 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** | Statement of Comprehensive Income and Statement of Financial Position | **Term**  | 2 | **Week** |  |
| **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** |

This assignment consists of eight (8) pages including this one.

**Introduction**

The financial statements of a sole trader consist of an Income Statement and a Balance Sheet. The main objective of any business is to provide financial information on the results of the economic activities of a business.

**Stakeholders/People both inside and outside a business have interest in the financial statement**

* The owner: To see how his or her business is doing and whether it is a good investment.
* The financial manager: The financial statements assist with decision-making and monitoring, the manager needs the statements to draw up budgets and draw comparisons between the assets, owners’ equity, and liabilities of the business.
* Banks and other suppliers of financing: They use the financial statements to determine whether or not the business can pay their debts.
* Creditors: They want to determine the creditworthiness of the business, particularly if they to provide large quantities of stock on credit.
* Government department: They use the financial statements of a business for tax purposes, and to accumulate statistics to make predictions with regard to training needs, unemployment, regional development.
* South African Revenue Service (SARS): They use financial statements of the business to determine and calculate tax to be paid by the business for a specific period. (To be learned further in grade 11 &12).

**Income statement:**

* Presents the [revenues](https://www.accountingtools.com/articles/2017/5/11/revenue), [expenses](https://www.accountingtools.com/articles/2017/5/6/expense), and [profits](https://www.accountingtools.com/articles/2017/5/14/profit)/[losses](https://www.accountingtools.com/articles/2017/5/9/losses) generated during the [reporting period](https://www.accountingtools.com/articles/2017/5/11/reporting-period). This is usually considered the most important part of the financial statements, since it presents the operating results of an entity. meaning financial results of a business / incomes and expenses during a specific period.
* The income statement is the same as the Trading account and Profit and loss account, it is prepared to determine the net profit of the business for a specific period.
* The Net Profit is determined if the income for a specific period is greater than the expenses. The Net loss is determined when the expenses for a certain period are greater than the income.

**The income statement is set out as follows when a net profit is assumed:**

* Sales – Cost of sales = ***Gross Profit***
* Gross Profit + any other income (e.g. commission/rent income/current income/discount received and so on) = ***Gross operating income.***
* Gross operating income – Operating expenses = Operating profit.
* Operating profit + Interest income (e.g. interest on investment) = ***Profit before interest expenses/financing costs.***
* Profit before interest expenses/financing cost – interest expenses/financing cost = ***Net Profit for the year.***

**Balance Sheet**

* A Balance Sheet is a report of the financial position of a business on a specific day, it set up from the Accounting Equation (A = OE+L).
* It shows the Assets, the Owners’ Equity and Liabilities of a business. A Balance Sheet has two main headings: ASSETS, and EQUITY & LIABILITIES, with sub-sections for each major heading.

|  |  |
| --- | --- |
| **Main Heading** | **Sub-section(s) with components** |
| **Assets** | **Non-current assets** (business long-term investments/assets for which the full value will not be realized within the accounting year, normally stays in the business for more than one (1) year). |
|  | ***Components:*** |
|  | **Fixed/Tangible assets (Note 3)** |
|  | * Land and Buildings
 |
|  | * Vehicles
 |
|  | * Equipment – including computers
 |
|  | **Financial assets** |
|  | * Fixed deposits maturing after 12 months
 |
|  |  |
|  | **Current Assets** (Assets which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year or operating cycle or financial year – cash and other assets that expected to be converted to cash within 12 months). |
|  | ***Components:*** |
|  | **Inventory (Note 4)** – Trading stock and Consumables on hand |
|  | **Trade and other Receivables (Note 5)** -Trade debtors, Income receivable/Accrued income and Prepaid expensed |
|  | **Cash and Cash Equivalents (Note 6)** – Fixed deposits maturing within 12 months, Savings account, Bank, Cash Float, Petty Cash |
|  |  |
| ***Don’t forget!*** | **Total assets = Non-current + Current Assets** |
|  |  |
| **EQUITY and****LIABILITIES** | **Owner’s equity** (Owner’s Equity is defined as the proportion of the total value of a business’s assets that can be claimed by its owners (It is calculated by deducting all liabilities from the total value of an asset (**Equity = Assets – Liabilities**). |
|  | **Note 7:** Capital balance at the beginning plus additional capital contributions minus capital withdrawals plus/minus net profit/loss minus Drawings. |
|  | **Non-current Liabilities** (known as long-term **liabilities**, are obligations listed on the balance sheet due for more than a year- to be repaid more than one (1) year). |
|  | ***Component(s):*** |
|  | Loans (Repayable after 12 months – long term liabilities). |
|  | 1. **Current Liabilities** (Amounts due to be paid to creditors within twelve months)
 |
|  | ***Components:*** |
|  | * Trade and other Payables **(Note 8)**
 |
|  | * Trade creditors
 |
|  | * Loans **(Repayable within 12 months)**
 |
|  | * Bank overdraft(unfavourable bank account)
 |
| ***Don’t forget!*** | **Total Equity and Liabilities = Owner’s Equity + Noncurrent liabilities + Current Liabilities** |

**Activity 1**

The information is from the books of Makae Traders. The financial year ended on 28 February 2019.

**Required:**

* 1. Prepare the Statement of Comprehensive Income (Income Statement) for Makae Traders for the year ended 28 February 2019. **(25)**

**EXTRACT FROM THE TRIAL BALANCE ON 28 FEBRUARY 2019**

|  |  |  |
| --- | --- | --- |
|  | **Debit**  | **Credit**  |
| **BALANCE SHEET SECTION** |  |  |
| Capital  |  | 325 600 |
| Drawings  | 15 500 |  |
| Land and Buildings | 480 130 |  |
| Vehicles | 120 000 |  |
| Equipment | 79 800 |  |
| Trading stock | 34 900 |  |
| Debtors control | 18 775 |  |
| Bank | 27 800 |  |
| Cash float | 1 000 |  |
| Petty cash  | 450 |  |
| Loan: FNC Bank |  | 165 000 |
| Creditors control |  | 45 870 |
| Prepaid expenses | 11 500 |  |
| Income received in advance |  | 2 130 |
| Consumable stores on hand | 19 680 |  |
| Accrued expenses |  | 1 200 |
| Accrued income | 3 800 |  |
| **NOMINAL ACCOUNT SECTION** |  |  |
| Sales  |  | 742 015 |
| Cost of sales | 490 000 |  |
| Debtors allowances | 34 000 |  |
| Rent income |  | 36 000 |
| Current income |  | 5 600 |
| Telephone | 15 890 |  |
| Salaries  | 25 500 |  |
| Water and electricity  | 3 120 |  |
| Advertising  | 1 900 |  |
| Rates | 13 800 |  |
| Stationery  | 12 700 |  |
| Wages  | 13 300 |  |

**Additional information**

1. The owner, P. Makae made additional capital contribution of R160 000 on 1 July 2018.
2. The loan is repaid in equal monthly instalments of R3 000 every year.
3. Fixed deposits maturing on December 2021 amount to 60 000.

**Activity 2**

2.1 ***Use the information in activity one (1)*** to Prepare statement of financial position (Balance sheet) and notes for the year ended 28 February 2019.

 **(35)**

**Activity 3: Income Statement**

S. Masiza owns a shop called Dlala Nathi that sells soccer kit items. Dlala Nathi’s financial year end is on 28 February 2019.

**Required:**

* 1. Draw up the Income Statement for the year ended 28 February 2019 from the given information below. **(45)**

***Note:***

* All adjustments figures must be shown in brackets next to the account.
* The business uses a mark-up policy of 50% which has been strictly adhered to.

**Information:**

**GENERAL LEDGER OF DLALA NATHI**

FINAL ACCOUNTS SECTION

|  |
| --- |
|  **DR PROFIT AND LOSS ACCOUNT CR** |
| 2019Feb. | 28 | Salaries and Wages | GJ | 34 690 |  | 2019Feb. | 28 | Trading Account | GJ | 98 500 |
|  |  | Pension contributions | GJ | 4 300 |  |  |  | Discount received  | GJ | 340 |
|  |  | Medical contributions | GJ | 1 870 |  |  |  | Bad Debts Recovered | GJ | 130 |
|  |  | Sundry expenses | GJ | 12 120 |  |  |  | Interest on investment | GJ | 900 |
|  |  | Packing Materials | GJ | 2 060 |  |  |  |  |  |  |
|  |  | Bad Debts | GJ | 300 |  |  |  |  |  |  |
|  |  | Discount allowed | GJ | 20 |  |  |  |  |  |  |
|  |  | Debtors Allowances | GJ | 530 |  |  |  |  |  |  |
|  |  | Advertising  | GJ | 4 550 |  |  |  |  |  |  |
|  |  | Trading License | GJ | 1 800 |  |  |  |  |  |  |
|  |  | Rent  | GJ | 13 000 |  |  |  |  |  |  |
|  |  | Capital Account | GJ | 24 630 |  |  |  |  |  |  |
|  |  |  |  | **99 870** |  |  |  |  |  | **99 870** |

The bookkeeper has made an error in calculating the profit in the profit and loss account. This needs to be corrected by taking into account the following information:

**Adjustment and additional information:**

1. The rent amount was actually for rent received from one of soccer supporter who rents part of the shop where he sells helmets, sirens (including vuvuzelas) and other items used by supporters in the stadium for entertainment.
2. The debtor’s allowances have not been treated correctly.
3. On the 18 February 2019 Dlala Nathi had a break-in and trading stock to the value of R4 750 was stolen. No entries have been made to record this and as the business is not insured, they cannot claim for this loss.
4. The advertising account had been overstated by R150.
5. The business has loan of R20 000 at ZK Bank for the half the financial year. Interest has been paid monthly at an interest rate of 12%p.a., but the bookkeeper had allocated the interest to the loan: ZK Bank account. Correct this error.
6. An invoice for stock sold on account for R4 500 has not been entered. Make necessary entry.
7. The following problems were encountered with debtors at the end of the financial year

A debtor, S. James was declared insolvent. His estate paid R90 being 20c in the rand. The receipt has been recorded but no entry for the amount to be written off has been recorded in the books of the business.

Ncane FC has not paid his outstanding account of R800 for the past three months. Interest needs to be charged at 10% p.a.

1. The bookkeeper recorded R400 received from a debtor whose account was previously written off by Dr Bank and Cr Bad Debts. Correct the error.
2. A stock take was done after the profit and loss account was drawn up. It revealed that trading stock to the value of R1 000 was unaccounted for (missing) and there was still packing material costing R450 that has been used.
3. Telephone account for March 2019 has been received and paid in advance, R1 450.
4. Provide for depreciation of R 23 800 for the year
5. The Bank Statement received on the 28 February 2019 revealed the following:

Bank charges of R285

A cheque for R3 100 from debtor, T. Ndaleni, dishonoured due to insufficient funds.

**ACTIVITY 4**

* 1. **Indicate whether the following statements are TRUE or False.**
		1. Non-current liabilities contain debts that will be settled within one year.
		2. Creditors for salaries and SARS (PAYE) will be shown under non-current assets.
		3. Current assets include items that are expected to be converted into cash within one year.
		4. Bank overdraft is added on current assets.
		5. Total assets are calculated by subtracting non-current assets from current assets.

**[5]**

**Required:**

**Use the information provided to:**

* 1. Prepare the Balance Sheet of Nandi Stores on 31 October 2019. **[30]**

4.3 Draw up only those notes provided for in the answer book. **[20]**

***Note:*** Where a note has been required show calculations on the face of the Balance Sheet.

**Information:**

1. **POST-CLOSING TRIAL BALANCE ON 31 OCTOBER 2019**

|  |  |  |
| --- | --- | --- |
| **BALANCE SHEET ACCOUNTS SECTION** | **Debit**  | **Credit**  |
| Capital  |  | 1 162 589 |
| Land and buildings | 1 200 000 |  |
| Vehicles | 365 000 |  |
| Equipment  | 190 000 |  |
| Trading inventory | 70 773 |  |
| Debtors control | 6 816 |  |
| Bank | 13 192 |  |
| Petty cash | 500 |  |
| Cash Float | 1 000 |  |
| Creditors control |  | 9 983 |
| Loan: FNB (14%) |  | 675 000 |
| Consumable stores on hand | 574 |  |
| Accrued Income | 325 |  |
| Accrued Expenses |  | 483 |
| Income Received in Advance |  | 526 |
| Prepaid Expenses | 401 |  |
|  | **1 848 581** | **1 848 581** |

1. The loan gets repaid on the 31st of December each year. Each annual repayment amounts to R75 000 plus any outstanding interest.
2. The owner drew R20 000 per month for all months during the financial year except for December 2018 where he drew R30 000.
3. The net profit as determined in the Profit and Loss account amounted to R375 391.

***-End of activities-***