sales | March | April | May | Bad debts |
| January:640 000 x 60%= | 384 000 |  |  |  |  |
| 384 000 x (40% - 5%) : Jan |  |  |  |  |  |
| x 30% : Feb |  |  |  |  |  |
| x28% : March |  | 107 520 |  |  |  |
| x 2% : bad debts |  |  |  |  | 7 680 |
|  |  |  |  |  |  |
| February: 720 000 x 60%= | 432 000 |  |  |  |  |
| 432 000 x (40% - 5%) : Feb |  |  |  |  |  |
| x 30%: March |  | 129 600 |  |  |  |
| x 28%: April |  |  | 120 960 |  |  |
| x 2%: Bad debts |  |  |  |  | 8 640 |
|  |  |  |  |  |  |
| March: 680 000 x 60%= | 408 000 |  |  |  |  |
| 408 000 x (40% - 5%): March |  | 155 040 |  |  |  |
| x 30%: April |  |  | 122 400 |  |  |
| x 28%: May |  |  |  | 114 240 |  |
| x 2%: Bad debts |  |  |  |  | 8 160 |
|  |  |  |  |  |  |
| April: 790 000 x 60%= | 474 000 |  |  |  |  |
| 474 000 x (40% - 5%): April |  |  | 180 120 |  |  |
| x 30%: May |  |  |  | 142 200 |  |
| x 28%: June |  |  |  |  |  |
|  |  |  |  |  |  |
| May: 980 000 x 60%= | 588 000 |  |  |  |  |
| 588 000 x (40% - 5%):May |  |  |  | 223 440 |  |
| Expected collections |  | 392 160 | 423 480 | 479 880 | 24 480 |

Creditors Payment Schedule (Payments to Creditors)

* It is drawn up to determine the expected amounts to be paid to creditors.
* Calculations are based on the cost of goods bought on credit.
* Amounts calculated are then shown in the cash budget as Payments to creditors.

Activity 3.41: Cash budgeting

Purpose

The purpose of this activity is to ensure that you are able to draw a three months cash budget of an entity from the given information. You will also be able to note that its primary purpose is to provide the status of the cash position of the business at any point of time. This helps the owners to make critical decisions such as creating cash reserves to plan for foreseeable shortages and using excess funds carefully.

What you will need:

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers

Suggested time: 30 Minutes

What you will do:

* Read and understand the activity question
* Answer the question set on the activity in your note book

Following information has been provided for Zonke Traders:

The opening cash balance on 1 January was R60 000. The Budget sales (all credit) were as follows:

* November R160 000
* December R180 000
* January R150 000
* February R150 000
* March R160 000

The debtors settle their accounts according to the following pattern: 60% within the month of sale, 25% in the month following sale and 15% in the second month following sale.

An extract from the purchases of stock were as follows:

* November R120 000
* December R110 000
* January R 90 000
* February R110 000
* March R110 000

All purchases are on credit and are paid as follows: 90% in the month of purchase and the balance in the month after purchase.

Wages are R30 000 Per Month and operating Expenses are R40 000 per month (including R10 000 depreciation); this are settled in cash every month.

Drawings of R16 000 is made every February and Zonke Made an additional Contribution of R50 000 in March

Required

Prepare the cash budget for Zonke Traders for January, February and March. Show all Workings.

Guided reflection

Check your answers carefully against the memo on the cash budget of Zonke Traders for January, February and March. Should you not grasp the preparation of the cash budget and also on the analysis of the cash budget transactions, study the chapter again and then repeat the activity until you grasp the core principles of analysing the cash budget transitions and the preparation thereof.

SUMMARY OF LEARNING UNIT

This unit dealt with accounting issues of this module. The meaning, importance and the guiding principles of Information Management were dealt with first. The evolution from GAAP to IFRIS in South Africa was narrated. From the graphical presentation of the accounting cycle, each stage was dealt with in greater detail. This included the analysis of transactions using the basic accounting equation and the expanded accounting equation, posting from journals to ledgers as well as drawing up a pre-adjustment trial balance. Adjustments are explained using solved problems and then the post-adjustment trial balance are prepared, and a worked example has been provided for consolidation. The statements of financial performance (income statement) and financial position (balance sheet) are then drawn to conclude the accounting cycle.

The next part dealt with the analysis of financial statements using ratios. Greater emphasis was put on profitability, solvency and liquidity as well as gross profit ratios. Activities to test your understanding of ratios have been included in this section

The application of accounting to other forms of ownership is explained and the focus was only on the difference and additional items only. The last part dealt with personal budgets and sole trader cash budget. A three-month cash budget activity has been included to assess the level of your understanding of the cash budget.

**UNIT ASSESSMENT**

Question1

Following are the information for Fish Pty Ltd.

1. Fish started the vision camera Centre on 1st August 20xx and entered into the following transactions during August 20xx:

2. Fish opened a bank account in the name of the business and deposited R100 000 into the account. He entered into a lease agreement with HB shopping Centre and paid R21 400, being a deposit of R10 000 and the first month rent of R10 374

3. Paid the water and electricity deposit of R1 000 to HB municipality.

4. Purchased equipment to the value of R79 800 on credit from Kodak suppliers (invoice 021) and paid a deposit of R8000.

5. Purchased stationery from P&P stationery, R1 140 and paid by cheque/EFT.

6. Purchased merchandise on credit from Photo corporation (invoice 032), R72 732. Returned a camera, invoiced at R456, that was damaged in transit from Photo Corporation and received their credit note number C0123.

7. Cashed a cheque/EFT and paid the week wages, R1 200. Banked the cash sales for the week of R6 384

9. Sold merchandise on credit to Rother photo Centre for R13 680 (invoice 001).

11. Purchased merchandise on credit from photo corporation (invoice 040), R14 478

12. Issue a cheque/EFT for R855 to Express Printers for advertising brochures printed.

13. Purchased merchandise from KB suppliers and paid by cheque/EFT R5 700.

14. Cashed a cheque and paid week wages of R1 200. Cash sales for the week of R13 224 was banked

15. You allowed a discount of 5% on the account of Rother photo Centre when they issued a cheque/EFT to settle their account (refer 9 August).

17. Sold goods to lake studios on credit for R9 804, per invoice 002

18. Received R456 for photos taken for Thulamela rugby club.

19. Received a cheque for R57 from Express printer with a note that indicate that calculation error had been dame to their invoice.

21. The week cash sales of R14 706 were banked. Cashed a cheque and paid the week wages of R1 200

22. Sold goods on credit to JB photo services for R4 446, per invoice 003

23. Issued a cheque for goods purchased from Fiji Cc R16 530

25. JB photo services returned a defective camera to the value R1 026 (refer 22 August). Issue a credit note number SCN001. Returned the defective camera purchase for R513, to photo corporation and received their credit note C0183

26. Paid the telephone account of R969, received from Telephone Company R342 was for installation fees.

27. Paid water and electricity account of R1 596 for the month to HB municipality.

28. Cash sales for the week of R15 048 were banked. The owner cashed a cheque for R6 200 for the week wages of R1 200, the balance was for his own use.

30. Sold goods to the valued of R1 710 on credit to Rother photo Centre per invoice 004. Leaked studios paid R9 690 in full settlement of their account (refer 17 August).

31 issued a cheque of R6 000 to Kodak suppliers as a payment on their account. Issued a cheque of R20 000 to photo corporation. Received a discount of R171 (refer to 6 August)

REQUIRED

1. Prepare all journals using the above transaction
2. Post all journals from (1.) to the general ledger
3. Prepare a pre-adjustment trial balance using the balance on the general ledger you have prepared in no 2
4. Do the adjustment entries and prepare the post adjustment trial balance.

Question 2

Use same information as in question 1 together with the following additions to answer questions underneath.

* The accountant has not yet taken the equipment depreciation for the year into account. Equipment depreciation is 20% p.a. on a straight-line basis.
* The consumable store on hand at the end of the year of stationery purchased during the year was valued to be R2 000
* The balance of debtor’s control of vision Camera Centre (VCC) was R6 156 on 30 July 20xx. An investigation revealed that JB photo services who owed R1 156 at 30 July 20xx was insolvent and have to be written off as Bad Debt.
* At the end of November 2015 Vision Camera Centre (VCC) invested 29 440 at the VBS bank for 12 months, at an interest of 15% payable monthly.
* On 1 July 20xx Vision Camera Centre received at water and electricity account of R15 944. The balance of water and electricity was R2 596 at year end.
* On July Vision Camera Centre entered into agreement with Spot Cleaners to render services for a fee of R350 per month for 12 months and made a payment of R2 100 for cleaning service for 6 month.
* Fish also deposited R2 100 into the business account

1. Prepare an income statement and balance sheet statement of the company using the post trail balance.

Solution

* CASH JOURNALS

FISH PTY LTD

CASH RECIEPTS JOURNAL CRJ1

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Bank | Sales | Debtors | Disco Unit Allowed | Sundry accounts | | |
| Amount | Fol | Details |
| Rec 1 | 2 | Fish |  | 100 000 |  |  |  | 100 000 | GL1 | Capital |
| CRR 1 | 7 | Cash sales |  | 6 384 | 6 384 |  |  |  |  |  |
| CRR 2 | 14 | Cash sales |  | 13 224 | 13 224 |  |  |  |  |  |
| Rec 2 | 15 | Rother photo centre |  | 12 996 |  | 13 680 | (684) |  |  |  |
| CRR 3 | 18 | Thulamela rugby club |  | 456 | 456 |  |  |  |  |  |
| Rec 3 | 19 | Express Printers |  | 57 |  |  |  | 57 | GL2 | Advertisement |
| CRR 4 | 21 | Cash sales |  | 14 706 | 14 706 |  |  |  |  |  |
| CRR 5 | 28 | Cash sales |  | 15 048 | 15 048 |  |  |  |  |  |
| Rec 4 | 30 | Lake studios |  | 9 690 |  | 9 804 | (114) |  |  |  |
|  |  |  |  | 172 561 | 49 818 | 23 484 | (798) | 100 057 |  |  |
|  |  |  |  | GL3 | GL4 | GL5 | GL6 |  |  |  |

CASH PAYMENT JOURNAL CPJ1

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Bank | Wages | Purchases | Creditors | Disco  Unt  Received | Sundry accounts | | |
| Amount | Fol | Details |
| 001 | 2 | Thulamela shopping centre |  | 20 374 |  |  |  |  | 10 000  10 374 | GL8  GL8 | Rent deposit  Rent expense |
| 002 | 3 | Thulamela municipality |  | 1 000 |  |  |  |  | 1 000 | GL9 | deposit |
| 003 | 4 | Kodak suppliers |  | 8 000 |  |  | 8 000 |  |  |  |  |
| 004 | 5 | P&P stationery |  | 1 140 |  |  |  |  | 1 140 | GL10 | stationery |
| 005 | 7 | Cash |  | 1 200 | 1 200 |  |  |  |  |  |  |
| 006 | 12 | Express Printers |  | 855 |  |  |  |  | 855 | GL2 | advertisement |
| 007 | 13 | Moi supplieirs |  | 5 700 |  | 5 700 |  |  |  |  |  |
| 008 | 14 | Cash |  | 1 200 | 1 200 |  |  |  |  |  |  |
| 009 | 21 | Cash |  | 1 200 | 1 200 |  |  |  |  |  |  |
| 010 | 23 | FIJI Cc |  | 16 530 |  | 16 530 |  |  |  |  |  |
| 011 | 26 | Telephone company |  | 969 |  |  |  |  | 969 | GL11 | Telephone |
| 012 | 27 | Thulamela municipality |  | 1 596 |  |  |  |  | 1 596 | GL9 | Water & electricity |
| 013 | 28 | Cash |  | 6 200 | 1 200 |  |  |  | 5 000 | GL13 | drawings |
| 014 | 31 | Kodak |  | 6 000 |  |  | 6 000 |  |  |  |  |
| 015 |  | Photo corporation |  | 20 000 |  |  | 20 171 | (171) |  |  |  |
|  |  |  |  | 92 990 | 4 800 | 22 230 | 34 171 | (171) | 31 960 |  |  |
|  |  |  |  | GL3 | GL12 | GL14 | GL15 | GL16 |  |  |  |

DEBTORS JOURNAL DJ

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| INVOICE NUMBER | DAY | DETAILS | FOL | SALES | DEBTORS |
| S001 | 9 | ROTHER PHOTO CENTRE |  | 13 680 | 13 680 |
| S002 | 17 | LAKE STUDIOS |  | 9 804 | 9 804 |
| S003 | 22 | JB PHOTO SERVIVES |  | 4 446 | 4 446 |
| S004 | 30 | ROTHER PHOTO CENTRE |  | 1 710 | 1 710 |
|  |  |  |  | 29 640 | 29 640 |
|  |  |  |  | GL4 | GL5 |

CREDITORS JOURNAL CJ

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| INVOICE NUMBER | DAY | DETAILS | FOL | PURCHASES | CREDITORS |
| P001 | 6 | PHOTO CORPORATION |  | 72 732 | 72 732 |
| P002 | 11 | PHOTO CORPORATION |  | 14 478 | 14 478 |
|  |  |  |  | 87 210 | 87 210 |
|  |  |  |  | GL14 | GL15 |

ALLOWANCE JOURNAL

* DEBTORS ALLOWANCE DAJ

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| INVOICE NUMBER | DAY | DETAILS | FOL | SALES RETURN | DEBTORS |
| SCN001 | 25 | JB PHOTO SERVICES |  | 1 026 | 1 026 |
|  |  |  |  |  |  |
|  |  |  |  | 1 026 | 1 026 |
|  |  |  |  | GL18 | GL5 |

* CREDITORS ALLOWANCE CAJ

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| INVOICE NUMBER | DAY | DETAILS | FOL | PURCHASES RETURN | CREDITORS |
| PCN001 | 6 | PHOTO CORPORATION |  | 456 | 456 |
| PCN002 | 25 | PHOTO CORPORATION |  | 513 | 513 |
|  |  |  |  | 1 026 | 1 026 |
|  |  |  |  | GL17 | GL15 |

GENERAL JOURNAL J1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | DEBIT | CREDIT |
| 2015 AUG | 4 | EQUIPMENT at cost  Creditors  Equipment purchased on credit from kadak suppliers | GL19  GL15 | 79 800 | 79 800 |

Interpret Ledger accounts

Using above information

LEDGERS ACCOUNTS

DR CAPITAL 1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20 Aug | 2 | Bank | CRJ1 | 100 000 |

DR ADVERTISING 2 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug  Sep | 31  1 | Bank  Balance | CPJ  b/d | 855 | 20xx Aug | 19 | Bank  Balance | CRJ1  c/d | 57  798 |
| 855 | 855 |
| 798 |  |

DR BANK 3 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug  Sep | 31  1 | Receipts  balance | CRJ1  b/d | 172 561 | 20xx  Aug | 31 | Payment  balance | CPJ1  c/d | 92 990  79 571 |
| 172 561 | 172 561 |
| 79 571 |  |

DR SALES 4 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx  Aug | 31 | Bank  Debtors | CRJ1  DJ1 | 49 818  29 640 |
| 79 458 | 79 458 |

DR DEBTORS CONTROL 5 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug  Sep | 31  1 | Sales  Balance | DJ1  b/d | 29 640 | 20xx  Aug | 31 | Bank & discount  Sales returns  Balance | CRJ1  DAJ1  c/d | 23 484  1 026  6 156 |
| 29 640 | 29 640 |
| 6 156 |  |

DR DISCOUNT ALLOWED 6 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Debtors control | CRJ | 798 |  |  |  |  |  |

DR DRAWINGS 13 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 5 000 |  |  |  |  |  |

DR RENT EXPENSES 8 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 20 374 |  |  |  |  |  |

DR WATER AND ELECTRICITY 9 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 2 596 |  |  |  |  |  |

DR STATIONERY 10 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 1 140 |  |  |  |  |  |

DR TELEPHONE EXPENSE 11 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 969 |  |  |  |  |  |

DR WAGES 12 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank | CPJ | 4 800 |  |  |  |  |  |

DR PURCHASES 14 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank  Creditors | CPJ  CJ | 22 230  87 210 |  |  |  |  |  |
| 109 440 | 109 440 |

DR CREDITORS CONTROL 15 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Bank  Purchase return  Balance | CPJ  c/d | 34 171  969    131 870 | 20xx  Aug  Sep | 31  1 | Purchases  Equipment  Balance | CJ  J1  b/d | 87 210  79 800 |
| 167 010 | 167 010 |
|  | 131 870 |

DR DISCOUNT RECIEVED 16 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx  Aug | 31 | Bank | CPJ | 171 |

DR PURCHASE RETURN 17 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 2015  Aug | 31 | Creditors control | CAJ | 969 |

DR SALES RETUN 18 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Debtors | DAJ | 1 026 |  |  |  |  |  |

DR EQUIPMENT AT COST 19 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug | 31 | Creditors control | J1 | 79 800 |  |  |  |  |  |

Pre –Adjustment Trial Balance at 31 August 20xx

|  |  |  |  |
| --- | --- | --- | --- |
|  | FOL | DEBIT | CREDIT |
| Capital |  |  | 100 000 |
| Advertisement |  | 798 |  |
| Bank |  | 79 571 |  |
| Sales |  |  | 79 458 |
| Debtors control |  | 6 156 |  |
| Discount allowed |  | 798 |  |
| Rent expenses |  | 20 374 |  |
| Water and Electricity |  | 2 596 |  |
| Stationery |  | 1 140 |  |
| Telephone expenses |  | 969 |  |
| Drawings |  | 5 000 |  |
| Wages |  | 4 800 |  |
| Purchase |  | 109 440 |  |
| Creditors control |  |  | 131 870 |
| Discount received |  |  | 171 |
| Purchase return |  |  | 969 |
| Sale return |  | 1 026 |  |
| Equipment at cost |  | 79 800 |  |
|  |  |  |  |
|  |  | **312 468** | **312 468** |

YEAR END ADJUSTMENT TO PRE-ADJUSTMENT TRIAL BALANCE

USING INFO ON EXAMPLE 1 AND ITS PRE-ADJUSTMENT TRIAL BALANCE

Additional information:

* The accountant has not yet taken the equipment depreciation for the year into account. Equipment depreciation is 20% p.a. on a straight-line basis.
* The consumable store on hand at the end of the year of stationery purchased during the year was valued to be R2 000
* The balance of debtor’s control of vision Camera Centre (VCC) was R6 156 on 30 July 20xx. An investigation revealed that JB photo services who owed R1 156 at 30 July 20xx was insolvent and have to be written off as Bad Debt.
* At the end of November 2015 Vision Camera Centre (VCC) invested 29 440 at the VBS bank for 12 months, at an interest of 15% payable monthly.
* On 1 July 2016 Vision Camera Centre received at water and electricity account of R15 944. The balance of water and electricity was R2 596 at year end.
* On July Vision Camera Centre entered into agreement with Spot Cleaners to render services for a fee of R350 per month for 12 months and made a payment of R2 100 for cleaning service for 6 months.
* Fish also deposited R2 100 into the business account

Solution

General journal

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Month | Day | Details | Fol | Debit | Credit |
| July 20xx | 31 | Depreciation  Accumulated Depreciation : equipment  Depreciation on equipment for the year | GL20  GL21 | 15 960 | 15 960 |
|  |  | Stationery  Consumable store on hand  Recording stationery on hand | GL10 | 860 | 860 |
|  |  | Bad debts  Debtors control  The account of JB P.S written off as irrecoverable | GL22  GL5 | 1 156 | 1 156 |
|  |  | Accrued income  Interest income  Accrued interest calculated at 15% p.a. on R29 440 for 8 months | GL23  GL24 | 2 944 | 2 944 |
|  |  | Water and Electricity  Accrued Expenses  Water & Electricity account received on July | GL9  GL25 | 15 944 | 15 944 |
|  |  | Prepaid expense  Cleaning expense  Prepaid expense paid for the next financial year | GL26  GL27 | 2 100 | 2 100 |
|  |  | Bank  Capital  Fish Invested in the Business | GL3  GL1 | 2 100 | 2 100 |

General ledger

General Ledger

DR CAPITAL 1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx Aug  July | 2  31 | Bank  Bank | CRJ1  GJ | 100 000  2 100 |

DR BANK 3 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| Sep 20xx  July 20xx | 1  31  31 | Balance  Capital  Balance | b/d  b/d | 79 571  2 100 |  |  | Balance | c/d | 81 671 |
| 81 671 | 81 671 |
| 81 671 |  |

DR DEBTORS CONTROL 5 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx  Aug  20yy July | 31  31 | Balance  Balance | b/d | 6 156 | 20yy  July | 31 | Bad debts  Balance | GJ  c/d | 1 156    5 000 |
| 6 156 | 6 156 |
| 5 000 |  |

DR Bad Debts 22 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20yy  July | 31 | Debtors control | GJ | 1 156 |  |  |  |  |  |

DR Depreciation CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20yy  July | 31 | Accumulated depreciation | GJ | 15 960 |  |  |  |  |  |

DR Accumulated Depreciation on EQUIPMENT CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20yy  July | 31 | Depreciation | GJ | 15 960 |

Post-Adjustment trial Balance at 31 August 2016

|  |  |  |  |
| --- | --- | --- | --- |
|  | FOL | DEBIT | CREDIT |
|  |  |  |  |
| Capital |  |  | 102 100 |
| Advertisement |  | 798 |  |
| Bank |  | 81 671 |  |
| Sales |  |  | 79 458 |
| Debtors control |  | 5 000 |  |
| Discount allowed |  | 798 |  |
| Rent expenses |  | 20 374 |  |
| Water and Electricity |  | 18 540 |  |
| Stationery |  | 2 000 |  |
| Telephone expenses |  | 969 |  |
| Drawings |  | 5 000 |  |
| Wages |  | 4 800 |  |
| Purchase |  | 109 440 |  |
| Creditors control |  |  | 131 870 |
| Discount received |  |  | 171 |
| Purchase return |  |  | 969 |
| Prepaid expenses |  | 2 100 |  |
| Sale return |  | 1 026 |  |
| Bad debts |  | 1 156 |  |
| Interest income |  |  | 2 944 |
| Equipment at cost |  | 79 800 |  |
| Accumulated Depreciation |  |  | 15 960 |
|  |  | **333 472** | **333 472** |

Statement of financial position (Income statement)

|  |  |
| --- | --- |
|  | R |
| Sales (79 458 -1026) | 78 432 |
| Cost of sales | - |
| Gross Profit | 78 432 |
| Other Operating Income | 171 |
| Discount received | 171 |
| Gross Operating Profit/loss | 78 603 |
| Operating Expenses | (52 121) |
| Stationery | 2 000 |
| Bad debts | 1 156 |
| Cleaning expenses | 2 100 |
| Water & electricity | 18 540 |
| Advertisement | 798 |
| Discount allowed | 798 |
| Telephones expense | 969 |
| Wages | 4 800 |
| Drawings | 5 000 |
| Depreciation | 15 960 |
| Operating Profit | 26 482 |
| Interest income | 2 944 |
| Profit for the year | 29 426 |

Statement of financial position (Balance sheet) at 31 August 20xx

|  |  |
| --- | --- |
|  | R |
| ASSETS |  |
| Non-Current Assets |  |
| Equipment at year end (78 000-15960) | 63 480 |
| Current Assets |  |
| Bank | 81 671 |
| Trade receivables | 5 000 |
| Stock/inventory | 113 245 |
|  |  |
| TOTAL ASSETS | 263 396 |
| OWNERS EQUITY & LIBILITY |  |
|  |  |
| OWNERS EQUITY |  |
| Equity | 131 526 |
| LIABILITIES |  |
| Non-Current Liabilities |  |
| Mortgage bond | - |
| Current Liabilities |  |
| Trade payables | 131 870 |
|  |  |
| TOTAL OWNERS EQUITY & LIABILITIES | 263 396 |

SOLUTIONS TO EXCERCISES

SOLUTION TO 3.27

1. STEPS :

1. Transactions

Financial transactions start the process. Transactions can include the sale or return of a product, the purchase of supplies for business activities, or any other financial activity that involves the exchange of the company’s assets, the establishment or payoff of a debt, or the deposit from or payout of money to the company’s owners.

2. Journal entries

The transaction is listed in the appropriate journal, maintaining the journal’s chronological order of transactions. The journal is also known as the “book of original entry” and is the first place a transaction is listed.

3. Posting

The transactions are posted to the account that it impacts. These accounts are part of the General Ledger, where you can find a summary of all the business’s accounts.

4. Trial balance

At the end of the accounting period (which may be a month, quarter, or year depending on a business’s practices), you calculate a trial balance.

5. Adjusting journal entries

You post any corrections needed to the affected accounts once your trial balance shows the accounts will be balanced once the adjustments needed are made to the accounts. You don’t need to make adjusting entries until the trial balance process is completed and all needed corrections and adjustments have been identified.

6. Financial statements

You prepare the balance sheet and income statement using the corrected account balances.

7. Closing the books

You close the books for the revenue and expense accounts and begin the entire cycle again with zero balances in those accounts.

Solution to 3.28

|  |  |
| --- | --- |
| CONCEPT | EXPLANATION |
| Business entity rule | The finances of the company are kept separate from that of the shareholders |
| Going concern | Financial statements are prepared with the understanding that the company will continue operating in future. |
| Historical cost | All assets are recorded at their original cost price e.g. Land and Buildings are recorded at that price you paid for. |
| Matching | Income and expenses must be recorded in the correct financial year e.g. sales and cost of sales |
| Materiality | All-important items must be shown separately in the financial statements (e.g. directors’ fees) or when decisions must be made (e.g. is it worth having separate accounts for wages and salaries if you have only two employees?) |
| Prudence | Figures used in financial statements should be realistic (conservative – always record the worst scenario). The aim of this principle is to show the reality “as it is” and not make things prettier than what they are. E.g. you will show ‘net debtors’ in the balance sheet (trade debtors minus provision for bad debts) |

SOLUTION TO 3.29

1. C
2. G
3. H
4. F
5. A
6. D
7. I
8. B
9. E
10. J

SOLUTION TO EXECISE 3.30

Analysis of transaction

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Assets | Liabilities | Owners’ equity | Explanation |
| 1 | +100 000 |  | +100 000 | Capital contribution to the business |
| 2 | +1 000 |  | + 1 000 | Payment of rented premise in Sandton |
| 3 | +-15 000 |  |  | Recording of new assets (computer equipment) purchased |
|  | +-25 000 |  |  | Recording of new assets (office equipment) purchased |
| 4 | +100 000 | +100 000 |  | Raising a liability and recording of new vehicle purchase |
| 5 | +1 000 | +1 000 |  | Recording a liability of petrol |
| 6 | +7 000 | +7 000 |  | Income received in advance and obligation to provide service |
| 7 | +3 000 |  | +3 000 | Revenue increase as client makes an immediate payment |
| 8 | -6 000 |  | -6 000 | Recording of Personal withdrawal from business account |

SOLUTION TO 3.31

EFFECTS ON BASIC ACCOUNTING EQUATION

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction | Assets | = | Liabilities | + | Equity |
| 1. CASH SALES | 500 | = |  | + | 500 |
| 2. PAYMENT TO CREDITOR | (500) | = | (500) | + |  |
| 3. COST OF SALES | (300) | = |  | + | (300) |
| 4. DRAWINGS | (450) | = |  | + | (450) |
| 5. RENT RECEIVED | 1 000 | = |  | + | 1 000 |

EFFECTS ON EXPANDEND ACCOUNTING EQUATION

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | = | Owners’ Equity | + | Liabilities | + | Revenue | - | Expenses | - | Drawings |
| 500 | = | 0 | + | 0 | + | 500 | - | 0 | - | 0 |
| 500 | = | 0 | + | 500 | + | 0 | - | 0 | - | 0 |
| -500 | = | 0 | + | 0 | + | 0 | - | 500 | - | 0 |
| 0 | = | 500 | + | 0 | + | 0 | - | 0 | - | 500 |
| 1 000 | = | 0 | + | 0 | + | 1 000 | - | 200 | - | 00 |

SOLUTION TO 3.32

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | = | owner’s equity | | + | Liabilities | | |
| Effect | Reason | Effect | Reason | | | Effect | Reason | |
| +28 000 | Bank increase | + 28 000 | Capital increase | | |  |  | |
| +/- 125 800 | Vehicle increase and bank decrease |  |  | | |  |  | |
| -750 | Bank decrease | -750 | Rent expenses increase | | |  |  | |
| -800 | Bank decrease | - 800 | Water and electricity increase | | |  |  | |
| +/-8900 | Bank decrease and equipment increase |  |  | | |  |  | |
|  |  | +/-750 | Drawings increase and capital decrease | | |  |  | |

SOLUTION TO 3.33

CASH PAYMENT JOURNAL CRJ1

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Doc  N0 | Day | Details | Fol | Bank | Creditors | wages | Sundry accounts | | |
| Amount | Fol | Details |
| 01 | 01 | Municipality |  | 320 |  |  | 320 |  | Trading license |
|  | 02 | T mooki |  | 560 |  |  | 560 |  | Cash float |
|  | 03 | Central mall |  | 500 |  |  | 500 |  | Rent |
|  | 04 | Wella |  | 3 120 |  |  | 3 120 |  | Equipment |
|  | 05 | Cash |  | 500 |  | 500 |  |  |  |
|  | 07 | Bargain busters |  | 3 500 |  |  | 3 000  130  370 |  | Material  Packing material  Stationery |
|  | 10 | Fast food |  | 25 000 |  |  | 25 000 |  | Vehicle |
|  | 12 | Cash |  | 500 |  | 500 |  |  |  |
|  |  | T Moooki |  | 325 |  |  | 325 |  | Drawings |

SOLUTION TO 3.34

DR CAPITAL CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 2015 Aug | 2 | Bank | CRJ1 | 28 000 |

DR VEHICLE CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx Aug | 2 | Bank | CRJ1 | 125 800 |  |  |  |  |  |

DR EQUIPMENT CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 201xxAug | 2 | Bank | CRJ1 | 8 900 |  |  |  |  |  |

DR DRAWINGS CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx Aug | 2 | Bank | CRJ1 | 750 |

DR COST OF SALES CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx Aug | 2 | Trading stocks | CRJ1 | 1 000 |  |  |  |  |  |

DR TRADING STOCK CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx Aug | 2 | Creditors | CJ1 | 5 000 | 20xx Aug | 2 | Cost of sales | DJ1 | 1 000 |
|  |  |  |  |  |  |  | Balance | c/d | 4 000 |
|  |  |  |  | 5 000 |  |  |  |  | 5 000 |

DR CREDITORS CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx Aug | 30 | Bank | CPJ1 | 2 500 | 20xx Aug | 2 | Trading Stock | CJ1 | 5 000 |
|  |  | Balance | c/d | 2 500 |  |  |  |  |  |
|  |  |  |  | 5 000 |  |  |  |  | 5 000 |

DR DEBTORS CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
| 20xx Aug | 2 | Sales | DJ1 | 2 000 |  |  |  |  |  |

DR SALES CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| MONTH | DAY | DETAILS | FOL | R | MONTH | DAY | DETAILS | FOL | R |
|  |  |  |  |  | 20xx Aug | 2 | Debtors | DJ1 | 2 000 |

SOLUTION TO 3.35ive a list of balances and ask

Trial Balance

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| CAPITAL |  | 161 000 |
| BANK | 235 000 |  |
| DEBTORS | 3 500 |  |
| BAD DEBTS | 2 500 |  |
| DEPRECIATION |  | 13 500 |

SOLUTION TO 3.36

ADJUSTMENT ENTRIES

|  |  |  |  |
| --- | --- | --- | --- |
| GENERAL JOURNAL OF MADZHIYA TRADERS | FOL | DEBIT | CREDIT |
| Trading stock deficit |  | 500 |  |
| Trading stock |  |  | 500 |
| Consumable store on hand |  | 3 070 |  |
| Stationery |  |  | 2 180 |
| Packing materials |  |  | 890 |
| Prepaid expenses |  | 1 500 |  |
| Advertising |  |  | 1 500 |
| Telephone |  | 1 200 |  |
| Accrued expenses |  |  | 1 200 |
| Accrued income |  | 500 |  |
| Interest on fixed deposit |  |  | 500 |
| Bad debts |  | 300 |  |
| Debtors control |  |  | 300 |
| Interest on loan |  | 6 000 |  |
| Accrued expenses |  |  | 6 000 |
| Rent income |  | 5 000 |  |
| Income received in advance |  |  | 5 000 |
| Prepaid expenses |  | 600 |  |
| Insurance |  |  | 600 |

Post-adjustment Trial Balance of Global Traders

|  |  |  |  |
| --- | --- | --- | --- |
|  | Fol | Debit | Credit |
| Capital |  |  | 315 260 |
| Drawings |  | 18 400 |  |
| Land and building |  | 238 000 |  |
| Vehicles |  | 160 000 |  |
| Equipment |  | 90 500 |  |
| Accumulated depreciation : Vehicles |  |  | 64 000 |
| Accumulated depreciation : Equipment |  |  | 16 200 |
| Trading stock |  | 23 800 |  |
| Debtors control |  | 14 300 |  |
| Bank |  | 18 400 |  |
| Petty cash |  | 600 |  |
| Cash float |  | 500 |  |
| Creditors control |  |  | 28 830 |
| Fixed deposit: AB Investors (10% p.a.) |  | 20 000 |  |
| Loan: SA Bank (12% p.a.) |  |  | 100 000 |
| Consumable store on hand |  | 3 070 |  |
| Prepaid expenses |  | 2 100 |  |
| Accrued expenses |  |  | 7 200 |
| Accrued income |  | 500 |  |
| Income received in advance |  |  | 5 000 |
|  |  | 571 770 | 571 770 |

SOLUTION TO ACTIVITY 3.37

INCOME STATEMENT FOR THE YEARD END 30 JUNE 2011

|  |  |  |
| --- | --- | --- |
| Sales( 10 500 000 – 145 200 ) |  | 10 354 800 |
| Cost of sales |  | (7 487 000) |
| Gross profit |  | 2 867 800 |
| Other operating income |  | 164 660 |
| Rent income (176 880 – 14 520 ) |  | 162 360 |
| Bad debt recovered |  | 2 300 |
|  |  |  |
| Gross operating income |  | 3 032 460 |
| Operating expenses |  | (1 543 100) |
| Delivery expenses |  | 73 800 |
| Salaries and wages |  | 660 000 |
| Packing material (23 100 – 4 260) |  | 18 840 |
| Marketing expenses |  | 480 000 |
| Sundry expenses |  | 63 770 |
| Bad debts (12 000 +19 200) |  | 31 200 |
| Provision for bad debts adjustment (18 840 – 18 000) |  | 840 |
| Depreciation (61 050 + 43 425) |  | 131 175 |
| Loss on sale of asset (235 000-(105 750+17 625+90 000) |  | 21 625 |
| Trading stock deficit |  | 52 850 |
|  |  |  |
| Operating profit |  | 1 498 360 |
| Interest income (26 630 + 12 970) |  | 39 600 |
| Profit before interest expenses |  | 1 537 960 |
| Interest expenses (458 000 + 804 500 – 1 125 000) |  | (137 500) |
| Net profit after tax |  | **1 400 460** |

Solution to activity 3.38

Balance Sheet on 28 February 2010

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS | Note |  |  |
|  |  |  |  |
| NON-CURRENT ASSETS |  |  | 2 154 100 |
| Fixed assets (2 106 500 – 32 400) |  | 2 074 100 |  |
| Financial assets: |  |  |  |
| Fixed deposit: leakage Bank |  | 80 000 |  |
|  |  |  |  |
|  |  |  |  |
| CURRENT ASSETS |  |  | 184 300 |
| Inventory (61 200+ 4 600) |  | 65 800 |  |
| Debtors (52 000 + 1 100 - 2 600+ 1 000) |  | 51 500 |  |
| Cash and cash equivalent (54 500 + 12 500) |  | 67 000 |  |
|  |  |  |  |
| TOTAL ASSETS |  |  | 2 338 400 |
|  |  |  |  |
| EQUITY AND LIABILITY |  |  |  |
|  |  |  |  |
| OWNERS EQUITY |  | 1 899 300 | 1 899 300 |
|  |  |  |  |
| NON-CURRENT LIABILITY |  |  | 168 000 |
| Mortgage loan: Oka Lenders (235 200 - 67 200) |  | 168 000 |  |
|  |  |  |  |
| CURRENT LIABILITIES |  |  | 271 100 |
|  |  |  |  |
| Current portion of loan |  | 67 200 |  |
| Trade and other payables  (279 500+ 11 500+ 87 500+15 400) |  | 203 900 |  |
| TOTAL EQUITY AND LIABILITY |  |  | 2 338 400 |

Solution to Activity 3.39

Part 1

* 1. Calculating Liquidity and Solvency Ratios

Let’s use a couple of these liquidity and solvency ratios to demonstrate their effectiveness in assessing a company’s financial condition.

1. Alpha Ltd

Current ratio = R30 : R10 = 3.0

Quick ratio = (R30 – R10) :R10 = 2.0

Debt to equity = R50 : R15 = 3.33

Debt to assets = R50 : R75 = 0.67

1. Omega Ltd

Current ratio = R10 : R25 = 0.40

Quick ratio = (R10 – R5) : R25 = 0.20

Debt to equity = R10 : R40 = 0.25

Debt to assets = R10 : R75 = 0.13

2Alpha Inc.

Yes. The company is performing well in term of ratios calculated

* Omega Co.

No. The company is performing poor in terms of ratios calculated

Alpha Inc.

* Current Ratio =3:1 the current ratio is acceptable because it’s higher than the norm of 2:1 which means that the company liquidity is sufficient.
* Quick ratio =2:1 the current ratio is acceptable because its higher than then norm of 1:1 which means the company Assets can cover the company liabilities and its liquidity is sufficient
* Debt to equity =33.3% the current ratio is acceptable because the ratio in percentage is lower and it increase the company credit rating
* Debt to assets =66.7% the current ratio is acceptable because the higher the ratio, it indicates a greater degree of leverage, and consequently, [financial risk](http://www.investopedia.com/terms/f/financialrisk.asp).

Omega Co.

* Current Ratio =0,4:1 the current ratio is not acceptable because it’s lower than the norm of 2:1 which means that the company liquidity is insufficient.
* Quick ratio =0.2:1 the current ratio is not acceptable because its higher than then norm of 1:1 which means the company Assets can cover the company liabilities and its liquidity is sufficient
* Debt to equity =25% the current ratio is acceptable because the ratio in percentage is lower and it increase the company credit rating
* Debt to assets =13% the current ratio is not acceptable because the higher the ratio, it indicates a greater degree of leverage, and consequently, [financial risk](http://www.investopedia.com/terms/f/financialrisk.asp). This one does not.

Part 2

1.

* According the calculated ratios of both companies, Beta Ltd is performing better because all of its ratios are acceptable and Gamma Ltd on the other hand is not performing well since only one ratio is acceptable.
* Beta Ltd is acceptable because it yields higher value ratios than Gamma which is Good for the company for investors

Solution to Exercise 3.40

1. R54 000
2. R32 500
3. No, it was shared using a ratio.
4. 120 000/(120 000+80 000)=0.6 {6:4} or 80 000/200 000=0.4 {4:6)

Solution to Activity 3.40

Workings

Receipts from Sales

|  |  |
| --- | --- |
|  | January Cash (R) |
| Nov (15% x 160 000) | 24 000 |
| Dec (25% x 180 000) | 45 000 |
| Jan (60% x 150 000) | 90 000 |
|  | 159 000 |
|  | February Cash (R) |
| Dec (15% x 180 000) | 27 000 |
| Jan (25% x 150 000) | 37 500 |
| Feb (60% x 150 000) | 90 000 |
|  | 154 500 |
|  | March Cash (R) |
| Jan (15% x 150 000) | 22 500 |
| Feb (25% x 150 000) | 37 500 |
| Mar (60% x 160 000) | 96 000 |
|  | **156 000** |

Payment for purchases

|  |  |
| --- | --- |
|  | January Cash (R) |
|  |  |
| Dec (10% x 110 000) | 11 000 |
| Jan (90% x 90 000) | 81 000 |
|  | 92 000 |
|  | February Cash (R) |
|  |  |
| Jan (10% x 90 000) | 9 000 |
| Feb (90% x 110 000) | 99 000 |
|  | 108 000 |
|  | March Cash (R) |
| Feb (10% x 110 000) | 11 000 |
| Mar (90% x 110 000) | 99 000 |
|  | 110 000 |

Cash Budget of Zonke Traders

|  |  |  |  |
| --- | --- | --- | --- |
|  | January (R) | February (R) | March (R) |
| Opening Balance | 60 000 | 67 000 | 37 500 |
| Add: Cash Receipts |  |  |  |
| Receipts from Sales | 159 000 | 154 500 | 156 000 |
| Capital |  |  | 50 000 |
| Total Receipts | 219 000 | 221 500 | 243 500 |
| Less Cash Payment |  |  |  |
| Purchases | 92 000 | 108 000 | 110 000 |
| Wages | 30 000 | 30 000 | 30 000 |
| Operating Expenses (less Depreciation) | 30 000 | 30 000 | 30 000 |
| Drawings |  | 16 000 |  |
| Closing Balance | 67 000 | 37 500 | 73 500 |

**References**

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