GOLDEN RULES

1.) <u>The following are elements of financial statements:</u>

Elements by which the financial position (assets = equity + liabilities) is measured:
(1) Assets
(2) Liabilities
(3) Equity

Elements that measure profitability (Profit or loss = increase or decrease in equity):
(4) Income
(5) Expenses

2.) <u>Financial Statements:</u>

A.) Financial Performance (1.12, pg. 13-14)	B.) Financial position (1.12.3, pg.13-15)
Reflects the profit made or loss incurred by the entity *over a specific period in time.*	Determined at the end of the period, after the financial performance, for a *specific point in time.*
Statement of comprehensive income *(old income statement)* (reflecting the profit/total comprehensive income of the year)	**Statement of financial position** *(old Balance Sheet)* (reflecting the capital or equity/net worth)
Two elements: Revenue and Expenses	Two elements: Assets and Interests
WHY: for the financial period (results in financial performance / thus profit or loss)	WHY: to balance Assets with Equity and Liabilities
Profit or Loss = Income - Expenses	Assets = Equity + Liability

3.) ***<u>BASIC ACCOUNTING EQUIATIONS (BAE)</u>*** (be able to do equations)

Assets on the left-hand side
Assets = Equity + Liabilities

Equity and Liabilities on the right-hand side
Equity = Assets – Liabilities.
Liabilities= Assets- Equity

4.) ***<u>Profit and Loss</u>*** (be able to do equations)

Profit = Income > Expenses
Loss = Income < Expenses

Equity = Capital + (Income – Expenses)

Equity = Capital + Net profit (Income – Expenses, if a profit is made, it increases equity)
Equity = Capital – Net loss (Income – Expenses, if a loss is made, it decreases equity)

5.) DEBIT AND CREDIT

Assets

Dr	Cr
+	-

Increase on the left-hand side (debit)
Decrease on the right-hand side (credit)

(Furniture, land and buildings, vehicle, bank, equipment)

Liabilities

Dr	Cr
-	+

Decrease on the left-hand side (debit)
Increase on the right-hand side (credit)

(loan, Creditors)

EQUITY =
Income/Capital (Increases Equity) *<u>and</u>* Expenses/Drawings (Decreases Equity)

Income/Capital

Dr	Cr
-	+

Decrease on the left-hand side (debit)
Increase on the right-hand side (credit)

Expenses/Drawings

Dr	Cr
+	-

Increase on the left-hand side (debit)
Decrease on the right-hand side (credit)

6.) General Ledger/Trail Balance:

Asset and expense accounts have debit (Dr) balances brought down (b/d) and are entered on the debit side of the trial balance.

Equity (capital), liability and income accounts have credit (Cr) balances brought down (b/d) and are entered on the credit side of the trial balance.

7.) Adjustments

The following are examples of adjustments:

- Depreciation of assets used to produce income in the entity;
- Recording of the consumable inventory on hand;
- The writing off of bad debts;
- Accrued and prepaid income and expenses.

7.1) DEPRECIATION (LONG-TERM)

There are three methods to calculate depreciation.

- Depreciation on cost price
- Depreciation on the diminished balance
- Depreciation on the straight-line method

7.2) CONSUMABLE INVENTORY ON HAND

Consumables not yet finished/used:

- Stationery

7.3) WRITING OFF CREDIT LOSSES

The person is never going to pay you back.

7.4) ACCRUED INCOME

Income earned, but not yet received.

- Investments (Interest = Invested amount x interest rate x time)
- Rent inome

7.5) INCOME RECEIVED IN ADVANCE

You have received the payment but have not yet delivered the goods/service.

- Magazine subscriptions
- Airline tickets
- Rental received in advance.

7.6) ACCRUED EXPENSES

Expenses that have happened, but you have not yet paid for it.

- Water and electricity (the municipality has done an measurement and only given you the invoice later)

7.7) PREPAID EXPENSES

You have paid for and recorded for period longer than financial year.

- Assets
- Insurance

8.) VAT

. **OUTPUT VAT** is the tax levied (charged) by the entity on sales of goods or services rendered by the business. VAT going out of the Business.
. **INPUT VAT** is the tax paid (or payable) on goods delivered and/or services rendered to
the entity, including imports. Deductions for input tax will only be allowed if a proper tax
invoice is received and kept. VAT Coming into the Business.
. **OUTPUT VAT minus INPUT VAT** = amount payable/refundable, i.e. the amount payable to the South African Revenue Services (SARS) or the amount that can be claimed from SARS.

COMMENTS
. Calculation of VAT on all amounts which include 14% VAT is:
% or R
Amount without VAT = 100 1,00
VAT = 14 0,14
; Amount VAT inclusive = 114 1,14
To calculate an amount if VAT was included
14
114 x Amount given
Example: Amount received on 1 March 20.4 = R15 504 (including VAT). (See cash receipts journal.)
VAT = 14
114
6 R15 504 = R1 904
SALES = 100
114
6 R15 504 = R13 600
or
SALES = R15 504 7 R1,14 = R13 600.

- . VAT on cash sales is credited to the VAT Output account because Rundu Dealers received VAT for payment to the South African Revenue Service.
- . VAT on credit sales is credited to the VAT Output account.
- . VAT on cash purchases is debited to the VAT Input account.
- . VAT on credit purchases is debited to the VAT Input account.
- . VAT on sales returns is debited to the VAT Output account. (To cancel the VAT Output
- portion of the sales returned.)
- . VAT on purchases returns is credited to the VAT Input account. (To cancel the VAT
- Input portion of the purchases returned.)
- . # VAT on settlement discount granted to debtors is debited to the VAT Input account
- (to reduce the amount owed to the South African Revenue Service).
- . VAT on settlement discount received from creditors is credited to the VAT Output
- account (to increase the amount owed to the South African Revenue Service).
- . The balances of the VAT Input and VAT Output accounts are transferred to the VAT
- control account to determine what amount must be paid to or to be claimed from the
- South African Revenue Service.
- . When the difference between the debit and credit sides of the VAT control is a:

- . credit, the difference is payable to the South African Revenue Service (current
- liability)
- . debit, the difference is refundable by the South African Revenue Service (current
- asset)
- NB: VAT is charged on services, for example telephone account, water and electricity
- account and repairs.

DON'T pay VAT on:
Capital, Deposit,Wages

Sales and **VAT Output**
Debtors (part of sales) and VAT Output
SDG (and Debtors) and **VAT Input**

Purchases and **VAT Input**
Creditors (part of purchases) and VAT Input
SDR (and Creditors) and **VAT Output**

9.) gross profit method.

Calculating Gross profit:

Gross profit / Cost of Sales X 100/1 = Gross profit percentage on cost of sales

Gross profit / Sales X 100/1 = Gross profit percentage on sales

10.) Revenue =

(Cash Sales + Credit sales) - (Sales returns) - (Settlement discount granted)