FAC1502

Revision material

PROGRAM

- Examination issues
- General problem areas
- Q & A

IMPORTANCE of module

- This module - foundation of all your studies in accounting

- Ensure that you understand and know everything contained in this module as everything is important

- Not only required for the examination, but you WILL need it in future.

GOLDEN RULE

Accounting CANNOT be studied by merely reading/memorising. You need to **practice**,
practice and **practice** also!!

GENERAL PROBLEM AREAS

- Accounting cycle
- Types of journals
- General ledger accounts
- VAT issues
- Adjustments
- Inventory systems & closing-off procedures
- Financial statements
- Property, plant and equipment (PPE)
- Bank reconciliation

ACCOUNTING CYCLE

Capture of transaction data on source documents (Daily)

Analysing of transactions and journalising (Daily)

Posting to ledger(s) (Daily, journal totals monthly)

Balancing of accounts and preparing a trial balance (Monthly)

Adjustment of accounts and post-adjustment trial balance (Annually)

Closing of nominal accounts (Annually)

Financial statements and reporting on results (Annually)

TYPES OF JOURNALS

- **Cash journals**
  - Cash receipts (cash register roll, receipts, cash invoices, deposit slips)
  - Cash payments (cheque counterfoils)
- **'Credit' journals**
  - Sales (duplicate sales invoices)
  - Sales returns (duplicates of credit notes)
  - Purchases (original invoices)
  - Purchases returns (original credit notes)
- **General journal**
  - All other (Narrations important – refer to source docs)

CASH JOURNAL ISSUES

- **Which columns** – how many? Depends on frequency

- **Sundry accounts** – What must be recorded in them? – Once-off transactions

- **Fol no's**? – References - Not important for exams

CASH JOURNAL ISSUES

- **VAT** on settlement discount granted
  - **On cash sales** – no issue
  - **On credit sales:**
    - VAT on full sales amount already CR to **Output VAT** with invoice
    - Amount received from debtor is less than invoiced
    - Difference = Settlement discount granted (including VAT)
    - VAT on Settlement discount granted – record as **Input VAT**

- **Inverse for settlement discount received**

CASH PAYMENTS JOURNAL

Date	Details	Fol	Bank	Purchases	Creditors	Wages	Settlement discount received	Vat Input	Vat Output	Sundry accounts		
									Cr	Amount	Fol	Details
			R	R	R	R	R	R	R			
1	City Council		3 078					378		2 700	N6	Water and electricity
3	Glasco Ltd		8 778	7 700				1 078				
6	Pen and Pencil		228					28		200	N10	Stationery
	Cash		954			954						
8	Glasco Ltd		3 992		4 220		(200)		(28)			
12	Cash		940			940						
18	Cash		2 736	2 400				336				
21	Cash		989			989						
26	Cash		945			945						
	Telkom		570					70		500	N5	Telephone expense
27	Ferguson Ltd		5 490		5 775		(250)		(35)			
28	HP Bank		2 500							2 500	B8	Drawings
			31 200	10 100	9 995	3 828	(450)	1 890	(63)	5 900		
			B5	N2	B6	N9	N8	B9	B8			

GENERAL LEDGER ACCOUNTS

- A general ledger account is shown in the form of a capital T and is referred to as a **T-account**.

- The left-hand side is the **debit side** and the right-hand side is the **credit side**.

- **Assets** and **expenses** increase on the debit side and decrease on the credit side (debit balance).

- **Liabilities**, **equity** and **income** increase on the credit side and decrease on the debit side (credit balance).

- Indicate the name of the contra ledger account in the account in which you are recording the entry. The **contra account** is the name of the other ledger account which is involved in the transaction: the one account refers to the other.

VAT ISSUES

- Application

- Calculation

VAT (Only basic info)

- Tax levied by Govt on the supply of goods and services

- Comprehensive tax – virtually on all goods & services

- Current VAT rate – 14%

- Must register as VAT-vendor if taxable supplies exceeded R1 000 000 in preceding 12 month period

- Two types of supplies:
  - Taxable supplies:
    - Standard rate (14%)
    - Zero rated (0%) - (Vendor may claim input VAT): e.g.
      - Brown bread
      - Petrol & oil
  - Exempt supplies (Vendor unable to claim input VAT): e.g.
    - Financial services.

- Output VAT – Input VAT = VAT payable to SARS
- VAT on e.g. **settlement discount received** when payment is made – Output VAT & not deducted from Input VAT.
- Calculation of VAT on amount **excluding** VAT:
  - Amount without VAT   R100
  - VAT   R   14
  - Amount VAT inclusive   R114
- Calculate the VAT amount if VAT was **included**:
  - Amount VAT inclusive   R114
  - Calculation of VAT: R114 x (14÷114) = R14
  - Amount without VAT   R100

VAT Calculations

Selling price = R228

Selling price includes VAT of 14%

Required:

Calculate VAT.

Value given

R228 x ⎯⎯⎯⎯

VAT Calculations

Selling price = R228
Selling price includes VAT of 14%
Required:
Calculate VAT.

Value given

R228 x ‾‾‾‾‾

What you have

VAT Calculations

Selling price = R228
Selling price includes VAT of 14%
Required:
Calculate VAT.

Value given

R228 x $\overline{\overline{}}$
114

What you have

VAT Calculations

Selling price = R228

Selling price includes VAT of 14%

Required:

Calculate VAT.

$$228 \text{ x } \frac{}{114}$$

What you want

What you have

VAT Calculations

Selling price = R228
Selling price includes VAT of 14%
Required:
Calculate VAT.

What you want

$$R228 \ \times \ \frac{14}{114}$$

What you have

VAT Calculations

Selling price = R228
Selling price includes VAT of 14%
Required:
Calculate VAT.

Value given

What you want

$$R228 \times \frac{14}{114}$$

What you have

$$= R28$$

VAT Calculations

Selling price = R228

Selling price includes VAT

Required:

Calculate selling price without VAT.

What you want

$$R228 \times \frac{100}{114}$$

What you have

$$= R200$$

VAT Calculations

If VAT = R28, calculate the selling price including VAT

Value given

What you want

$$R28 \times \dfrac{}{}$$

What you have

VAT Calculations

If VAT = R28, calculate the selling price including VAT

Value given

What you want

$$R28 \times \frac{}{14}$$

What you have

VAT Calculations

If VAT = R28, calculate the selling price including VAT

Value given

What you want

$$R28 \times \frac{114}{14}$$

What you have

$$= R228$$

VAT transactions

- Input VAT account:
  - only **Dr** entries
  - except for VAT on purchases returns
- Output VAT account:
  - only **Cr** entries
  - except for VAT on sales returns

VAT Input

Dr			R	20.4			R
20.4							
Mar 1	Balance	b/d	2 715	Mar 31	Creditors control	PRJ2	98
31	Bank	CPJ2	1 120		VAT control	J2	5 627
	Debtors control	CPJ3	21				
	Creditors control	PJ2	1 785				
	Creditors control	J2	84				
			5 725				5 725

VAT Output

Dr			R	20.4			R
20.4							
Mar 31	Debtors control	SRJ2	7	Mar 1	Balance	b/d	2 925
	VAT control	J2	6 131	31	Bank	CRJ2	2 779
					Debtors control	SJ2	420
					Creditors control	CPJ2	14
			6 138				6 138

VAT Control

| Dr			R	20.4			R
20.4							
Mar 31	VAT Input	J2	5 627	Mar 31	VAT Output	J2	6 131
	Balance	c/d	504				
			6 131	20.4			6 131
				Apr 1	Balance	b/d	504*

ADJUSTMENTS

- Profit or loss – usually determined for financial year of 12 months

- Income &/or expenditure items not always within this 12 months

- Accounts must sometimes be **adjusted** to "correct" the balances in accounts

- At the end of a financial period, additional entries (adjustments) without source documents are required.

- Necessary to comply with the accrual basis of accounting.

Adjustments
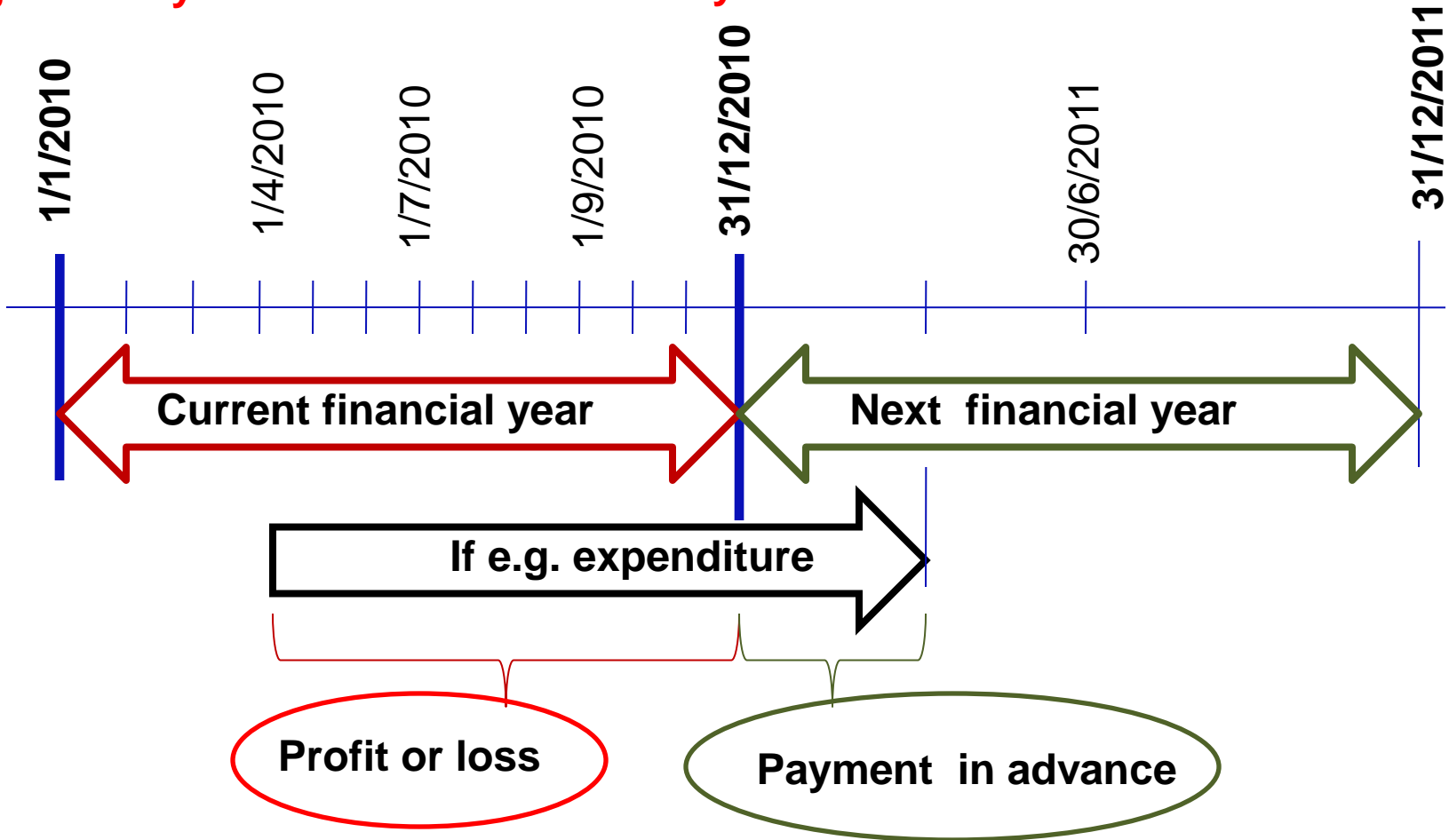
Inventory systems & closing-off procedures

- Inventory systems
  - Perpetual
  - Periodic
- Closing-off of nominal accounts
  - Trading account
  - Profit or loss account

IMPORTANT FINANCIAL COMPONENTS
of a trading concern

GROSS PROFIT (determined in the trading account):
- Difference between sales and the ``cost price of sales''

PROFIT FOR THE YEAR/PERIOD
- The amount which remains from the gross profit after all expenditure necessary to manage the business has been subtracted and other income has been added in the profit or loss account.

COST PRICE OF SALES (determined in trading account)
- Opening inventory + purchases (at cost price) – closing inventory (at cost price)
- Proper accounting for inventory thus important in determining the cost price of sales

MARK-UP ON COST PRICE

- When determining the cost of sales, it is important to establish whether the mark-up was made on the cost price or the selling price since the price that applies is taken to be 100 (100%).

- Suppose the mark-up of 25% is on the cost price.

- Thus:
  - Cost price   = 100
  - Mark-up   =   25
  - Selling price = 125

Calculate COST PRICE if:

Selling price = R75 000
Mark-up on cost price = 25%

Value given

What you want

$$R75\ 000 \times \frac{100}{125}$$

What you have

$$= \underline{R60\ 000}$$

INVENTORY SYSTEMS Perpetual & Periodic

- **Perpetual** (continuous) inventory system
  - the business keep a continuous track of inventory levels for the different inventory items it sells.
  - Ideally suited to a business that sells items that can be easily identified, measured and a value attached to them e.g. Rolls Royce cars.
  - Purchase of inventory is recorded directly into the **inventory account** at cost price
  - At time of sale, the cost price is transferred from the inventory account to the cost of sales account.
  - Gross profit can thus be determined on each sale.

- In the perpetual inventory system inventory is an **asset**

- Inventory on hand and inventory which is purchased are therefore debited at cost price in the asset account called inventory and a contra account such as creditors or bank is credited

- When goods are sold, the sales account (income) is credited with the selling price and the contra account such as debtors or bank is debited.

AND

Goods are taken out of the inventory (asset) account at cost price (inventory account is credited) and debited to the cost of sales (expense) account.

Perpetual inventory system – SG Ex 8.1

The following exercise illustrates the perpetual inventory system:

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1	
Credit purchases	50 000
Cash purchases	40 000
Credit sales (mark-up on cost price is 25%)	75 000
Cash sales (mark-up on cost price is 25%)	25 000

At the beginning of the year the only amount relevant is the value of inventory

Dr							Cr
20.1			R				R
Jan 1	Balance	b/d	10 000				

The following exercise illustrates the perpetual inventory system:

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1	
Credit purchases	50 000
Cash purchases	40 000
Credit sales (mark-up on cost price is 25%)	75 000
Cash sales (mark-up on cost price is 25%)	25 000

Dr				Inventory				Cr
20.1			**R**	**20.1**				**R**
Jan 1	Balance	b/d	10 000	Dec 31	Cost of sales			60 000
Dec 31	Creditors control		50 000		Cost of sales			20 000
	Bank		40 000		Balance	c/d		20 000
			100 000					100 000
20.2								
Jan 1	Balance	b/d	20 000					

The following exercise illustrates the perpetual inventory system:

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1	
Credit purchases	50 000
Cash purchases	40 000
Credit sales (mark-up on cost price is 25%)	75 000
Cash sales (mark-up on cost price is 25%)	25 000

Dr				Inventory				Cr
20.1			R	**20.1**				R
Jan 1	Balance	b/d	10 000	Dec 31	Cost of sales			60 000
Dec 31	Creditors control		50 000		Cost of sales			20 000
	Bank		40 000		Balance	c/d		20 000
			100 000					100 000
20.2								
Jan 1	Balance	b/d	20 000					

The following exercise illustrates the perpetual inventory system:

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1	
Credit purchases	50 000
Cash purchases	40 000
Credit sales (mark-up on cost price is 25%)	75 000
Cash sales (mark-up on cost price is 25%)	25 000

Dr   Inventory   **Cr**

20.1			R	20.1			R
Jan 1	Balance	b/d	10 000	Dec 31	Cost of sales		60 000
Dec 31	Creditors control		50 000		Cost of sales		20 000
	Bank		40 000		Balance	c/d	20 000
			100 000				100 000
20.2							
Jan 1	Balance	b/d	20 000				

Dr   Sales   **Cr**

20.1			R	20.1			R
Dec 31	Trading			Dec 31	Debtors control		75 000
	account		100 000		Bank		25 000
			100 000				100 000

Dr   Cost of sales   **Cr**

20.1			R	20.1			R
Dec 31	Inventory		60 000	Dec 31	Trading account		80 000
	Inventory		20 000				
			80 000				80 000

The following exercise illustrates the perpetual inventory system:

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1	
Credit purchases	50 000
Cash purchases	40 000
Credit sales (mark-up on cost price is 25%)	75 000
Cash sales (mark-up on cost price is 25%)	25 000

Dr Inventory **Cr**

20.1			R	20.1			R
Jan 1	Balance	b/d	10 000	Dec 31	Cost of sales		60 000
Dec 31	Creditors control		50 000		Cost of sales		20 000
	Bank		40 000		Balance	c/d	20 000
			100 000				100 000
20.2							
Jan 1	Balance	b/d	20 000				

Dr Sales **Cr**

20.1			R	20.1			R
Dec 31	Trading account		100 000	Dec 31	Debtors control		75 000
					Bank		25 000
			100 000				100 000

Dr Cost of sales **Cr**

20.1			R	20.1			R
Dec 31	Inventory		60 000	Dec 31	Trading account		80 000
	Inventory		20 000				
			80 000				80 000

Dr				Trading account				Cr
20.1			R	**20.1**				R
Dec 31	Cost of sales		80 000	Dec 31	Sales			100 000
	Profit or							
	loss							
	(Gross profit*)		20 000					
			100 000					100 000

- The gross profit is the difference between sales and cost of sales.
- The gross profit is transferred to the profit or loss account.
- Where cost of sales is more than sales, the result is a gross loss.

- **Periodic inventory system**
  - The purchase of inventory is recorded in the **purchases** account and not an inventory account.
  - Inventory returned - recorded in a **purchases returns** account.
  - Cost of sales is not determined at the time of the recording of the sale but can thus only be determined at the end of the financial period after a **physical** inventory count has been done.

- No cost of sales account as the cost of sales is determined in the Trading account
- A purchases and purchases returns accounts are kept
- A physical inventory count is essential
- The opening balance on the inventory account (asset) is held in the books throughout the financial period, which is usually a year, without any other entries.

- Inventory purchased is recorded (debited) at cost price in the purchases account (expenditure) and the contra account, for instance creditors or bank, is credited. The purchases account is closed off at the end of the financial year, to the trading account by means of a general journal entry (debit trading account and credit purchases account).

- When goods are sold, the sales account (income) is credited with the selling price and the contra account, say bank or debtors, is debited.

- A **physical inventory count** is undertaken to determine the closing inventory (usually at cost price). To record this figure, the inventory account is debited and the trading account is credited.

- In this system a cost of sales account is not kept.

- In the trading account the opening inventory is added to purchases. Closing inventory is deducted (the trading account is credited) and the cost of sales is calculated.

Periodic inventory system – SG Ex 8.2

	R
Inventory on 1 January 20.1	10 000
Transactions for year up to 31 December 20.1:	
• Credit purchases	50 000
• Cash purchases	40 000
• Credit sales (mark-up on cost price is 25%)	75 000
• Cash sales (mark-up on cost price is 25%)	25 000
• Inventory on 31 December 20.1	20 000

Dr   Inventory   **Cr**

20.1			R	20.1		R
Jan 1	Balance	b/d	10 000	Dec 31	Trading account	10 000
20.1						
Dec 31	Trading account		20 000			

Dr   Purchases   **Cr**

20.1			R	20.1		R
Dec 31	Creditors control		50 000	Dec 31	Trading account	90 000
	Bank		40 000			
			90 000			90 000

Dr   Sales   **Cr**

20.1		R	20.1		R
Dec 31	Trading account	100 000	Dec 31	Debtors control	75 000
				Bank	25 000
		100 000			100 000

Dr   Trading account   **Cr**

20.1		R	20.1		R
Dec 31	Inventory (opening)	10 000	Dec 31	Sales	100 000
	Purchases	90 000		Inventory (closing)	20 000
	Profit or loss				
	(gross profit)*	20 000			
		120 000			120 000

* Balancing figure

CLOSING-OFF of NOMINAL ACCOUNTS

- To determine the financial result of an entity, the nominal accounts are closed by means of closing journals and transferred to the trading account (a nominal account) in the case of trading entities and/or to the profit or loss account.

- The gross profit, as determined, is debited to the trading account and credited to the profit or loss account .

- All the other nominal accounts with balances such as rent income, telephone expenses, rent expenses and salaries are (closed off) and the profit or loss account is accordingly debited or credited.

- The difference between the debit and credit sides of the profit or loss account results in the profit or loss which is, in turn, transferred to the capital account.

- The profit or loss account is therefore, also closed off.

TRIAL BALANCE

- **Pre-adjustment** trial balance
  - **test** the **correctness of the entries** after the posting to the general ledger
  - **Test** the requirements of the **double-entry** principle.

- **Post-adjustment** trial balance
  - After the **journalised adjustments** have been **posted**.

- **Post-closing** trial balance
  - **after** the **closing journal entries** have been posted to the ledger.
  - all the **nominal accounts are closed** and the **profit or loss** as well as **drawings** are **transferred to the capital account**.
  - All that remains in the trial balance are the **assets, liabilities** and **equity accounts** - items in the SFP.

Financial statements
(sole proprietorship)

- Simplest form of business

- Limited legislation re establishment

- Drawings – use of profit from business for personal use

- Statement of profit or loss and other comprehensive income

- Statement of changes in equity

- Statement of financial position.

SG: Revision exercise 2, p301

TRIAL BALANCE OF PETER PUMPKIN AS AT 28 FEBRUARY 20.1

	Dr R	Cr R
Land and buildings (at cost)	100 000	
Furniture and fittings (at cost)	42 000	
Accumulated depreciation — 28 February 20.0:		
Furniture and fittings		5 000
15% Mortgage secured by land and buildings		30 000
Capital: P Pumpkin — 28 February 20.0		80 000
Debtors control	8 100	
Creditors control		3 000
Bank overdraft		800
Drawings	7 300	
Petty cash	640	
Stationery	1 150	
Salaries	21 100	
Electricity	12 000	
Telephone expense	1 860	
Fees earned		59 000
Rent income		16 500
Bank charges	150	
	194 300	194 300

ADDITIONAL INFORMATION:

(a) Stationery on hand at 28 February 20.1, R150.

(b) An allowance for credit losses of R405 on outstanding trade debtors' balances must be created.

(c) Rent income amounts to R1 500 per month and the rental has been charged for the full financial year.

(d) Provide for interest still outstanding on mortgage bond.

(e) Provide for depreciation on furniture and fittings at 15% per annum on cost price.

Required:

(1) Prepare the **statement of profit or loss and other comprehensive income** of Peter Pumpkin for the year ended 28 February 20.1.

(2) Prepare the **statement of changes in equity** of Peter Pumpkin for the year ended 28 February 20.1.

(3) Prepare the **statement of financial position** of Peter Potatoes as at 28 February 20.1.

(4) Show the **note** on Property, Plant and Equipment for the year ended 28 February 20.1.

WHAT IS REQUIRED TO ENSURE SUCCESS ?

KNOW THE FORMATS

WHERE TO BEGIN?

1. Read the requirements
2. Format the required statements:
   - Statement of Profit or Loss and Other Comprehensive Income
   - Statement of Changes in Equity
   - Statement of Financial Position
   - PPE note.
3. Deal with the 'Additional Information'
4. Ensure that you tick-off all the items in the TB as well as the 'Additional information'.

Issues to note:

TRIAL BALANCE OF PETER POTATOES AS AT 28 FEBRUARY 20.1

		Dr R	Cr R
Land and buildings (at cost)		100 000	
Furniture and fittings (at cost)		42 000	
Accumulated depreciation — 28 February 20.0:			
Furniture and fittings			5 000
15% Mortgage secured by land and buildings			30 000
Capital: P Pumpkin — 28 February 20.0			80 000
Debtors control		8 100	
Creditors control			3 000
Bank overdraft			800
Drawings		7 300	
Petty cash		640	
Stationery		1 150	
Salaries		21 100	
Electricity		12 000	
Telephone expense		1 860	
Fees earned			59 000
Rent income			16 500
Bank charges		150	
		194 300	194 300

ADDITIONAL INFORMATION:

(a) Stationery on hand at 28 February 20.1, R150.

- **Stationery on hand = Closing inventory**

- **Record:**
  - **Profit or Loss: Subtract from 28 Feb 20.1 TP balance:**
    - **Thus, R1 150 – R150 = R1 000 expensed**

- **Report: SFP (current asset):**
  - **SComp Inc: Expense Inventory - R1 000**
  - **SFP: Current Asset - Inventory - R150**

ADDITIONAL INFORMATION:

(b) An allowance for credit losses of R405 on outstanding trade debtors' balances must be created.

- **Record:**
  - **Profit or Loss: Increase operating expenses**
- **Report:**
  - **SComp Inc: Credit losses**
  - **SFP: Decrease 'Trade receivables' (Debtors) with allowance for credit losses**

ADDITIONAL INFORMATION:

(c) Rent income amounts to R1 500 per month and the rental has been charged for the full financial year

- **Adjustment: Rent income/month = R1 500**

    Thus, rent income/year   = R18 000

- **TB - Rent income   = R16 500**

- **Thus Rent income in arrears   = R1 500**

- **Record: Profit or Loss (12 months) = R18 000**

- **Report:**

    - **SComp Inc: Income   R18 000**

    - **SFP: Trade receivables: + R1 500**

ADDITIONAL INFORMATION:

(d) Provide for interest still outstanding on mortgage bond.

- **15% Mortgage bond = R30 000**
- **Annual interest on mortgage bond:**
  - **R30 000 x 15% = R4 500**
- **Record:**
  - **Profit or Loss: Finance charges   R4 500**
- **Report:**
  - **SComp Inc: Expense   R4 500**
  - **SFP: Current liabilities: Trade payables   R4 500**

ADDITIONAL INFORMATION:

(e) Provide for depreciation on furniture and fittings at 15% per annum on cost price.

- **Furniture and fittings (cost) =   R42 000**

- **Depreciation: R42 000 x 15% = R6 300**

- **Record: Profit or Loss (Dr)Depr   R6 300**

- **Acc Depr (Cr)   R6 300**

- **Report:**

  - **S Comp Income: Depreciation   R6 300**

  - **PPE Note: Depreciation   R6 300**

  - **SFP: PPE less Depreciation   R6 300**

(1) STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.1

	Note	R
Revenue	2	59 000
Rent income (R1500 x 12)		18 000
		77 000
Distribution, administrative and other expenses		(42 815)
Stationery R(1 150 – 150)		1 000
Salaries		21 100
Electricity		12 000
Telephone expense		1 860
Bank charges		150
Credit losses		405
Depreciation: Furniture and fittings R(42 000 x 15%)		6 300
		34 185
Finance costs: Interest on mortgage loan R(30 000 x 15%)		(4 500)
Profit for the year		29 685
Other comprehensive income for the year		—
Total comprehensive income for the year		29 685

PETER PUMPKIN

(2) STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.1

		Capital R
Balance at 1 March 20.0		80 000
Total comprehensive income for the year	29 685	
Drawings		(7 300)
Balance at 28 February 20.1		102 385

PETER PUMPKIN

(3) STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.1

ASSETS	Note	R
Non-current assets		130 700
Property, plant and equipment	3	130 700
Current assets		9 985
Inventories		150
Trade receivables R(8 100-405+1500)		9 195
Cash and cash equivalents		640
Total assets		140 685
EQUITY AND LIABILITIES		
Total equity		102 385
Capital		102 385
Total liabilities		38 300
Non-current liabilities		30 000
Long-term borrowings:		30 000
15% mortgage secured by land and buildings		30 000
Current liabilities		8 300
Trade and other payables R(3000 + 4500)		7 500
Other current liabilities		800
Total equity and liabilities		140 685

Property, plant and equipment	Land and buildings	Furniture and fittings	Total
	R	R	R
Carrying amount:			
Beginning of year	100 000	37 000	137 000
Cost	100 000	42 000	142 000
Accumulated depreciation	(—)	(5 000)	(5 000)
Depreciation for the period	(—)	(6 300)	(6 300)
Carrying amount:			
End of year	100 000	30 700	130 700
Cost	100 000	42 000	142 000
Accumulated depreciation	(—)	(11 300)	(11 300)

Property, plant & equipment

- Cost price of PPE

- Depreciation

- Disclosure in Fin statements

Property, plant and equipment (PPE)

- Have an operating lifespan of more than one year and can be used over and over again

- Tangible assets (can see & touch): e.g. buildings & machinery
  - Become obsolete
  - Depreciate over expected economic life

- No longer operate economically - replaced

Cost price of PPE

- The cost price of PPE consists of:
  - purchase price, including all expenses incurred in getting the asset to the premises
  - installation costs including, for example, the wages of the business's own technical personnel
  - any other expenses incurred in getting the asset operational

- Cost price (historical cost price) - remain constant throughout the life of the asset.

- Financing costs on loans raised to acquire the asset are not included in the cost price of the asset.

Depreciation methods

- **Straight line** method
  - Cost price is written of over the expected useful life (in years) of the asset.
- **Diminishing balance** method
  - In this case a fixed percentage of the carrying amount is written off annually.
- **Production unit** method
  - In this case the units produced by the machine are written off annually as a percentage of the units the machine is expected to produce over its total life span.

JOURNAL ENTRIES

GENERAL JOURNAL

20.1			R	R
May 31	Depreciation: machinery		92 000	
	Accumulated depreciation: machinery			92 000
	Provision for depreciation on the straight			
	line method (year 1)			
	Profit or loss		92 000	
	Depreciation: machinery			92 000
	Closing entry			

The journal entries for the years 20.2, 20.3, 20.4, and 20.5 would be the same as above.

The depreciable amount is the cost of the asset less its residual value. The residual value is the expected value (e.g. scrap value, trade-in value) of the asset at the end of its useful life.

Statement of Fin. Position

BILGREDON

STATEMENT OF FINANCIAL POSITION AS AT 31 MAY (extract)

	20.5 R	20.4 R	20.3 R	20.2 R	20.1 R
Non-current assets Property, plant and equipment	NIL	92 000	184 000	276 000	368 000

- Only the carrying amount is shown on the face of the statement of financial position.
- A detailed reconciliation of movements in the carrying amount from the beginning to the end of the financial period is shown in a note.

Note on PPE

BILGREDON

NOTES FOR THE YEAR ENDED 31 MAY 20.2

Property, plant and equipment	Machinery	Total
	R	R
Carrying amount:		
Beginning of year	368 000	368 000
Cost	460 000	460 000
Accumulated depreciation	(92 000)	(92 000)
Additions	—	—
Disposals	(—)	(—)
Depreciation	(92 000)	(92 000)
Carrying amount:		
End of year	276 000	276 000
Cost	460 000	460 000
Accumulated depreciation	(184 000)	(184 000)

Example – PPE

EXTRACT FROM THE GENERAL LEDGER OF GOOFY TRADERS

Dr				VEHICLES						Cr
				R						R
2008					2008					
Jan	1	Balance	b/d	460 000	Aug	1	Realisation of Vehicles			100 000
Mar	31	Bank		120 000	Dec	31	Balance	c/d		550 000
Aug	1	GG Garage		70 000						
				650 000						650 000
2009										
Jan	1	Balance	b/d	550 000						

Dr				ACCUMULATED DEPRECIATION ON VEHICLES						Cr
				R						R
2008					2008					
Aug	1	Realisation of Vehicles		65 000	Jan	1	Balance	b/d		175 000
					Aug	1	Depreciation			5 000
Dec	31	Balance	c/d	163 000	Dec	31	Depreciation			48 000
				228 000						228 000
					2009					
					Jan	1	Balance	b/d		163 000

Dr			REALISATION OF VEHICLES				Cr
			R				R
2008				2008			
Aug	1	Vehicles	100 000	Aug	1	Accumulated depreciation on vehicles	65 000
						GG Garage	25 000
						Loss on sale of assets	10 000
			100 000				100 000

REQUIRED:

Use the information from the information above and prepare the **NOTE ON PROPERTY, PLANT AND EQUIPMENT** for Goofy Traders for the year ended on 31 December 2008.

Example – PPE (continue)

GOOFY TRADERS:
FINANCIAL STATEMENTS AT 31 DECEMBER 2008:
NOTE ON PROPERTY, PLANT AND EQUIPMENT

	R
Carrying amount	
Beginning of the year	285 000
Cost price	460 000
Accumulated depreciation on vehicles	(175 000)
Additions (120 000 + 70 000)	190 000
Depreciation (5 000 + 48 000)	(53 000)
Disposals:	(35 000)
Cost price	100 000
Accumulated depreciation	(65 000)
Carrying amount	
End of the year	387 000
Cost	550 000
Accumulated depreciation	(163 000)

BANK RECONCILIATIONS

- **Bank reconciliation statement could be seen as an extension of the bank statement**
- Balance the bank account in the books of the business with the bank statement
- Two steps:
  - the business's records are updated to account for actual transactions recorded by the bank statement, and
  - record those transactions to which the bank must still attend to in the bank reconciliation statement
- Favourable bank balance - debit side of the bank account & credit side of bank statement.
- Unfavourable or overdrawn bank balance - credit side of the bank account & debit side of the bank statement (indicated by DT, DR or OD).

Procedure - reconciliation process

- If a bank recon was completed for the previous month the bank statement must first be compared with that bank recon to ascertain whether the outstanding items and corrections have been done by the bank.

- Compare items on the debit side of the bank recon with entries on the debit side of the bank statement and credit entries on the recon with credit entries on the statement.

- Compare the amounts in the cash receipts journal for the current month with the entries on the credit side of the bank statement.

- Compare the amounts in the cash payments journal for the current month with entries on the debit side of the bank statement

Exercise 9.1 (p174)

BENSON TRADERS

BANK RECONCILIATION STATEMENT AS AT 30 JUNE 20.0

	Debit	Credit
	R	R
Favourable balance per bank statement		11 350
Deposit not yet credited (deposited 1/7/20.0)		✓ 2 000
Cheques not yet presented for payment		
No 11 — dated 23/6/20.0 (Donation)	*200	
No 13 — dated 30/6/20.0 (ABC Stores)	✓ 350	
Favourable balance per bank account	12 800	
	13 350	13 350

* Cheque no 11 was not presented for payment during July and must be shown as outstanding on the July 20.0 bank reconciliation statement.

BENSON TRADERS

CASH RECEIPTS JOURNAL – JULY 20.0 (bank column only) *crj 7*

Doc no	Date	Details	Bank
	15	Cash sales	6 700 ✔
	25	Cash sales	3 300 ✔
	30	Cash sales	1 800
		Rent income	*850*
		Interest income	*80*
			12 730
			B 15

Amounts in italics are amounts entered as a result of the amounts reflected on the bank statement, but not yet in the CRJ. This updates the CRJ.

BENSON TRADERS

CASH PAYMENTS JOURNAL – JULY 20.0 (bank column only)   *cpj 7*

Doc no	Date	Details	Bank
14	5	Municipality	900 ✔
15	7	John's Wholesalers	2 500 ✔
16	9	ABC Stores	1 200 ✔
—	14	S Swan (R/D cheque)*	200 ✔
17	15	Cash (wages)	450 ✔
18	30	Telkom	180
19		Cash (wages)	450 ✔
		*P Saxo (R/D cheque)**	*300*
		Insurance	*500*
		Bank charges	*43*
			6 723
			B 15

Amounts in italics are amounts entered as a result of the amounts reflected on the bank statement, but not yet in the CPJ. This updates the CPJ.

Bank statement

Details	Cheque no	Fee	Date	Debit	Credit	Balance
		R		R	R	R
Balance b/f			01:07			11 350
Deposit			01:07		2 000 ✔	13 350
Cheque	13	1,20	02.07	350 ✔		13 000
Unpaid cheque:						
S Swan		1,00	07:07	200 ✔		12 800
Cheque	15	3,50	09:07	2 500 ✔		10 300
Deposit		7,00	15:07		6 700 ✔	17 000
Cheque	14	1,50	15:07	900 ✔		16 100
Cheque	17	1,20	15:07	450 ✔		15 650
Cheque	16	1,20	20:07	1 200 ✔		14 450
Deposit		3,10	25:07		3 300 ✔	17 750
Unpaid cheque:						
P Saxo		1,60	30:07	300		17 450
Interest			30:07		80	17 530
Deposit: R Charles			30:07		850	18 380
Cheque	19	1,20	30:07	450 ✔		17 930
XYZ Insurance Co		0.50	30:07	500		17 430
Deposit book				20		17 410
Service fees: July				23		17 387

Suggested solution: SG, Exercise 9.1, p174

Dr							B15	Cr
			R					**R**
20.0				**20.0**				
Jul 1	Balance	b/d	12 800	Jul 31	Payments	CPJ 7		6 723
31	Receipts	CRJ 7	12 730		Balance	c/d		18 807
			25 530					25 530
Aug 1	Balance	b/d	18 807					

Bank — heading over the account. **CPJ 7** column heading reads B15.

BANK RECONCILIATION STATEMENT AS AT 30 JUNE 20.0

	Debit	Credit
	R	**R**
Favourable balance per bank statement		11 350
Deposit not yet credited (deposited 1/7/20.0)		✔ 2 000
Cheques not yet presented for payment		
No 11 — dated 23/6/20.0 (Donation)	*200	
No 13 — dated 30/6/20.0 (ABC Stores)	✔ 350	
Favourable balance per bank account	12 800	
	13 350	13 350

Dr			**R**	20.0			**R**
20.0							
Jul 1	Balance	b/d	12 800	Jul 31	Payments	CPJ 7	6 723
31	Receipts	CRJ 7	12 730		Balance	c/d	18 807
			25 530				25 530
Aug 1	Balance	b/d	18 807				

Bank — **B15** — **Cr**

CASH RECEIPTS JOURNAL – JULY 20.0 (bank column only)

crj 7

Doc no	Date	Details	Bank
	15	Cash sales	6 700 ✓
	25	Cash sales	3 300 ✓
	30	Cash sales	1 800
		Rent income	850
		Interest income	80
			12 730
			B 15

Dr				Bank			B15	Cr
20.0				**R**	**20.0**			**R**
Jul 1	Balance	b/d		12 800	Jul 31	Payments	CPJ 7	6 723
31	Receipts	CRJ 7		12 730		Balance	c/d	18 807
				25 530				25 530
Aug 1	Balance	b/d		18 807				

CASH PAYMENTS JOURNAL – JULY 20.0 (bank column only)   *cpj 7*

Doc no	Date	Details	Bank
14	5	Municipality	900 ✓
15	7	John's Wholesalers	2 500 ✓
16	9	ABC Stores	1 200 ✓
—	14	S Swan (R/D cheque)*	200 ✓
17	15	Cash (wages)	450 ✓
18	30	Telkom	180
19		Cash (wages)	450 ✓
		*P Saxo (R/D cheque)**	*300*
		Insurance	*500*
		Bank charges	*43*
			6 723
			B 15

CASH RECEIPTS JOURNAL – JULY 20.0 (bank column only)   *crj 7*

Doc no	Date	Details	Bank
	15	Cash sales	6 700 ✓
	25	Cash sales	3 300 ✓
	30	Cash sales	1 800
		Rent income	850
		Interest income	80
			12 730
			B 15

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.0

	Debit	Credit
	R	R
Favourable balance per bank statement		17 387
Deposit not yet credited (deposited 1/8/20.0)		1 800
Cheques not yet presented for payment:		
No 11 — dated 23/6/20.0 (Donation)	200	
No 18 — dated 30/7/20.0 (Telkom)	180	
Favourable balance per bank account	18 807	
	19 187	19 187

BANK RECONCILIATION STATEMENT AS AT 30 JUNE 20.0

	Debit	Credit
	R	R
Favourable balance per bank statement		11 350
Deposit not yet credited (deposited 1/7/20.0)		✔ 2 000
Cheques not yet presented for payment		
No 11 — dated 23/6/20.0 (Donation)	*200	
No 13 — dated 30/6/20.0 (ABC Stores)	✔ 350	
Favourable balance per bank account	12 800	
	13 350	13 350

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.0

	Debit	Credit
	R	R
Favourable balance per bank statement		17 387
Deposit not yet credited (deposited 1/8/20.0)		1 800
Cheques not yet presented for payment:		
No 11 — dated 23/6/20.0 (Donation)	200	
No 18 — dated 30/7/20.0 (Telkom)	180	
Favourable balance per bank account	18 807	
	19 187	19 187

CASH PAYMENTS JOURNAL – JULY 20.0 (bank column only) *cpj 7*

Doc no	Date	Details	Bank
14	5	Municipality	900 ✓
15	7	John's Wholesalers	2 500 ✓
16	9	ABC Stores	1 200 ✓
—	14	S Swan (R/D cheque)*	200 ✓
17	15	Cash (wages)	450 ✓
18	30	Telkom	180
19		Cash (wages)	450 ✓
		P Saxo (R/D cheque)*	300
		Insurance	500
		Bank charges	43
			6 723
			B 15

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.0

	Debit	Credit
	R	R
Favourable balance per bank statement		17 387
Deposit not yet credited (deposited 1/8/20.0)		1 800
Cheques not yet presented for payment:		
No 11 — dated 23/6/20.0 (Donation)	200	
No 18 — dated 30/7/20.0 (Telkom)	180	
Favourable balance per bank account	18 807	
	19 187	19 187

Dr					Bank			B15	Cr
20.0				**R**	**20.0**				**R**
Jul 1	Balance	b/d		12 800	Jul 31	Payments	CPJ 7		6 723
31	Receipts	CRJ 7		12 730		Balance	c/d		18 807
				25 530					25 530
Aug 1	Balance	b/d		18 807					

BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.0

	Debit	Credit
	R	**R**
Favourable balance per bank statement		17 387
Deposit not yet credited (deposited 1/8/20.0)		1 800
Cheques not yet presented for payment:		
No 11 — dated 23/6/20.0 (Donation)	200	
No 18 — dated 30/7/20.0 (Telkom)	180	
Favourable balance per bank account	18 807	
	19 187	19 187

GENERAL QUESTIONS

The End!!