

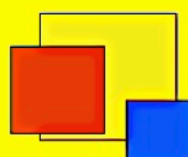
ACCOUNTING



EZ Learn Accounting

Grade 10

Written by Barbara Williamson



EZ Learn

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7. The general journal

By the end of this chapter you should be able to

- Record the following transactions:
 - Bad debts (full or partial amount received)
 - Bad debts recovered
 - Owner taking stock for own use
 - Donations of Stock
 - Correction of errors
 - Interest on overdue accounts
- Prepare and/or interpret the following ledger accounts from given information:
 - Debtors Control
 - Creditors Control
 - Trading Stock

7.1. Baseline assessment



1. Can you determine the journal into which a transaction must be recorded?
2. Can you identify the accounts to be debited and credited for a transaction?
3. Can you post from journals to the general ledger?

☺	☹	☹
☺	☹	☹
☺	☹	☹

If you have ticked mostly happy faces, great! You are ready to start this new section. If you are not sure, or have ticked mostly sad faces, it might be wise to ask your teacher for some extra help before moving on.

7.2. Group activity



You will need: Scissors, glue, 7 envelopes, pencil

Part 1

1. Cut out the envelope labels and transactions on the following pull-out pages.
2. Glue the envelope labels onto 6 of your envelopes.
3. In groups, discuss each transaction to determine the accounts involved and which will be debited and credited. Write them in the space provided.
4. Decide which journal you would record each transaction in, and place the slip of paper in the correct envelope. Your extra envelope is for those transactions for which you are not sure where to put them.
5. Compare the transactions you placed in your envelopes with those of other groups.

Part 2

6. How do you think you could record the transactions for which there was no suitable journal? Brainstorm with your group to think of possible solutions.

7. Present your suggestion(s) to the class.

7. The general journal

Envelope labels

Cash receipts journal	Cash payments journal
Debtors journal	Debtors allowances journal
Creditors journal	Creditors allowances journal

Transactions

1. Cash sales of merchandise R2 400 (cost price R1 800).

Debit	Credit

2. Credit sales of merchandise R1 500 (mark up 50% on cost).

Debit	Credit

3. Trading stock bought for R3 300, paid by EFT.

Debit	Credit

4. Credit purchase of equipment, R404.

Debit	Credit

5. Stationery bought on credit R88.

Debit	Credit

6. Goods returned by a debtor as they were the wrong size R66.

Debit	Credit

7. Damaged goods returned by a debtor, R45.

Debit	Credit

(pull out page)

7. The general journal

8. Stationery returned to a creditor, R20.

Debit	Credit

9. Debtor paid account of R200, 5% discount allowed.

Debit	Credit

10. Sent proof of EFT for R1 720 to a creditor, received R80 discount.

Debit	Credit

11. Debtors owing R77 insolvent. Received R55.

Debit	Credit

12. The remainder of the debt must be written off as irrecoverable (see no. 11)

Debit	Credit

13. Owner paid his private telephone account using a business EFT for R160.

Debit	Credit

14. Owner took goods at cost for her own use, R210.

Debit	Credit

15. Charged 10% interest on a debtor's overdue account of R360.

Debit	Credit

16. A debtor's proof of EFT payment for did not appear on the bank statement as it was fraudulent.

Debit	Credit

(pull out page)

7. The general journal

17. Stationery bought for R75 was incorrectly posted to the Trading stock account – this error must be corrected.

Debit	Credit

18. An invoice from a creditor for repairs was entered as R65 instead of R56.

Debit	Credit

19. Paid General Dealers by EFT for stationery R46 and equipment R66.

Debit	Credit

20. Goods bought on credit from George Brothers for R300, incorrectly posted to G. George's account in the Debtor's Ledger (credited).

Debit	Credit

(pull out page)

The general journal

The general journal is a book of first entry for transactions that do not fit into any of the other journals that the business is using. Authorisation is needed from a senior staff member for many of these transactions to avoid fraudulent misuse of the journal. A journal entry shows which account to debit and which to credit, with an explanation called a "journal narration".

General Journal of (name of business) – (date)								GJ	
Doc	Day	Details	F	Debit	Credit	Debtors control		Creditors control	
						Debit	Credit	Debit	Credit
	30	(account debited) (account credited) (explanation of transaction)		XXX	XXX				

If a debtor (or creditor) is involved, the name of the debtor (creditor) would appear in the details column, and the amount would also appear in the debtors control (creditors control) column. At the end of the month, the debtors and creditors columns are totalled and posted to the debtors' and creditors' control accounts. All other amounts are posted individually to the general, debtors' and creditors' ledger accounts involved.

General journal transactions

Bad Debts

If a debtor cannot be traced or is declared insolvent, the debt may be written off as "bad" (irrecoverable). This is a loss for the business. If an estate is insolvent (its liabilities exceed its assets), the assets are sold for cash and creditors are paid in proportion to the amount due. "x cents in the rand" means that for every rand due, x cents are paid out. The actual amount received is recorded in the Cash Receipts Journal as usual and the remainder (100 – x) is written off as bad.

Bad debts recovered

Sometimes a debtor may pay off a debt after it has been written off. A new account is created to increase owner's equity (bad debts decreased owner's equity initially). Bad Debts Recovered is credited and Bank is debited. Because cash is received, this is recorded in the Cash Receipts Journal, and does not affect Debtors Control as the debtor's account no longer exists.

Drawings of Stock

The owner may take stock for his or her own use. This is recorded using a journal entry.

Interest on overdue accounts

If the normal credit term (time allowed for the payment of the debt) is exceeded, debtors are charged interest. This is usually calculated automatically, if computerised, when the statements are printed. Interest received is an income account.

Correction of errors

Mistakes may be made when recording transactions. In order to correct the error, a general journal entry may be made to adjust the accounts involved. Identify the correct account, and debit or credit it as should have been done originally. The incorrect account will then be treated as the other account involved. If you are not sure exactly how to correct the error, you may find rough T-accounts useful – record the incorrect entry, as well as how the entry should have been made originally. Compare the incorrect and correct entries and adjust the accounts to arrive at the correct result intended.

7.3. Example



Required

Record the given transactions in the general journal of Mahomed Traders for March 20_5 and post to the general ledger.

Transactions

1. M Kietzmann's account of R500 must be written off as irrecoverable.
2. Sohail Mahomed, the owner, took stock with a cost price of R200 for his own use.
3. Charged V Vasseleou's overdue account of R1 000 with R10 interest.
4. Trading stock costing R3 000 was incorrectly posted to the Equipment account. This error must be corrected.
5. R400 was received from M Hudson, a debtor whose account was previously written off as bad.

Solution

Cash receipts journal of Mahomed Traders - March 20_5

CRJ1

Doc	D	Details	Analysis of receipts	Bank	Current income	Sundry accounts		
						Amt	Details	F
324	5	M Hudson	400	400		400	Bad debts recovered	I2

General journal of Mahomed Traders – March 20_5

GJ1

D	Details	F	Debit	Credit	Debtors control		Creditors control	
					Debit	Credit	Debit	Credit
1	Bad debts M Kietzmann Account written off as irrecoverable	E1 D1	500	500		500		
2	Drawings Trading stock Owner took goods for own use	O1 A2	200	200				
3	V Vasseleou Interest received on overdue accounts Interest charged on overdue account	D2 I1	10	10	10			
4	Trading stock Equipment Correction of error	A2 A1	3 000	3 000				
					10	500		
					A3	A3		

7. The general journal

Dr		General ledger of Mahomed Traders										Cr	
Drawings O1													
20_5 Mar	2	Trading stock	GJ	200									
Equipment A1													
					20_5 Mar	4	Trading stock	GJ	3 000				
Trading stock A2													
20_5 Mar	4	Equipment	GJ	3 000	20_5 Mar	2	Drawings	GJ	200				
Debtors' control A3													
20_5 Mar	31	Sundry accounts	GJ	10	20_5 Mar	31	Sundry accounts	GJ	500				
Interest received on overdue accounts I1													
					20_5 Mar	3	Debtors control / V Vasseleou	GJ	10				
Bad debts recovered I2													
					20_5 Mar	5	Bank	CRJ	400				
Bad debts E1													
20_5 Mar	1	Debtors' control / M Kietzmann	GJ1	500									
Debtors' ledger of Mahomed Traders													
M Kietzmann D1													
Date		Document			F	Debit		Credit		Balance			
20_5 Mar	1	Balance			b/d					500			
		Journal voucher			GJ			500		-			
V Vasseleou D2													
Date		Document			F	Debit		Credit		Balance			
20_5 Mar	1	Balance			b/d					1 000			
	3	Journal voucher			GJ	10				1 010			

7. The general journal

Dr

General ledger of Tanner Traders
Drawings O1

Cr

[illegible]

Trading stock A1

[illegible]

Debtors control A2

[illegible]

Creditors control L1

[illegible]

Interest received on overdue accounts 11

[illegible]

Stationery E1

[illegible]

Repairs E2

[illegible]

Bad debts E3

[illegible]

Debtors' ledger of Tanner Traders

C Chikumbu D1

Date		Document	F	Debit	Credit	Balance
20_5 June	1	Balance	b/d			77

J Henry D2

Date		Document	F	Debit	Credit	Balance
20_5 June	1	Balance	b/d			3 600

G George D3

Date		Document	F	Debit	Credit	Balance
20_5 June	1	Balance	b/d			(300)

Creditors' ledger of Tanner Traders

George Brothers C1

Date		Document	F	Debit	Credit	Balance

Ruttel Repairers C2

Date		Document	F	Debit	Credit	Balance
20_5 June	1	Balance	b/d			65

7. The general journal

Debtors Ledger of Seedat Stores T. Spratt D1

Date	Document	F	Debit	Credit	Balance

P. Tshabalala D2

Date	Document	F	Debit	Credit	Balance

Dr General ledger of Seedat stores Cr Drawings O2

Trading stock A6

Debtors control A7

Discount allowed E5



7.6. Exercise

Required

Draw up the given general ledger accounts with from the information below.

Balances 1 April 20_4

Trading stock R4 120, Debtors control R817, Bank R16 803, Creditors control R2 150, Sales R8 285, Cost of sales R4 144, Discount allowed R60, Stationery R399, Bad debts R702

Journal totals for April 20_4

Cash Receipts Journal of Du Toit Traders – April 20_4 CRJ2

Bank	Sales	Cost of sales	Debtors control	Discount allowed	Sundry accounts
110 289	6 128	3 064	2 434	39	98 000

Sundry accounts include R88 000 for capital and R10 000 for a loan from Citi Bank on the 1st.

Cash Payments Journal of Du Toit Traders – April 20_4 CPJ2

Bank	Trading stock	Wages	Creditors control	Discount received	Sundry accounts
20 911	3 960	1 060	13 784	689	3 796

Sundry accounts include Rent expense, R1 800 and Equipment R1 480 on the 2nd, Stationery R136 on the 4th, Interest on loan, R100 on the 15th and Drawings, R280 on the 22nd.

Creditors Journal of Du Toit Traders – April 20_4 CJ2

Creditors control	Trading stock	Stationery	Sundry accounts
19 365	10 203	216	8 946

Sundry accounts include Equipment, R8 600 on the 1st and Packing material R346 on the 7th.

Creditors Allowances Journal of Du Toit Traders – April 20_4 CAJ2

Creditors control	Trading stock	Stationery	Sundry accounts
400	336	36	28

Sundry accounts are made up of R28 Packing material on the 11th.

Debtors Journal of DuToit Traders – April 20_4 DJ2

Sales	Cost of sales
2 780	2 224

Debtors Allowances Journal of Du Toit Traders – April 20_4 DAJ2

Debtors allowances	Cost of sales
206	165

General Journal of Du Toit Traders – April 20_4 GJ2

					Debtors control	
D	Details	F	Debit	Credit	Debit	Credit
11	M. Attwood		39		39	
	Discount allowed			39		
13	M. Attwood		26		26	
	Interest received			26		
30	Bad debts		140			140
	B. Vundla			140		
					65	140

7. The general journal

dr.

General Ledger of Du Toit Traders Trading stock A1

cr.

Debtors control A2

Bank A3

Creditors control L1

Sales I1

Cost of sales E1

Stationery E2

Bad debts E3

7.7. Formative assessment

(30 marks, 20 minutes)



On 31 August 20_4, the control accounts were drawn up incorrectly in the books of Ismail Distributors

Required

1. Make the necessary entries in the General Journal, with analysis columns for Debtors and Creditors control.
2. Draw up the control accounts correctly, taking into account the posting from the general journal.

Incorrect accounts:

General ledger of Ismail Distributors									
Dr					Cr				
Debtors control A5									
Aug	1	Balance	B/d	5 610	Aug	31	Debtors allowances	DAJ	625
	31	Bank & discount	CRJ	2 360					
		Sales	DJ	3065					
Creditors control L3									
Aug	31	Sundries	CJ	6 083	Aug	1	Balance	B/d	4 065
		Creditors allowance	CAJ	408			Bank & discount	CPJ	3 822

NOTE: All the amounts are correct, but some entries appear on the wrong side of the account.

The following transactions have not yet been recorded in the firm's books on 31 August 20_4:

- Charged N. Jerome's account with R30 interest.
- Sale of goods to V. Aster on credit for R65 was incorrectly posted to the account of A. Voster. This error must be corrected.
- An EFT payment for R436 in favour of Russel Stores was incorrectly posted to the account of Russels Suppliers. This error must be corrected.

7. The general journal

General journal of Ismail Distributors – August 20_4

GJ

[illegible]

Dr

General ledger of Ismail Distributors
Debtors control A5

Cr

[illegible]

Creditors' control L3

[illegible]

8. Year-end accounting

By the end of this chapter you should be able to

- Understand the importance of IFRS
- Record the following year end adjustments:
 - Trading stock deficit
 - Consumable stores on hand
 - Prepaid and accrued expenses²
 - Income received in advance and accrued income³
- Record closing transfers to the final accounts



8.1. Baseline assessment



1. What journal is used for unusual transactions?

2. How are bad debts written off?

Dr _____ Cr _____

3. How would you correct the error of trading stock bought being recorded as stationery?

Dr _____ Cr _____

4. How do you calculate gross profit?

5. Which accounts are used to draw up an Statement of Income?

😊	😐	😞

² Not examinable for IEB in grade 10

³ Not examinable for IEB in grade 10



8.2. Group activity

Scenario

You have been asked by a friend who runs a small business to help him draw up the financial statements for the financial year. Since you enjoyed completing Statement of Incomes and Statement of Financial Positions in EMS last year you are willing to help. He provides you with the following trial balance:

Tsholo's Treats
Trial balance at 31 August 20_5

	Debit	Credit
Capital		8 000
Drawings	3 500	
Equipment	2 000	
Trading stock	2 500	
Debtors' control	600	
Cash	3 400	
Creditors' control		2 000
Sales		15 000
Cost of sales	10 000	
Transport expense	1 000	
Cell phone	1 500	
Advertising	500	
	25 000	25 000

He also tells you the following information:

1. He still owes his mom R200 for his last trip to Makro to stock up on goodies. He has not yet recorded this anywhere.
2. Although he has kept his records very carefully during the year, when he counted his stock he discovered that he has snacks and chocolates worth only R2 400, not the R2 500 he expected.
3. He has already paid R50 for an advertisement in the school newsletter that will only appear during September.

What you have to do

1. Draw up the financial statements for Tsholo, taking consideration of all the additional information Tsholo has given you. Do you think any of this will change the figures you would show in the financial statements? Discuss each in your group carefully. You may treat them in any way you like, but may find it helpful to consider what you would treat as assets, liabilities and expenses.

Tsholo's Treats
Statement of Income for the year ended 31 August 20_5

Sales	
Cost of sales	
Gross profit	
Operating expenses	
Net profit for the year	

8. Year-end accounting

Tsholo's Treats Statement of Financial Position at 31 August 20_5

ASSETS	
Non-current assets	
Current assets	
Total assets	
EQUITY AND LIABILITIES	
Owner's equity	
Current liabilities	
Total equity and liabilities	

Explanations of how you treated the additional information:

1.

2.

3.

2. Compare your Statement of Income and Statement of Financial Position to those of other groups, and discuss all the items you have treated differently. Note them here.

3. Given that you all had the same information to start with, do you think it is problematic that some of you handled transactions differently? Why?

4. How do you think these different approaches might be controlled in actual accounting practice?

International Financial Reporting Standard

The International Accounting Standards Board (IASB)⁴ has issued an International Financial Reporting Standard (IFRS) which covers the presentation of financial statements. The aim of this is to ensure that financial statements are drawn up using the same basic overall considerations, so that the financial statements of one business can be compared with those of another, or with statements from previous years. IAS1⁵ lists the overall considerations to be taken into account when preparing financial statements for a business, and IAS8 deals with accrual accounting.

Accrual basis

The effects of transactions are recognized when they occur, and NOT when cash is received or paid, and so transactions are reported in the financial statements of the periods to which they relate.

Application ...

The monthly telephone account has not yet been paid - since the expense has already been incurred, this is included in the current financial statements, the amount owing being shown as a liability.

Services have been rendered to a customer who has not yet paid -

since the fee has already been earned, it is included in calculating the income of the business, and the amount owed by the customer is shown as an asset.

An advertising campaign for the next financial year has already been paid for - this amount will NOT be included as an expense in the current year's financial statements. Instead, the prepayment is shown as an asset.

A tenant has paid a month's rental in advance - this has not yet been earned, and so will NOT be included in the Statement of Income. Instead, the amount received in advance will be treated as a liability.

Fair presentation

The financial statements should fairly represent the performance, financial position and cash flows of a business.

Application ...

By applying the International Financial Reporting Standards, this is achieved.

Going concern

Financial statements are prepared on the assumption that the business will continue operating for the foreseeable future, unless the business will stop trading.

Application ...

If a business intends to stop trading, assets will be shown at liquidation value (estimated market value) instead of at cost. The fact that the business intends to stop trading will be disclosed in the notes to the financial statements.

Comparability (consistency)

Users of financial statements need to be able to compare different businesses when deciding which to invest in, or to compare business performance over time. To allow for this, items in the financial statements should be classified in the same way each period (unless a change becomes more appropriate), and the previous period's figures must also be shown.

Application ...

If sales person's commission is treated as part of salaries in one period, it should not be treated as part of marketing expenses in the next period instead.

Financial statements are prepared showing an additional column for the previous years' figures alongside those of the current year.

⁴ IASB governs UK and a group of other countries, including South Africa. USA follows guidelines of FASB.

⁵ International Accounting Standard 1. The IAS (older) and IFRS (newer) standards are based on the conceptual framework of the IASB.

Materiality

If an item can affect the decisions of a user of the financial statements, it should be shown separately. On the other hand, if an item is not very important, it may be grouped with other similar items.

Application ...

Interest on loan and interest on overdraft result from different ways of financing the business, and are shown separately. Expenses such as staff refreshments, parking costs etc. may be grouped together as "sundry expenses"

No offsetting

Assets and liabilities must be reported separately (unless allowed by an IFRS), as should income and expenses. If these are combined for any reason, users of financial statements will not be able to understand the transactions properly.

Application ...

Bad debts and bad debts recovered are shown separately in the Statement of Income, even if they both relate to the same debtor. If they are combined, users of the financial statements would not realise that the debt had to be written off in the first place.

Additional concepts used to prepare financial statements

Generally Accepted Accounting Practice (GAAP) used to refer to South African standards, but since South Africa now adheres to the international standards, GAAP simply refers to the way things are usually done. These would include the above principles as well as the following ones used in the past.

The entity concept

Financial statements are prepared from the point of view of the business entity, so the transactions of the business must be accounted for separately from those of the owner(s). The owner's personal transactions are not recorded as business transactions.

Application ...

The owner pays his personal telephone account with a business EFT. Although the business bank account is affected, this is recorded as drawings by the owner rather than part of the business telephone expense.

Historical cost

Assets are recorded at their original cost, rather than what they might have been worth when they were bought. This helps to ensure comparability of financial statements, as the valuation of the asset is objective rather than subjective.

Application ...

Certain equipment is worth R10 000, but the business manages to buy it at a discounted price of R8 000. This is recorded at the R8 000 that it actually cost the business.

Prudence

Financial statements are prepared using a conservative approach. Expenses or liabilities that might be incurred are reported, even if they have not yet been finalized, but income that is not absolutely certain is not shown.

Note: This old GAAP concept no longer applies, as it conflicts with the requirement of neutrality or no bias.

Application ...

It is expected that the business will have to pay for a consultant's services, but the actual amount due has not yet been finalized and no invoice has been received. The business will estimate the expected expense and take this into account when preparing financial statements.

A customer has requested a quote for a delivery of goods, and has promised to send the order, but the order has not yet been received. This sale will not be included when preparing the financial statements.

8.3. Formative assessment

(20 marks, 12 minutes)

**Required:**

Complete the crossword from the clues given.

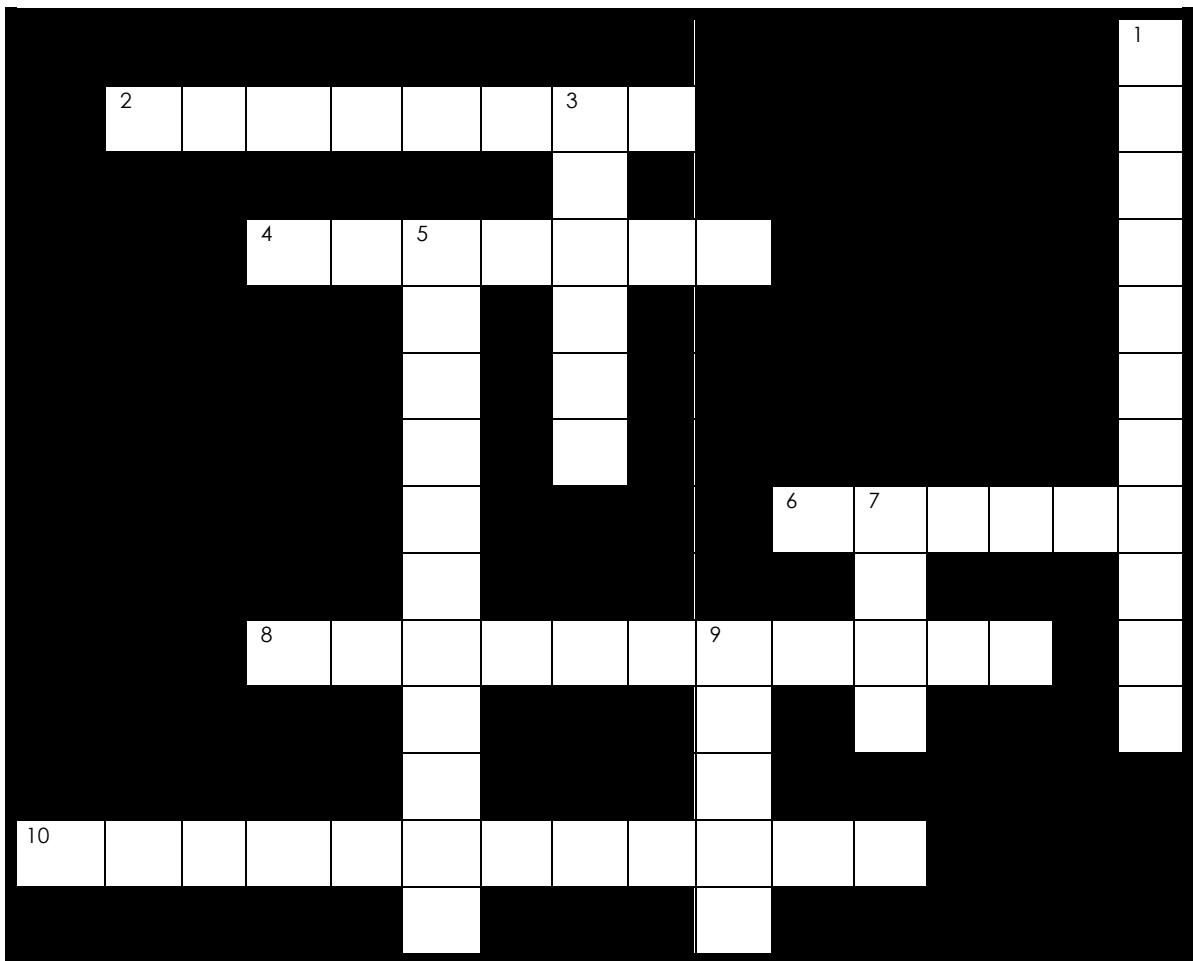
Across

2. ... are the costs incurred by a business that will be subtracted from income in calculating net profit.
4. An advertising campaign for the next financial year has already been paid for. The IAS consideration of recording according to the ... basis is applied, and this amount will NOT be included as an expense in the current year's financial statements. Instead, the prepayment is shown as an asset.
6. Bad debts and bad debts recovered should not be ..., and so are shown separately in the Statement of Income, even if they both relate to the same debtor.
8. Interest on loan and interest on overdraft result from different ways of financing the business, and are shown separately, because of the IAS consideration of ...
10. Financial statements are drawn up on the assumption that a business is a ... (5, 7). If a business intends to stop trading, assets will be shown at liquidation value (estimated market value) instead of at cost. The fact that the business intends to stop trading will be disclosed in the notes to the financial statements.

Down

1. ... represent amounts of money owed by the business to others, including a loan, creditors and a bank overdraft.
3. Owner's ... represents the owner's investment in the business, or what the business is worth.
5. If sales person's commission is treated as part of salaries in one period, it should not be treated as part of marketing expenses in the next period instead. This example of the consideration of ... allows for comparability of financial statements.
7. By applying the International Financial Reporting Standards, ... presentation is achieved.
9. An ... is something owned by the business, for example a vehicle or trading stock.

8. Year-end accounting



20 marks

Year-end adjustments

In order to ensure that the financial statements drawn up at the end of each accounting period comply with the requirements of the IFRS, certain adjustments must be made. (Note: the accounting period is not necessarily a calendar year).

Stock adjustments

Trading stock

The perpetual inventory system keeps a record of the exact amount of stock on hand at all times by recording all purchases and sales of the goods. If, however, a physical stock take shows a difference between the calculated and actual stock on hand, this deficit (or surplus) should be recorded.

Trading stock (Asset)					
Balance	b/d	XXX	Trading stock deficit	GJ	XXX
			Balance	c/d	XXX
		XXX			XXX
Balance	b/d	XXX			
Trading stock deficit (Expense)					
Trading stock	GJ	XXX			

Stock take figure.

If there is more stock on hand than expected, the difference is recorded as Trading Stock Surplus, an income account.

Consumable stores on hand

Unused stationery, packing material and other consumable stores are not expenses for the period as they can be used the following financial year, and so need to be shown as assets in the Statement of Financial Position. The left over stock (determined by a physical stock take) must be converted from an expense to an asset. The balance in the expense account then represents the actual amount used during the year and is shown on the Statement of Income.

Consumable stores on hand (Asset)					
Stationery	GJ	XXX			
Stationery (Expense)					
Balance	b/d	XXX	Consumable stores on hand	GJ	XXX

The account is not balanced at this stage, as it will be closed off to profit and loss as part of the year end procedure. (See following pages in this chapter).

HINT: So as not to confuse yourself, remember to always show the **asset** balance (trading stock / consumable stores on hand) as the amount of the physical **stock take**. The difference is then the amount of the adjustment to the expense (income) account.

8.4. Example



Required

Record the relevant adjustments in the general journal and post to the given ledger accounts.

Information

- The following balances were extracted from the pre-adjustment trial balance of Tyrone's Trading Store on 30 April 20_5, the financial year end.

Trading stock	R32 000
Stationery	R10 000

- A physical stock take on this date revealed the following on hand:

Trading stock (at cost)	R30 000
Stationery	R2 500

Solution

General journal of Tyrone's Trading Store – April 20_5

GJ12

	Debit	Credit
Trading stock deficit (32 000 (1) – 30 000 (2))	2 000	
Trading stock		2 000
Deficit revealed by physical stock take.		
Consumable stores on hand (2)	2 500	
Stationery		2 500
Stationery on hand at year end.		

Trading stock A1

1	Balance	b/d	32 000	1-2	Trading stock	GJ	2 000
					deficit		
					Balance	c/d	30 000
			32 000				32 000
2	Balance	b/d	30 000				

Consumable stores on hand A2

2	Stationery	GJ	2 500				
---	------------	----	-------	--	--	--	--

The balances in these asset accounts are the amounts of the stock take.

Stationery E1

1	Balance	b/d	10 000	2	Consumable stores on hand	GJ	2 500
---	---------	-----	--------	---	---------------------------	----	-------

Trading stock deficit E2

1-2	Trading stock	GJ	2 000				
-----	---------------	----	-------	--	--	--	--

The balances of the expense accounts are the losses of the business.



8.5. Exercise

Required

1. Record the necessary adjustments in the general journal.
2. Post to all the relevant ledger accounts.
3. Name and briefly explain the IFRS concept which requires these adjustments (above) to take place.
4. Show the items that would appear as operating expenses in the Statement of Income.
5. Show the items that would appear in the Inventory note to the financial statements on this day.

Information

1. On 31 May 20_5, the end of the financial year, the following balances and totals appeared in the books of Chen Stores:
 Trading stock R30 000
 Stationery R5 000
 Packing material R2 000
2. A physical stock take on this day revealed the following on hand:
 Trading stock R28 000
 Stationery R500
 Packing material R300

General journal of Chen Stores – May 20_5

GJ12

D	Details	Debit	Credit

8. Year-end accounting

Trading stock A1

Consumable stores on hand A2

Stationery E1

Packing material E2

Trading stock surplus / deficit E/I3



8.6. Exercise

Required

1. Show the journal entries that would be made to record the adjustments. Narrations are NOT required.
2. Post to the relevant general ledger accounts.
3. Draw up the post-adjustment trial balance of Nickle Traders on 31 December 20_5.

Pre-adjustment trial balance of Nickle Traderson 31 December 20_5

	Debit	Credit
Capital		80 000
Drawings	8 000	
Vehicles	15 000	
Equipment	18 000	
Trading stock	20 000	
Debtors' control	10 000	
Bank	9 000	
Sales		50 000
Cost of sales	25 000	
Rent expense	11 000	
Stationery	4 500	
Packing material	3 500	
Insurance	6 000	
	130 000	130 000

Adjustments to be taken into account:

1. The owner took stock with a selling price of R3 000 for Christmas. This has not been recorded. The business uses a mark-up of 50% on cost.
2. A physical stock take shows R17 500 worth of goods on hand.
3. A letter has been received from A. Baddet explaining that he is bankrupt and cannot pay his creditors. He owes the business R1 500.
4. Only R3 000 worth of stationery has been used during the year.
5. The company still has 1 000 packets left over. They were bought for 50c each.

1. General journal of Nickle Traders – December 20_5 GJ12

D	Details	Debit	Credit

2. Dr General ledger of Nickle Traders Cr Drawings O1

8. Year-end accounting

Trading stock A1

[illegible]

Debtors' control A2

[illegible]

Consumable stores on hand A3

[illegible]

Stationery E1

[illegible]

Packing material E2

[illegible]

Bad debts E3

[illegible]

Trading stock deficit E4

[illegible]

3. Post-adjustment trial balance on 31 December 20_5

[illegible]

8.7. Formative assessment

(50 marks, 30 minutes)

**Question 1**

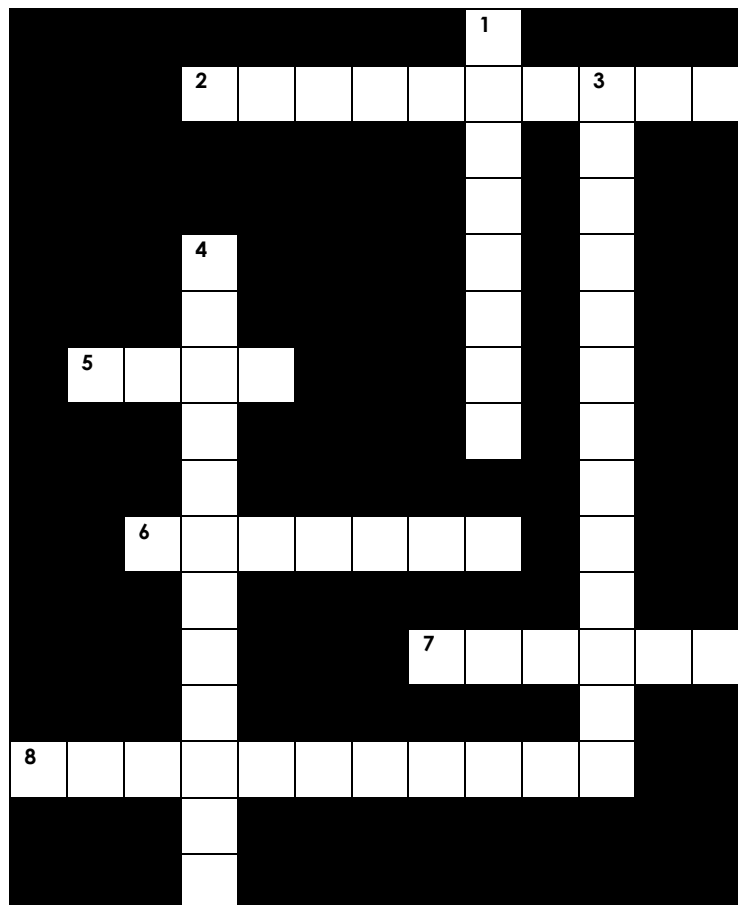
Theory

(20 marks, 10 minutes)

Required

- 1.1. Why is it important that we comply with the International Accounting Standards when preparing financial statements for a business? (4)

- 1.2. Complete the crossword below by identifying the overall considerations of the International Accounting Standards from the clues given. (16)

**Clues across:**

2. Assets are recorded at their original cost, rather than what they might have been worth when they were bought.

5. ... presentation requires that financial statements should correctly represent the performance and financial position of the business.

6. The ... basis of accounting means the effects of transactions are recognised when they occur and not when cash is received or paid.

7. Financial statements are prepared from the point of view of the business, and so the owner's personal transactions are not taken into account.

8. Items that will affect users' decisions are disclosed separately.

Clues down:

1. Financial statements are prepared using a conservative approach.

3. Users of financial statements need to be able to compare different businesses, and so the way financial statements are prepared must be consistent.

4. This consideration assumes that the business will continue in operation for the foreseeable future. (5,7)

Question 2

Recording year end adjustments (30 marks, 15 minutes)

In this question you are expected to show that you can

- *Record adjustments in the general journal*
- *Post to the general ledger*
- *Identify assets and expenses to be shown in the financial statements*

Genna's Gorgeous Gifts has reached the end of its first year of business. The owner, Genna Detert, would like to draw up financial statements to determine how well the business has done, but realizes that she first needs to take into account a few transactions that have not yet been recorded.

Required:

2.1. Record the given adjustments in the general journal. (12)

2.2. Complete the following general ledger accounts:

2.2.1. Trading stock

2.2.2. Consumable stores on hand

2.2.3. Stationery (you do NOT need to balance this account)

2.2.4. Trading stock deficit (12)

2.3. Show the following items and amounts that would be included in the financial statements (take into account ALL the adjustments given).

2.3.1. assets on the Statement of Financial Position

2.3.2. expenses in the Statement of Income (6)

Extract from the **Pre-adjustment trial balance on 30 June 20_3**

	Debit	Credit
Debtors control	12 500	
Trading stock	9 300	
Stationery	3 700	

Adjustments:

1. B Abkarian has emigrated to Switzerland, and Genna does not have her new contact details. Her account of R500 must be written off as irrecoverable.
2. A credit note for R200 issued to R Hodgkinson was correctly recorded in the Debtors Allowances Journal, but was posted to N Hofmeyr's account by accident. This error must be corrected.
3. A physical stock take was conducted on 30 June 20_3. According to this, the business had the following on hand:
 - Trading stock costing R8 500
 - Unused stationery costing R300

2.1. General journal of Genna's Gorgeous Gifts – June 20_3 GJ1

[illegible]

Checklist	😊	😐	😞
Can write off bad debts	2	1	0
Can identify correct accounts to be debited and credited when correcting an error	2	1	0
Can calculate amount of trading stock deficit	2	1	0
Correct accounts debited and credited when recording trading stock deficit	2	1	0
Can correctly record stationery on hand	2	1	0
Layout, folios, narrations, totals etc. correct	2	1	0

8. Year-end accounting

2.2. Dr General ledger of Genna's Gorgeous Gifts Cr
2.2.1. Trading stock B5

2.2.2. Consumable stores on hand B10

2.2.3. Stationery N7

2.2.4. Trading stock deficit N12

Checklist	☺	☹	☹
Opening balances correctly recorded	2	1	0
Trading stock deficit adjustment entered on correct sides of accounts	2	1	0
Correct details given for trading stock deficit adjustment	2	1	0
Stationery on hand entered on correct sides of accounts	2	1	0
Correct details given for stationery on hand adjustment	2	1	0
Trading stock account balanced correctly	2	1	0

2.3. Show the following items and amounts that would appear in the financial statements:

2.3.1. Assets in the Statement of Financial Position

2.3.2. Expenses in the Statement of Income

Marks	1	2	3	4	5	6	7
LO1 AS 1.3.	Completely incorrect items and amounts given	Mostly incorrect items and amounts used	Correct items identified OR correct amounts only	Mostly correct items and amounts used	Minor errors in calculations	Amounts calculated correctly, correct details given	Correct calculations justified
L of A	1	2	3	4	5	6	7