

# Topic 1: Basic accounting concepts and the accounting equation

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## Activity 1: Choose the correct word

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- 1 current
- 2 non-current
- 3 decrease
- 4 income minus expenses
- 5 debit
- 6 credit
- 7 tangible
- 8 ethics
- 9 debit
- 10 receipt

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## Activity 2: True or false statements

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- 1 False, the cost price is R6 000.
- 2 False,  $A = OE + L$
- 3 True
- 4 False, it is called a Trial balance.
- 5 True

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## Activity 3: Match columns

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Column A		Column B	
1	Current liabilities	C	Debts that are repaid in the short-term
2	Assets	A	Possessions of the business
3	Cost of sales	F	Cost price of goods sold
4	Duplicate credit note	E	Record information in the Debtors' Allowance Journal
5	Perpetual inventory system	B	A stock system that shows value of stock at any given time
6	Non-current assets	D	Assets with a long life span
7	Income	H	Money received for selling stock
8	Journal	G	Book of first entry

#### Activity 4: Place in correct columns

Assets	Liabilities	Expenses	Income	Owner's Equity
Debtors	Loan	Interest expense	Sales	Drawings
Equipment	Creditors	Salaries	Discount received	Capital
Trading stock	Bank (overdraft)	Packing material	Rent income	Profit
Petty cash	Mortgage bond	Cost of sales	Interest income	
Vehicles		Rent expense	Current income	
Bank		Stationery	Commission income	
Fixed deposit		Advertising		
Cash float		Wages		
Buildings		Discount allowed		
		Telephone		
		Repairs		
		Water and electricity		
		Rates and taxes		
		Consumables		

#### Activity 5: Analyse transactions

Please note – the amounts highlighted in grey (see the Amount-column) indicates that you have to use the information in the question to calculate the answer.

No	Subsidiary journal	General Ledger		Amount	Effect on the accounting equation		
		Account debited	Account credited		Assets	Owner's Equity	Liabilities
<b>Ex</b>	<b>CPJ</b>	<b>Stationery</b>	<b>Bank</b>	<b>350</b>	-	-	<b>0</b>
1	CPJ	Wages	Bank	6 800	-	-	0
2	CJ	Repairs	Creditors' Control	300	0	-	+
3	CJ	Equipment	Creditors' Control	9 000	+	0	+
4	CRJ	Bank	Fixed deposit: First Bank	60 000	+	0	0
	CRJ	Bank	Interest on fixed deposit	5 000	+	+	0
5	CPJ	Trading stock	Bank	7 200	+	0	0
6	SJ	Salaries	UIF	46	0	-	+
	SJ	Salaries	SARS (PAYE)	1 380	0	-	+
	SJ	Salaries	Creditors for salaries	3 174	0	-	+
	SJ	UIF contributions	UIF	46	0	-	+
7	CRJ	Bank	Loan: ABC Bank	90 000	+	0	+
8	CPJ	Petty cash	Bank	380	+	0	0
9	DJ	Debtors	Sales	1 500	+	+	0
	DJ	Cost of sales	Trading stock	1 000	-	-	0

No	Subsidiary journal	General Ledger		Amount	Effect on the accounting equation		
		Account debited	Account credited		Assets	Owner's Equity	Liabilities
10	CJ	Trading stock	Creditors' control	3 000	+	0	+
	CJ	Stationery	Creditors' control	240	0	-	+
11	CPJ	Trading stock	Bank	680	+ -	0	0
12	GJ	Debtors' control	Interest income	55	+	+	0
13	GJ	Repairs	Equipment	800	-	-	0
14	DAJ	Debtors' allowance	Debtors' control	450	-	-	0
	DAJ	Trading stock	Cost of sales	300	+	+	0
15	CRJ	Bank	Debtors' control	570	+ -	0	0
	CRJ	Discount allowed	Debtors' control	30	-	-	0
16	CPJ	Debtors' control	Bank	280	+ -	0	0
	GJ	Debtors' control	Discount allowed	20	+	+	0
17	CRJ	Bank	Sales	2 400	+	+	0
	CRJ	Cost of sales	Trading stock	1 600	-	-	0
18	CAJ	Creditors	Trading stock	210	-	0	-
19	CPJ	Drawings	Bank	400	-	-	0
20	CPJ	Creditors' control	Bank	450	-	0	-
	CPJ	Creditors' control	Discount received	40	0	+	-
21	CPJ	Carriage on sales	Bank	80	-	-	0
22	CRJ	Bank	Interest on current account	210	+	+	0
23	CRJ	Bank	Debtors' control	272	+ -	0	0
	GJ	Bad debt	Debtors' control	408	-	-	0
24	CRJ	Bank	Commission income	1 800	+	+	0
25	CPJ	Insurance	Bank	6 000	-	-	0
	CPJ	Drawings	Bank	2 000	-	-	0

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### Activity 6: Calculations

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$$\begin{aligned} 1 \quad \text{SP} &= \text{R}180 \times \frac{150}{100} \\ &= \text{R}270 \\ \text{Discount } -10\% &= \text{R}27 \\ \text{SP} &= \text{R}270 - \text{R}27 \\ &= \text{R}243 \\ \text{Profit} &= \text{R}243 - \text{R}180 \\ &= \text{R}63 \end{aligned}$$

$$\begin{aligned} 2 \quad \text{CP} &= \text{R}2\,385 \times \frac{100}{120} \\ &= \text{R}1\,987,50 \end{aligned}$$

$$\begin{aligned} 3 \quad \text{SP} &= \text{R}934 \times \frac{165}{100} \\ &= \text{R}1\,541,10 \end{aligned}$$

$$\begin{aligned} 4 \quad \text{SP} &= \text{R}150 \times \frac{150}{100} \\ &= \text{R}225 \\ \text{Profit} &= \text{R}225 - \text{R}150 \\ &= \text{R}75 \end{aligned}$$

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### Activity 7: More calculations

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1.1 Goods cost R500, profit mark-up is 25% on cost.

$$\frac{25}{100} \times \frac{500}{1} = \text{R}125 \quad \text{or} \quad \frac{125}{100} \times \frac{500}{1} = \text{R}625$$

Therefore,

$$\begin{aligned} \text{SP} &= \text{R}500 + \text{R}125 \\ &= \text{R}625 \end{aligned}$$

1.2 Goods cost R1 200. Mark-up is 40% on cost.

$$\frac{140}{100} \times \frac{1\,200}{1} = \text{R}1\,680$$

2.1 Selling price is R700, profit mark-up is 40% on cost.

$$\frac{100}{140} \times \frac{700}{1} = \text{R}500$$

$$\begin{aligned} (100 + 40) \\ \text{CP} &= \text{R}500 \end{aligned}$$

2.2 Selling price is R1 000, mark-up is 100% on cost.

$$\frac{100}{200} \times \frac{1\,000}{1} = R500$$

(100+100)  
CP = R500

3.1 Cost price is R300, selling price is R400.

$$\frac{\text{Profit}}{\text{CP}} \times \frac{1\,000}{1} = \frac{400 - 300}{300} \times \frac{100}{1}$$

MU% = 33,33%

3.2 Cost price is R500, selling price is R1 000.

$$\frac{1\,000 - 500}{500} \times \frac{100}{1} = 100\%$$

MU% = 100%

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### Activity 8: More calculations

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1 SP =  $\frac{160}{100} \times \frac{480}{1} = R768$

2 CP =  $\frac{100}{170} \times \frac{3\,400}{1} = R2\,000$

3 Profit =  $\frac{40}{100} \times \frac{250}{1} = R100$

4 Mark-up = R1 260 - R630 = R630  
=  $\frac{630}{630} \times \frac{100}{1} = 100\%$

5 SP =  $\frac{150}{100} \times \frac{180}{1} = R270$

Discount =  $\frac{270}{1} \times \frac{15}{100} = R40,50$

Therefore SP = R270 – R40,50 = R229,50 and Profit = R270 – R180 = R63

### Activity 9: More calculations

1	Cost price	% profit	Selling price
	<b>R348,34</b>	<b>Profit 25%</b> CP = 100% SP = 125%	$SP = \frac{SP}{CP} \times \frac{CP}{1}$ $= \frac{125}{100} \times \frac{348,34}{1}$ $= R435,43$
	$CP = \frac{CP}{SP} \times \frac{SP}{1}$ $= \frac{100}{130} \times \frac{590,50}{1}$ $= R454,23$	<b>Profit 30%</b> CP = 100% SP = 130%	<b>R590,50</b>
	<b>R284,20</b>	<b>Profit 45%</b> CP = 100% SP = 145%	$SP = \frac{SP}{CP} \times \frac{CP}{1}$ $= \frac{145}{100} \times \frac{284,20}{1}$ $= R412,09$

$$2 \quad SP = \frac{165}{100} \times \frac{934,20}{1} = R1\,541,43$$

$$3 \quad CP = \frac{100}{130} \times \frac{2\,385}{1} = R1\,834,62$$

### Activity 10: Mixed questions

- 1.1 Cash Receipts Journal
  - 1.2 Account debited: Bank  
Account credited: Rent income
  - 1.3 Check the total of all the receipts and cash register roll against the deposit slip.  
Send the money to the bank with a senior person or security company.  
Check the bank statement to make sure all money was recorded by the bank.
- 2.1

Date: <b>23/05/2019</b>	
Payee: <b>Shelly Designers</b>	
For: On Account	
Previous balance	34 960
Deposited	0
This cheque	<b>8 400</b>
Charges	0
Closing balance	<b>26 560</b>

089

- 2.2 A senior person should lock the cheque book away every day.  
 Only one or two trusted people should have signing power for the cheques.  
 Before the cheque is signed the payment should be verified by supporting documents.  
 Check that every cheque recorded in our CPJ appears in our bank statement.

2.3

### Cash Payments Journal

Doc No	Date	Details	Bank	Creditors' Control	Discount received	Sundry Account	
						Amount	Details
89	23	Shelly Designers	8 400	8 490	90		

3.1 Debtors' Journal

3.2 Account Debited: Debtors' control

Account Credited: Sales

3.3 Calculation of cost price:

$$CP = \frac{100}{125} \times \frac{1\,300}{1} = R1\,040$$

$$\begin{aligned} \text{Profit} &= R1\,300 - R1\,040 \\ &= R260 \end{aligned}$$

3.4 Allow discount for early payment.

Constant reminders (statements, sms', telephone calls).

Charge interest on overdue accounts.

Do not allow more credit until account has been paid (credit limit).

3.5 It serves as proof that a transaction has taken place.

It is used to record transactions in the books.

Prevention of fraud.