 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | | **GRADE** | | 10 | **DATE** |  | | | |
| **TOPIC** | PRE-ADJUSTMENT TRIAL BALANCE & POST-ADJUSTMENT TRIAL BALANCE | | | | | | **Term** | 2 | **Week** | 8 |
| **TIME ALLOCATION** | | 1 Week | | |  |  | | --- | --- | | **TIPS TO KEEP HEALTHY** | | |  |  | | 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. | |  |  | | 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people. | |  |  | | 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. | |  |  | | 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | |  |  | | 5. | **STAY AT HOME.** | | | | | | | |
| **INSTRUCTIONS** | See requirements per activity | | |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** | | | | | | | | | |

ACTIVITY 1-4

**ACCOUNTING CYCLE IS AS FOLLOWS :**

1. Source documents > 2. Subsidiary journal > 3. Posting to ledgers >

4**.** Pre-adjustment > 5. Year – end adjustment > 6. Post – adjustment trial balance >

7. Closing transfers and final accounts > 8. Post – closing trial balance >

9. Financial statement

**IN THESE ACTIVITIES YOU WILL DO THE FOLLOWING YEAR-END ADJUSTMENTS**

Trading stock deficit / surplus; Depreciation (on cost price; on diminishing balance methods); Bad debts; Correction of errors / omissions; Accrued income (receivable); Income received in advance (deferred income); Expenses prepaid; Accrued expenses (payable); Interest on mortgage loan

**Year-end adjustments**

**Introduction**

According to the matching concept of GAAP, the net profit that is calculated at the end of the financial year, must present activities for that specific financial year, namely each item of income and expense must be accounted for in respect of each month that it has existed. The process of matching is accounted for in the books of a business through adjustment journal entries. To adjust/ match the nominal account with the financial year, the following accounts are used:

**Trading stock Deficit**

If the physical stock taking amount is less than the balance in the trading stock account, the difference must be recorded as loss[expense] to the business. This expense account is referred to as trading stock deficit in the trading stock account, it may be due to theft or damages.

**Trading stock Surplus**

If the physical stock taking amount is greater than the balance in the trading stock account, the difference must be recorded as surplus [income] to the business. The surplus amount may be created by invoice for purchases of merchandise not recorded or errors in calculations and even in physical stocktaking amount.

**Accrued expense**

If an expense account was in existence for 12 months of the financial year it must have entries representing the 12 months, matching concept states that. It is possible that transactions in an expense account concerning the current financial year have been accounted for as the relevant payment are made at a later date not in the month of transaction, such outstanding amount must be placed in the relevant expense account before it is closed. The amounts will be added into the expense account through an adjustment using accrued expense account.

**Accrued income**

If an income account was in existence for 12 months of the financial year it must have entries representing the 12 months, matching concept states that. It is possible that transactions in an income account concerning the current financial year have been accounted for as the relevant income will be received at a later date not in the month of transaction, such outstanding amount must be placed in the relevant income account before it is closed. The amounts will be added into the income account through an adjustment using accrued income account.

**Error**

If errors are identified at the end of the financial year, it must be recorded in order to ensure accuracy of information provided**.**

**PRE-ADJUSTMENT TRIAL BALANCE AND POST-ADJUSTMENT TRIAL BALANCE**

The trial balance that is drawn up on the last day of the financial year is regarded as a pre-adjustment trial balance as there are accounts that need to be adjusted in line with the requirements of the matching concept of GAAP. Once the account has been adjusted for the financial year the trial balance thereafter drawn up is referred to as a Post Adjustment trial balance.

ACTIVITY 1

PRE-ADJUSTMENT TRIAL BALANCE ON THE 28 February 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FOLIO** | **Debit** | **Credit** |
| Capital |  |  | 436 900 |
| Drawings |  | 340 000 |  |
| Equipment |  | 207 000 |  |
| Accumulated depreciation on equipment |  |  | 133 000 |
| Trading stock |  | 178 400 |  |
| Creditors control |  |  | 110 500 |
| Fixed deposit: 6% p.a. |  | 160 000 |  |
| **Nominal account section** |  |  |  |
| Sales (1 200 000 |  |  | 1 200 000 |
| Cost of sales |  | 790 000 |  |
| Debtors allowances |  | 7 200 |  |
| Rent income |  |  | 66 000 |
| Commission income |  |  | 9 900 |
| Salaries and wages |  | 233 000 |  |
| Advertising |  | 15 000 |  |
| Water and electricity |  | 25 700 |  |
|  |  | 1 956 300 | 1 956 300 |

Adjustment must be processed at the end of the financial year 28 February 2020

1. The owner took stock at cost of R4500 for personal use in February but this has not been recorded.

2. The stock count at the end of the financial year reflected that stock costing R13 900 was missing.

3. The tenant has paid the rent of R6 000 per month for 11 months.

4. The commission income has not been received for three months.

5. February 2020 water and electricity account of R1 230 has not yet been pain.

6. An employee was under-paid for February in error. The difference of R2 500 will be settled in March.

7. Equipment must depreciate by 10% p.a. on the straight-line method.

Required:

1. Analyse the adjustments under the following headings:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No | Account debit | Account credit | Amount | A= | OE + | L |
| e.g. |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

2. Prepare the Post-Adjustment trial balance. Show workings in brackets.

Activity 1-Answer book

1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No | Account debited | Account credited | amount | A= | OE + | L |
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2. Post-Adjustment trial balance

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FOLIO** | **Debit** | **Credit** |
| Capital |  |  |  |
| Drawings (340 000 |  |  |  |
| Equipment |  |  |  |
| Accumulated depreciation on equipment (133 000 |  |  |  |
| Trading stock (178 400 |  |  |  |
| Fixed deposit : 6% p.a. |  |  |  |
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| **Nominal account section** |  |  |  |
| Sales (1 200 000 |  |  |  |
| Cost of sales |  |  |  |
| Rent income (66 000 |  |  |  |
| Motor vehicle expense (11 200 |  |  |  |
| Interest on fixed deposit (12 000 |  |  |  |
| Salaries and wages (233 000 |  |  |  |
| Advertising |  |  |  |
| Insurance (7 150 |  |  |  |
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**Pre-paid expense**

Refers to the amount of an expense that was paid during the present financial year for the next financial year. According to the Matching concept of GAAP such amount must be removed from the expense account so that only amounts representing this financial year remain in the expense account. The amount is removed from the incomes account through an adjustment entry by using the income received account

**Income received in advance**

Refers to an amount of income that was received during this financial year for the next financial year. According to the Matching concept of GAAP such amount must be removed from the income account. The amount is removed from the incomes account through an adjustment entry by using the income received account.

**Activity 2- Prepaid expense & Income Received In Advance**

Pre-Adjustment trial balance

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FO** | **Debit** | **Credit** |
| Capital |  |  | 200 840 |
| Drawings |  | 10 520 |  |
| Vehicle |  | 410 000 |  |
| Accumulated depreciation on vehicle |  |  | 160 000 |
| Trading stock |  | 45 780 |  |
| Debtors control |  | 38 690 |  |
| Fixed deposit: 6% p.a. |  | 60 000 |  |
| **Nominal account section** |  |  |  |
| Sales |  |  | 876 000 |
| Cost of sales |  | 490 000 |  |
| Debtors allowances |  | 16 000 |  |
| Bad debts |  | 6 700 |  |
| Interest on fixed deposit |  |  | 12 000 |
| Rent income |  |  | 39 000 |
| Advertising |  | 3 000 |  |
| Insurance |  | 7 150 |  |
| Salaries and wages |  | 200 000 |  |
|  |  | 1 287 840 | 1 287 840 |

1. M. Marshall a debtor who owes R900 was declared insolvent on 20 February 2020. His account must be written off.

2. Rent for March has already been received.

3. the interest on fixed deposit has been received three months in advance R1 200.

4. the monthly insurance premium of R550 has been paid one month in advance.

5.on 1 January 2020 an amount of R360 was paid for the placement of weekly advertisement for a three months period

6. provide depreciation on vehicle at 20% p.a. on the diminishing balance method.

7. A physical count of stock on 28 February 2020 revealed an amount of R45 000

Required:

1. Analyse the adjustments under the following headings:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No | Account debit | Account credit | Amount | A= | OE + | L |
| e.g. |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

2. Prepare the Post-Adjustment trial balance. Show workings in brackets.

Activity 2 – answer book

1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No | Account debited | Account credited | amount | A= | OE + | L |
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2. Post-Adjustment trial balance

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| --- | --- | --- | --- |
| **Balance sheet account section** | **FO** | **Debit** | **Credit** |
| Capital |  |  |  |
| Drawings |  |  |  |
| Vehicle |  |  |  |
| Accumulated depreciation on vehicle (160 000 |  |  |  |
| Trading stock (45 780 |  |  |  |
| Fixed deposit: 6% p.a. |  |  |  |
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| **Nominal account section** |  |  |  |
| Sales (876 000 |  |  |  |
| Cost of sales |  |  |  |
| Bad debts (6 700 |  |  |  |
| Interest on fixed deposit (12 000 |  |  |  |
| Rent income (39 000 |  |  |  |
| Advertising (3 000 |  |  |  |
| Insurance (7 150 |  |  |  |
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Activity 3

Pre-adjustment Trial Balance on 28 February 2020

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| --- | --- | --- | --- |
| **Balance sheet account section** | **Folio** | **Debit** | **Credit** |
| Capital |  |  | 50 000 |
| Vehicle |  | 90 000 |  |
| Equipment |  | 25 000 |  |
| Accumulated depreciation on vehicle |  |  | 33 500 |
| Accumulated depreciation on equipment |  |  | 10 480 |
| Creditors control |  |  | 48 417 |
| Trading stock |  | 23 200 |  |
| Fixed deposit : 13% p.a. |  | 10 000 |  |
| **Nominal account section** |  |  |  |
| Rent income |  |  | 17 500 |
| Interest on fixed deposit |  |  | 975 |
| Water and electricity |  | 5 332 |  |
| Advertising |  | 2800 |  |
| Stationary |  | 1 890 |  |
| Depreciation |  |  |  |
| Bad debts |  | 2 650 |  |
|  |  | 160 872 | 160 872 |

Adjustment on 28 February 2020

1. The following accounts have been received, but not yet paid

* Telephone R497
* Water and electricity R 533

1. Debtor J. Block is overseas for an unlimited period and cannot be traced. Write off his account of R890 as irrecoverable.
2. Interest on fixed deposit is calculated at 13% per annum and has only been received for nine months. Take into account the interest for the last three months.
3. An advertising contract with a radio station has been signed for six months from 1 January 2020 and the full amount of R720 n was paid.
4. A part of the building has been let since the beginning of the financial year. The tenant has already paid the rent for march and April 2020 because she is going on holiday.
5. Depreciation must be taken into account as follows:

* On vehicle at 20% per annum on the diminishing balance method
* On equipment at 10% per annum on the cost price method.

Activity 3 answer book

SPREADSHEET: 28 February 2020

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Balance sheet account section** | **Debit** | **Credit** | **Debit** | **Credit** | **Debit** | **Credit** |
| Capital |  | 50 000 |  |  |  |  |
| Vehicle | 90 000 |  |  |  |  |  |
| Equipment | 25 000 |  |  |  |  |  |
| Accumulated depreciation on vehicle |  | 33 500 |  |  |  |  |
| Accumulated depreciation on equipment |  | 10 480 |  |  |  |  |
| Creditors control |  | 48 417 |  |  |  |  |
| Trading stock | 23 200 |  |  |  |  |  |
| Fixed deposit : 12% p.a. | 10 000 |  |  |  |  |  |
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| **Nominal account section** |  |  |  |  |  |  |
| Rent income |  | 17 500 |  |  |  |  |
| Interest on fixed deposit |  | 975 |  |  |  |  |
| Water and electricity | 5 332 |  |  |  |  |  |
| Advertising | 2800 |  |  |  |  |  |
| Stationary | 1 890 |  |  |  |  |  |
| Depreciation |  |  |  |  |  |  |
|  | 160 872 | 160 872 |  |  |  |  |

ACTIVITY 4

**TRIAL BALANCE FOR THE YEAR ENDED 31 AUGUST 2019**

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| **BALANCE SHEET SECTION** |  |  |
| Capital |  | 955 000 |
| Drawings | 65 860 |  |
| Land and buildings | 650 000 |  |
| Vehicles | 345 000 |  |
| Equipment | 60 000 |  |
| Accumulated depreciation on Vehicles |  | 28 125 |
| Accumulated depreciation on Equipment |  | 8 700 |
| Fixed Deposit: BASA Bank (8.5 % p.a.) | 50 000 |  |
| Trading inventory | 33 320 |  |
| Debtors control | 23 500 |  |
| Bank | 7 500 |  |
| Creditors control |  | 51 577 |
| Loan: BFN Bank (14% p.a.) |  | 60 000 |
| **NOMINAL ACCOUNT SECTION** |  |  |
| Sales |  | 758 413 |
| Cost of sales | 500 000 |  |
| Debtors allowances | 12 435 |  |
| Rent income |  | 31 300 |
| Interest on fixed deposit |  | 2 125 |
| Discount received |  | 560 |
| Bad debts | 1 250 |  |
| Salaries | 114 000 |  |
| Telephone | 7 490 |  |
| Water and electricity | 5 350 |  |
| Stationery | 3 210 |  |
| Advertising | 6 346 |  |
| Insurance | 3 250 |  |
| Interest on loan | 6 500 |  |
| Discount allowed | 789 |  |
|  | 1 895 800 | 1 895 800 |

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| --- | --- | --- | --- |
| **Adjustments and additional information:** | | |  |
|  | | |  |
| 1. | Donated goods, R525 to the local nursery school. No entry for this transaction has been made. | |  |
|  |  | |  |
| 2. | On the last day on the financial year, a physical stock taking revealed the following:   * Inventory on hand R31 590 * Stationery on hand R 390 | |  |
|  |  | |  |
| 3. | The Fixed deposit was invested on 1 September 2016 at BASA Bank. The interest on the fixed deposit has been received for six months only. | |  |
|  |  | |  |
| 4. | The account of a debtor, DJ. Ponti, amounting to R320 must be written off as irrecoverable since he cannot be traced. | |  |
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|  |  |
| 5. | Rent has been received for thirteen months. Take into account that the rent was increased by R250 per month from 1 July 2019. | |  |
|  |  | |  |
| 6. | The telephone account for August 2019 has been received but not yet paid, R405. | |  |
|  |  | |  |
| 7. | An annual insurance premium of R1 140 was paid on 31 March 2019. | |  |
|  |  | |  |
| 8. | The long-term loan is repaid annually on 1 March with an instalment of R25 000. All the necessary entries regarding this transaction were made during the financial year. Some of the interest at 14% p.a. is still payable**.** | |  |
|  |  | |  |
| 9. | The business’s policy on depreciation states the following:   * Depreciation on vehicles is calculated at 15% p.a. on the cost price method. Take into account that a new vehicle, with a cost of R120 000, was purchased on 1 May 2019 and entered into the books. * Depreciation on equipment must be provided for at 10% p.a. according to the diminishing balance method. | |  |

ACTIVITY 4 ANSWER SHEET

**TRIAL BALANCE FOR THE YEAR ENDED 31 AUGUST 2017**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Debit | Credit | Debit | Credit | Debit | Credit |
| **BALANCE SHEET SECTION** |  |  |  |  |  |  |
| Capital |  | 955 000 |  |  |  |  |
| Drawings | 65 860 |  |  |  |  |  |
| Land and buildings | 650 000 |  |  |  |  |  |
| Vehicles | 345 000 |  |  |  |  |  |
| Equipment | 60 000 |  |  |  |  |  |
| Acc depr on Vehicles |  | 28 125 |  |  |  |  |
| Acc depr on Equipment |  | 8 700 |  |  |  |  |
| Fixed Deposit: 8.5 % p.a. | 50 000 |  |  |  |  |  |
| Trading inventory | 33 320 |  |  |  |  |  |
| Debtors control | 23 500 |  |  |  |  |  |
| Bank | 7 500 |  |  |  |  |  |
| Creditors control |  | 51 577 |  |  |  |  |
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| **NOMINAL ACCOUNT SECTION** |  |  |  |  |  |  |
| Sales |  | 758 413 |  |  |  |  |
| Cost of sales | 500 000 |  |  |  |  |  |
| Debtors allowances | 12 435 |  |  |  |  |  |
| Rent income |  | 31 300 |  |  |  |  |
| Interest on fixed deposit |  | 2 125 |  |  |  |  |
| Discount received |  | 560 |  |  |  |  |
| Bad debts | 1 250 |  |  |  |  |  |
| Salaries | 114 000 |  |  |  |  |  |
| Telephone | 7 490 |  |  |  |  |  |
| Water and electricity | 5 350 |  |  |  |  |  |
| Stationery | 3 210 |  |  |  |  |  |
| Advertising | 6 346 |  |  |  |  |  |
| Insurance | 3 250 |  |  |  |  |  |
| Interest on loan | 6 500 |  |  |  |  |  |
| Discount allowed | 789 |  |  |  |  |  |
|  | 1 895 800 | 1 895 800 |  |  |  |  |