Topic 2

Accounting equation and ledger accounts

After studying this chapter, you should be able to:

- understand the relationship that exists between the assets, liabilities and the interest of the owner in the entity,
- analyse the effect of each transaction on the accounting equation,
- understand the double entry concept,
- understand when an account is debited and credited

2.1 Introduction

All transactions of the business affect the accounting equation when the transactions are recorded in the general ledger. The accounting equation represents the relationship that exists between the assets, liabilities and the interest of the owner in the entity.

Assets are owned by the entity and has the potential to generate money in future. Land and buildings, vehicles, equipment, furniture, investments, debtors and cash.

Liabilities are obligations of the entity that must be paid in the future. Examples of liabilities are *inter alia* loans and creditors.

Owners' equity is the interest in an entity after liabilities have been deducted from the assets. Examples of equity are *inter alia,* capital contributions plus profits minus drawings by the owner. Owners' equity is affected by an increase or decrease of capital contributions and drawings by the owner. Income increases profits and increase owners' equity. Expenses decrease profits and decrease owners' equity.

Assets *increase on the debit side and decrease on the credit side of the ledger accounts.*

Liabilities *increase on the credit side and decrease on the debit side of the ledger accounts.*

Owners' equity *increases on the credit side and decreases on the debit side of the ledger accounts. Any entry on the credit side of the capital, drawings, income or expense accounts will increase owners' equity, while any entry on the debit side of capital, drawings, income or expense accounts will decrease owners' equity.*

Question 1

On which side of the general ledger account will the elements increase or decrease?

	Debit	Credit
Assets		
Liabilities		
Expenses		
Income		
Equity		

Question 2

Classify the accounts in the general ledger in the correct column:

Account	Owner's equity	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Income	Expense
Mortgage loan							
Services rendered							
Telephone							
Bank							
Electricity							
Capital							
Cash float							
Vehicles							
Debtors control							
Creditors control							
Drawings							
Fixed deposit							
Petty cash							
Salaries							
Interest on fixed deposit							
Donation							
Land and buildings							
Commission received							
Plumbing material							
Bank charges							
Repairs							
Rent income							
Rent expense							
Bank overdraft							
Interest on overdraft							
Interest on current account							
Stationery							
Postage							
Stationery							
Equipment							
Consumable stores							
Insurance							

Question 3

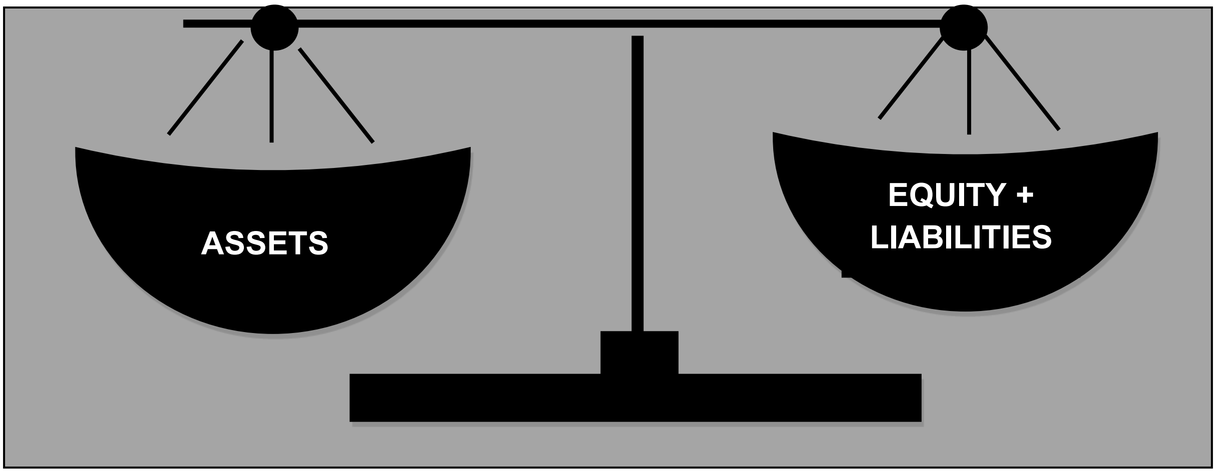
Explain the double entry principle.

2.2 Elements in accounting equation

The three elements of the accounting equation are assets, liabilities and equity

- Assets are the possessions which belong to the entity.
- Liabilities are the claims of creditors against the entity.
- Equity is the interest that the owner has in the assets of the entity.

According to the double entry principle one entry must be debited in one account, and the double entry must be credited in another account in the general ledger. After every transaction the accounting equation must balance.



ASSET	=	OWNERS EQUITY	+	LIABILITIES
↓		↓		↓
Balance sheet		**Balance sheet**		**Balance sheet**
		↓		
		Income statement Expenses / income Determine profit/loss		

A = O/E + L

ASSETS INCREASE ON THE **DEBIT SIDE**
EXPENSES INCREASE ON THE **DEBIT SIDE**
LIABILITIES INCREASE ON THE **CREDIT SIDE**
INCOME INCREASES ON THE **CREDIT SIDE**
OWNER'S EQUITY INCREASES ON THE **CREDIT SIDE**

The **accounting equation** can be expressed as follows:

OWNERS EQUITY = ASSETS – LIABILITIES

ASSETS = OWNERS EQUITY + LIABILITIES

Goods are sold or services rendered on credit to **debtors**.
Goods are purchased or services received on credit from **creditors**.
If the transaction does not indicate that money had been received or paid it was a credit transaction.
Capital contribution increases owner's equity.
Drawings decrease owner's equity.
Income increases profits and will therefore increase owners' equity.
Expenses decrease profits and will therefore decrease owners' equity.

2.3 Steps used to determine the effect on the accounting equation

Step 1 Identify the relevant accounts in the transaction.

Step 2 Classify the relevant accounts as owner's equity, asset, liability, income or expense.

Step 3 Decide if the account is increasing or decreasing.

Step 4 Decide if the account is debited or credited.

Use the five basic rules to determine the account debited and account credited.

General ledger			
Assets		**Liabilities**	
Balance +			Balance +
Expenses		**Income**	
Balance +			Balance +
-	**Owner's equity**		**+**
Drawings		**Capital**	
Balance +			Balance +
Expenses		**Income**	
Balance +			Balance +

2.4 Effect of transactions on the accounting equation and ledger accounts

Example 1

The following transactions occurred in the accounting records of Brown Electrician.

1. The owner, Jack Brown, deposited R100 000 in the bank account of the business as his capital contribution.

1	Identify the relevant accounts in the transaction.	Bank (money deposited into bank account) and capital (the owner contributed money).
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	Bank – asset Capital – owner's equity
3	Decide if the account is increasing or decreasing.	Bank – increases asset Capital – increases capital and owner's equity
4	Decide if the account is debited or credited.	Bank – debited Capital – credited

No	Account debited	Account credited	A	O/E	L
1	Bank	Capital	+100 000	+100 000	
	Asset increases on the debit side	Capital increase owner's equity	Bank increases	Capital increases	

2. EFT R4 800 to Quality Suppliers to purchase equipment.

1	Identify the relevant accounts in the transaction.	Bank (money paid out of the bank account) and equipment (received equipment purchased).
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	Bank – asset Equipment – asset
3	Decide if the account is increasing or decreasing.	Equipment – increases asset Bank – decreases asset
4	Decide if the account is debited or credited.	Equipment – debited Bank - credited

No	Account debited	Account credited	A	O/E	L
1	Equipment	Bank	+100 000 -100 000		
	Asset increases on the debit side	Asset decreases on the credit side	Equipment increases Bank decreases		

3. According to the cash register roll, services was rendered for R8 750.

1	Identify the relevant accounts in the transaction.	Bank (money paid in the bank account) and services rendered (income).
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	Bank – asset Current income – income
3	Decide if the account is increasing or decreasing.	Bank – increases asset Current income – increases income and owner's equity
4	Decide if the account is debited or credited.	Bank – debited Current income - credited

No	Account debited	Account credited	A	O/E	L
1	Bank	Services rendered	+100 000	+100 000	
	Asset increases on the debit side	Income increases on the credit side	Bank increases	Income increases profit	

4. Received invoice no. 450 from Speedy Stores for electrical supplies purchased for R3 290. Paid for the electrical supplies with an EFT.

1	Identify the relevant accounts in the transaction.	Electrical supplies (expenses) and bank (money paid out of bank).
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	Electrical supplies – expense Bank – asset
3	Decide if the account is increasing or decreasing.	Electrical supplies – increases expense Bank – decreases asset
4	Decide if the account is debited or credited.	Electrical supplies – debited Bank - credited

No	Account debited	Account credited	A	O/E	L
1	Electrical supplies	Bank	-100 000	-100 000	
	Expenses increase on the debit side	Bank decreases on the credit side	Bank increases	Expenses decrease profit	

2.5 Accounting process

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Example 2

The left side of the general ledger is the debit side and the right side is the credit side.

Debit			**Trading stock**				**Credit**
Date	Details	Fol	Amount	Date	Details	Fol	Amount

The information was obtained from the accounting records of Belinda Stores for May 2024:

1. The owner deposited R5 000 in the bank as capital contribution.
2. Bought cleaning materials on credit from A. Nel for R900.
3. Paid R60 out of petty cash for stationery purchased.
4. Bought a chair for R480 from P. Steyn on credit.
5. Paid the telephone account out of petty cash, R120.
6. Issued an invoice for R200 to K. Koen for services rendered on account.
7. Petty cash voucher R90 was used to pay the personal telephone account of the owner.
8. Transfer R990 with an EFT for a desk purchased from P. Steyn.
9. EFT R670 to pay the rent.
10. EFT R320 to pay water & electricity.
11. EFT R200 to A. Nel as part payment of his account.

1. Indicate what effect each of the transactions has on the accounting equation. Indicate an increase with a + and a decrease with a –.
2. Prepare the entries in the general ledger of Belinda Stores.
3. Indicate the account debited and account credited. Indicate the effect of the transactions on the accounting equation.

No.	Assets		Owner's equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
1	+ 5 000	Bank increased	+5 000	Capital contribution increase equity		
2			-900	Cleaning material expense reduce equity	+900	Creditors increase
3	-60	Petty cash decreased	-60	Stationery expense reduce equity		
4	+480	Furniture increased			+480	Creditors increase
5	-120	Petty cash decreased	-120	Telephone expense reduce equity		
6	+200	Debtors increase	+200	Services rendered (income) increase equity		
7	-90	Petty cash decreased	-90	Drawings decrease equity		
8	+990	Furniture increased				
	-990	Bank decreased				
9	-670	Bank decreased	-670	Rent expense decrease equity		
10	-320	Bank decreased	-320	Electricity decrease equity		
11	-200	Bank decreased			-200	Creditors decrease

Belinda Stores
General ledger

Dr/Debit			**Bank**		Cr/ Credit
May 1	Capital	5 000	May 8	Furniture	990
			9	Rent	670
			10	Electricity	320
			11	A Nel	200
			Petty cash		
			May 3	Stationery	60
			5	Telephone	120
			8	Drawings	90
			Capital		
			May 1	Bank	5 000
			Cleaning materials		
May 2	A Nel	900			
			Stationery		
May 3	Petty cash	60			
			A Nel		
May 11	Bank	200	May 2	Cleaning materials	900
			Furniture		
May 4	P Steyn	480			
8	Bank	990			
			P Steyn		
			May 4	Furniture	480

		K Koen			
May 7	Services rendered	200			
		Services rendered			
			May 7	K Koen	200
		Telephone			
May 5	Petty cash	120			
		Drawings			
May 7	Petty cash	90			
		Rent			
May 9	Bank	670			
		Electricity			
May 10	Bank	320			

No	Account debited	Account credited	A	O/E	L
1	Bank	Capital	+5 000	+5 000	
2	Cleaning materials	A Nel		-900	+900
3	Stationery	Petty cash	-60	-60	
4	Furniture	P Steyn	+480		+480
5	Telephone	Petty cash	-120	-120	
6	K Koen	Services rendered	+200	+200	
7	Drawings	Petty cash	-90	-90	
8	Furniture	Bank	+990 -990		
9	Rent	Bank	-670	-670	
10	A Nel	Bank	-200		-200

Question 4

The following information was obtained from the accounting records of Block Plumbers.

Complete the table provided for each entry.

1. The owner increased his capital contribution from R80 000 to R100 000.
2. Received R12 000 for services rendered.
3. Purchased a vehicle on credit for R60 000.
4. EFT R1 400 for repairs.
5. Issued an invoice for R3 000 to P. Nel for services rendered on credit.
6. Received an invoice for R300 from CAN for stationery bought on credit.
7. R200 was paid out of petty cash for the personal use of the owner.
8. A receipt was issued for R600 to Tina Electricians for rent received.

Identify the steps for the following transactions.

1. The owner increased his capital contribution from R80 000 to R100 000.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	
3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

No	Account debited	Account credited	A	O/E	L
1					

2. Received R12 000 for services rendered.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	
3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

No	Account debited	Account credited	A	O/E	L
2					

3. Purchased a vehicle on credit from JM Motors for R60 000.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	
3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

Example: EFT payment to the Pretoria News for R1 400 for advertising.

No	Account debited	Account credited	A	O/E	L
3					

No	**Assets**		**Owner's equity**		**Liabilities**	
	Amount	**Reason**	**Amount**	**Reason**	**Amount**	**Reason**
Ex	**-1 400**	**Bank decreases**	**-1 400**	**Advertising**		
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						

Question 5

Butly Hairdresser started a business on 1 May 2024.

Indicate if the following transactions will affect equity, assets, liabilities, income or expenses in the appropriate column.

1. The owner deposited R90 000 in the bank account of the business.
2. EFT R30 000 to purchase equipment.
3. Bought hair products that will be used in the business for R18 000 on credit.
4. Deposit R22 000 in the bank for services rendered.
5. EFT R900 to pay the electricity.
6. Obtain a loan for R10 000 from ABSA Bank.
7. EFT R2 000 for the private use of the owner.

Identify the steps for the following transactions.

1. Issued an EFT for R900 to pay the electricity.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	
3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

No	Account debited	Account credited	A	O/E	L
1					

2. Issued an EFT for R2 000 for the private use of the owner.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	
3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

No	Account debited	Account credited	A	O/E	L
2					

Indicate how the following transactions will affect equity, assets, liabilities, income or expenses in the appropriate column.

Example 1: Paid R1 800 wages per EFT.

No	**Equity**	**Assets**		**Liabilities**		**Income**	**Expenses**
		Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**		
Ex		**Bank**					**Wages**
1							
2							
3							
4							
5							
6							
7							

Example 3

The information was obtained from Cold Stores.

1. Cold Stores invested R20 000 on 1 April 2024 in a fixed deposit at ABSA for six months at 5% per annum. The interest is received quarterly.
2. On 1 July 2024 interest at 5% per annum for three months on the fixed deposit at ABSA deposited in the bank account.

2. On 1 October 2024, a direct deposit was made by ABSA for the fixed deposit that matured and the interest for the last three months.
3. A loan of R50 000 was obtained from Allied on 30 June 2024 at an interest rate of 18% per annum. The loan is repayable in 10 equal monthly instalments.
4. On 31 July 2024, an EFT was used to pay the monthly instalment on the loan and the interest for one month.
5. On 31 August 2024, an EFT was issued to pay the monthly instalment on the loan and the interest for one month.
6. Withdraw R14 000 to purchase trading stock for R14 000 less 10% cash discount.

The bookkeeper of Cold Stores asked how the entries will be recorded.

3.1 Indicate the account debited and account credited.

	Calculation	Account debited	Account credited	Amount
		Fixed deposit: ABSA	Bank	20 000
	20 000 x 5/100 x 3/12	Bank	Interest on fixed deposit	250
		Bank	Fixed deposit: ABSA	20 000
	20 000 x 5/100 x 3/12	Bank	Interest on fixed deposit	250
		Bank	Loan: Allied	50 000
		Loan: Allied	Bank	5 000
	50 000 x 18/100 x 1/12	Interest on loan	Bank	750
	45 000 x 18/100 x 1/12	Interest on loan	Bank	675
	14 000 x 90%	Trading stock	Bank	12 600

3.2 Indicate the source document, subsidiary journal and effect on the accounting equation.

	Source document	Subsidiary journal	Assets	Equity	Liabilities
	Bank statement	Cash payments journal	+20 000 -20 000		
	Bank statement	Cash receipts journal	+250	+250	
	Bank statement	Cash receipts journal	+20 000 -20 000		
	Bank statement	Cash receipts journal	+250	+250	
	Bank statement	Cash receipts journal	+50 000		+50 000
	Bank statement	Cash payments journal	-5 000		-5 000
	Bank statement	Cash payments journal	-750	-750	
	Bank statement	Cash payments journal	-5 000		-5 000
	Bank statement	Cash payments journal	-675	-675	
	Bank statement	Cash payments journal	+12 600 -12 600		

Explanation

1. When money is invested in a fixed deposit, the money is withdrawn from the bank account of the business and invested in the fixed deposit for the specific time. The money is invested in a fixed deposit because more interest is earned on fixed deposit than a current account.
2. When money is invested in a fixed deposit, a decision is made whether the interest is received monthly, quarterly, half-yearly or at the end of the period. Interest is calculated according to the agreement.
3. On the maturity date the fixed deposit is paid out. The asset is decreased.
4. When a loan is obtained, the money is deposited in the bank account of the business and a liability is created.

5. Interest on the loan is paid on the amount outstanding during the period. When the instalment on the loan is paid, the liability is reduced. When interest is paid the following month, the interest is calculated on the reduced outstanding amount.

Question 6

The following information was obtained from the accounting records of Springs Stores.

1 The owner increased his capital from R60 000 to R80 000.
2 Paid R80 from petty cash to buy stationery.
3 EFT to ABSA to pay the monthly instalment of R5 000 on the loan and interest at 12% per annum on the outstanding amount of R90 000
4 Pay R2 000 with a debit card to purchase equipment.
5 Cash sales according to cash register roll, R1 200. (Profit of 60% on cost price)
6 Received an invoice for R4 000 less 20% trade discount from Benoni Stores for trading stock purchased.
7 Received interest at 6% per annum on a fixed deposit of R20 000.

Use the information to complete the table to indicate the effect on the accounting equation. Indicate the amount increased (+) or decreased (-).

Example: EFT R180 to pay electricity.

No	Account debited	Account credited	Assets	Equity	Liabilities
Ex	Electricity	Bank	-180	-180	
1					
2					
3					
4					
5					
6					
7					

Question 7

The following information were obtained from the accounting records of Blom Traders. The entity maintains a profit mark-up of 75% on cost price.

1 Cash invoice no. 400 issued for R2 625 to B. Nel for goods sold on credit.
2 EFT for goods purchased at R17 700 less 15% trade discount.
3 A receipt issued to L. Louw for R2 000 rent for subletting of part of the building.
4 EFT R4 000 as instalment on a loan.
5 Paid R200 to a casual worker from money in petty cash.
6 Issued a receipt for R800 to B. Nel for commission received.
7 EFT R6 000 to Els Suppliers for equipment purchased for cash.
8 EFT ABSA to pay the monthly interest at 12% p.a. on an outstanding loan of R50 000.

Identify the steps for the following transactions.

1. Debit card payment of R6 000 to Els Suppliers for equipment purchased.

1	Identify the relevant accounts in the transaction.	
2	Classify the relevant accounts as owner's equity, asset, liability, income or expense.	

3	Decide if the account is increasing or decreasing.	
4	Decide if the account is debited or credited.	

No	Account debited	Account credited	A	O/E	L
1					

Show the effect of the above transactions on the accounting equations. Show the amount and if the amount increase (+) of decrease (-).

No	Account debited	Account credited	Assets	Equity	Liability
1					
2					
3					
4					
5					
6					
7					
8					

Question 8

The following information was obtained from the accounting records of Wilmot Traders for March 2024. The business has a profit mark-up of 60% on the cost price.

Indicate the effect of the transactions on the accounting equation. Indicate the amount and whether the amount increases (+) or decreases (-).

1. Credit sales, R39 600.
2. Purchased goods on credit from Olympic Traders, R30 000 less 20% trade discount.
3. Received interest at 4% per annum on a fixed deposit of R20 000 for 6 months.
4. EFT to ABSA as an instalment on the loan, R10 000.
5. Interest on the loan is paid monthly. Interest must be calculated at 9% per annum for one month on the outstanding loan of R80 000.
6. Received R400 from N. Louw in settlement of his account.
7. Withdraw R120 for stationery purchased from the CNA.
8. Issued a receipt for R1 400 for rent received from Blom Accountants.

Example: The owner contributed R50 000 as capital contribution.

	Account debited	Account credited	Assets	Equity	Liabilities
Ex	**Bank**	**Capital**	**+50 000**	**+50 000**	
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					

2.6 Source documents and subsidiary journals

For each transaction that takes place in the business a source document is received or issued. This document is used to record entries in the subsidiary journals.

When a business *issues* source documents, the *original document* is *given to the client*. The *duplicate* is *kept by* the *business* and used to record the transaction in the subsidiary journal.When a business *receives* a source document, the *original document* is *used* to record the transaction in the subsidiary journal.

The following is a discussion of the types of transactions with their respective source documents:

- **Cash transactions in the cash receipts journal for money received:**

- When goods are sold for cash, a *cash invoice* or *cash register tape* is issued. When a business does not use a cash register a *cash invoice* is issued for goods or services sold for cash.
- When a business uses a cash register a *cash register tape* are used by cashiers when goods are sold. Each cashier prints one at the end of each day as a summary of the entire day's cash sales by that cashier.
- A *receipt* is issued when cash is received to pay rent, capital contribution, payments by debtors, etc. The receipt proofs that the money was received.
- When money is paid directly or with an *EFT (electronic fund transfer*) into the bank account of the business, the bank statement is used as the source document the transaction is recorded in the cash receipts journal.
- Services rendered paid with a *debit card* a cash register slip is issued to the client. It is treated as a cash transaction because the debit card is linked to the bank account of the client. The bank will transfer the money immediately from the bank account of the client to the bank account of the business.
- Services rendered paid with a *credit card* a cash register slip is issued to the client. It is treated as a cash transaction because the bank will pay the money the same day into the bank account of the business. The client owes the money to the bank.

The duplicates are used to record the transactions in the cash receipts journal.

Money paid is recorded in the cash payments journal.

- When an *EFT(electronic fund transfer)* is used to pay for purchases of consumables or assets, pay creditors or loans, pay expenses, etc. the *bank statement* is used as source document to record the transaction in the cash payments journal (CPJ).
- When cash is *withdrawn* from the ATM or bank the *bank statement* is used as the source document and the transaction is recorded in the cash payments journal.

- When a *debit card* is used for payments by the business it is treated as a cash transaction, because the debit card is linked to the bank account of the business. The bank will immediately transfer the money from the bank account of the business to the bank account of the supplier.
- When a *credit card* is used for payments by the business it is **not** treated as a cash transaction, because the business owes the money to the bank. The money is not withdrawn from the bank account of the business. The money will be paid later to the bank and recorded, because then the money is withdrawn from the bank account.

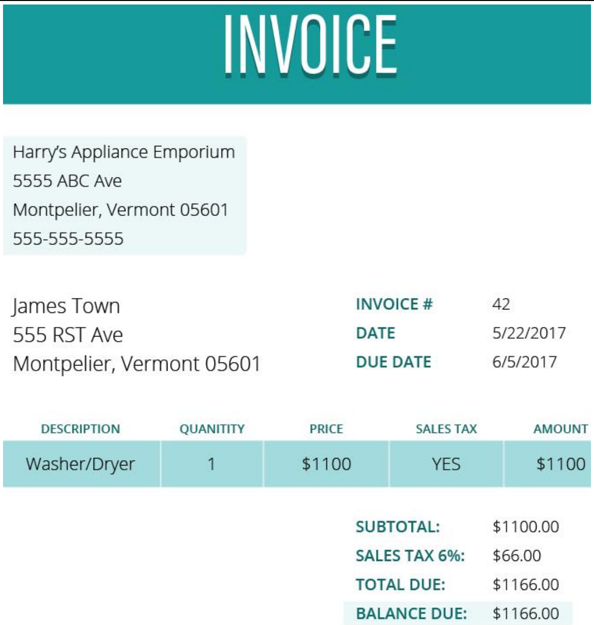
Question 9

Name the source documents and the purpose of the source documents.

Cash transactions – money received	Cash transactions – money paid
Credi transactions - Debtors	**Credi transactions - Creditors**

Credit card payments are viewed as cash payments for goods or services because the bank will deposit the credit card payment the same day in the bank account of the business. The client using the credit card owes the money to the bank.

A debit card payment is treated as a cash payment for goods sold or services rendered because the bank will transfer the money from the bank account of the client to the bank account of the business.



INVOICE

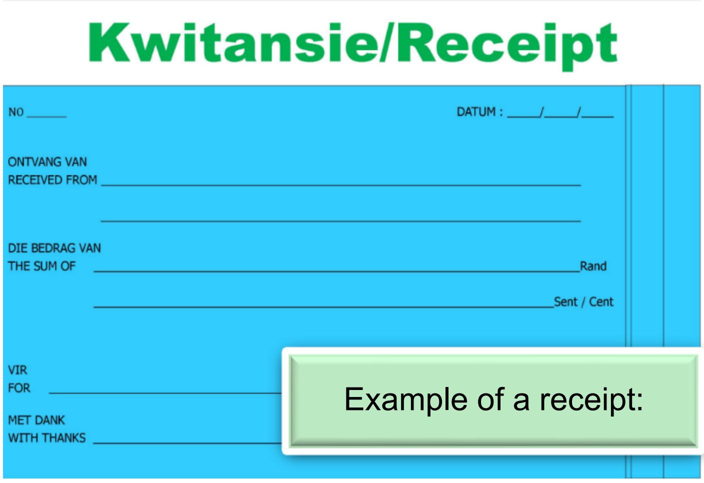
Harry's Appliance Emporium
5555 ABC Ave
Montpelier, Vermont 05601
555-555-5555

James Town
555 RST Ave
Montpelier, Vermont 05601

INVOICE # 42
DATE 5/22/2017
DUE DATE 6/5/2017

DESCRIPTION	QUANTITY	PRICE	SALES TAX	AMOUNT
Washer/Dryer	1	$1100	YES	$1100

SUBTOTAL: $1100.00
SALES TAX 6%: $66.00
TOTAL DUE: $1166.00
BALANCE DUE: $1166.00



Kwitansie/Receipt

NO ______ DATUM : ____/____/____

ONTVANG VAN
RECEIVED FROM ____________________

DIE BEDRAG VAN
THE SUM OF ____________________ Rand
____________________ Sent / Cent

VIR
FOR ____________________

MET DANK
WITH THANKS ____________________

Example of a receipt:

Example of a cash invoice:

Source: https://www.patriotsoftware.com/wp-content/uploads/2019/12/invoice-vs.-receipt-image-of-invoice.jpg

Source: https://plattelandsejuffie.files.wordpress.com/2015/07/kwitansie-receipt-a3.jpg

Example of a cash register tape:

Source: *https://www.cashregistergroup.com/acatalog/Twin-Roll-Printer-Cash-register.html*

- **Credit transactions → Credit sales in the debtors journal:**

When goods are sold on credit, a *credit invoice* is *issued*. The duplicate is used to record the transaction in the *debtors' journal*.

When goods are returned by a client a *credit note* is *issued*. The credit note is used to record the transaction in the *debtors' allowances journal*.

Example of a credit invoice

CREDIT INVOICE			**G01**
S. Khumalo *Durban North* *Durban 4000*			*Edgewood Traders* *Private Bag X1964* *Pinetown 3610* *1 February 2015*
Quantity	Description	Unit price	Amount
5	Trays	25.99	129.95
10	Set cutlery	45.99	459.90
	Subtotal		589.85
	VAT at 14%*		82.58
	Total		672.43

Source:
https://www.researchgate.net/publication/331437159/figure/fig1/AS:731644440899586@1551449036956/Credit-invoice-as-an-example-of-use-of-basic-arithmetic-operations.png

Example of a credit note:

Credit Note

TOTAL SYNERGY
LEVEL 4
1 JAMES PLACE
NORTH SYDNEY NSW 2060
PH: 02 8197 9000
WWW.TOTALSYNERGY.COM.AU

Credit no. S-C00004
Original Invoice no. SYD01552
Credit date 13/02/2012
Credit type Credit Note

Kryptonite Constructions
112 Alien Street
SPRING HILL QLD 4000

Re 23 Bedrock Rd Office & Garage
For professional services rendered from 2/06/2011 to 27/10/2011.

Structural Design & Documentation - Garage	$1,160.00
Structural Design & Documentation - Office	$1,288.75

Please contact Robert Howard should you have any queries with this credit note.

Sub total	$1,448.75
Tax	$144.88
Total credit	**$1,593.63**

Source: *https://www.google.com/search?q=example+of+a+credit+note&sxsrf=ALeKk00g5ltibM7M-gMp2JJbNUt8UNO*

- **Credit transactions → Credit purchases in the creditors journal:**

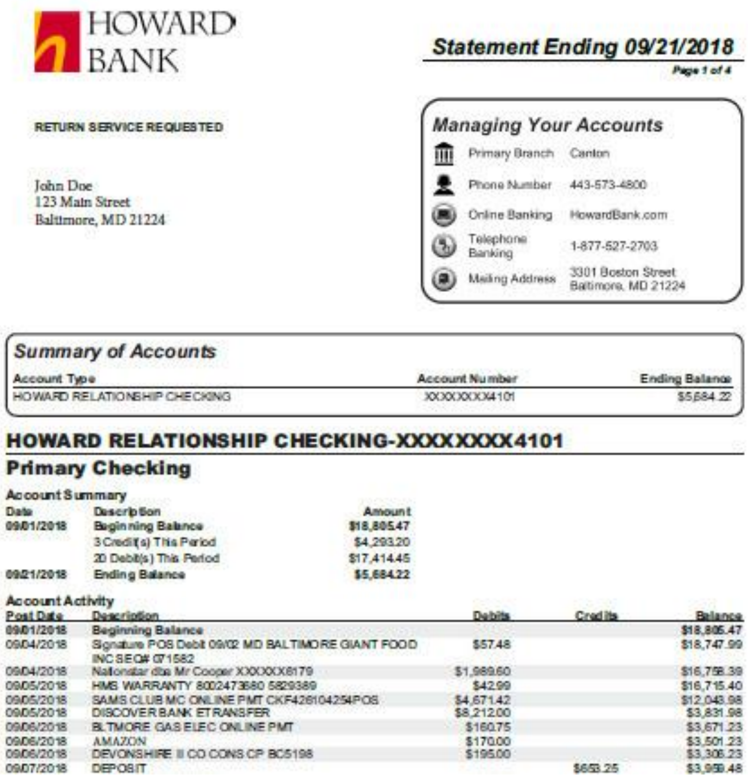
When goods are purchased on credit, the original *credit invoice* is received. This original credit invoice is used to record the transaction in the *creditors journal*.

When goods are returned to a creditor, a *debit note* is *issued*. If the creditor is prepared to allow an allowance, this creditor will issue a credit note to the business. The source document will then be the *credit note received*, which is then used to record the transaction in the *creditors allowance journal*.

- **Transfers or payments from the bank account:**

When an *EFT is used to pay* for the purchase of inventories (stock) or other assets, pay creditors or loans, pay expenses, etc. the EFT payment appears on the bank statement. The bank statement is used to record the transaction in the *cash payments journal*. Payments or transfers of significant amounts of cash are now done with an *electronic funds transfer (EFT)*. The source document for both an EFT made and received is a *bank statement*.

Example of a bank statement:


HOWARD BANK

Statement Ending 09/21/2018

Page 1 of 4

RETURN SERVICE REQUESTED

John Doe
123 Main Street
Baltimore, MD 21224

Managing Your Accounts

Primary Branch	Canton
Phone Number	443-573-4800
Online Banking	HowardBank.com
Telephone Banking	1-877-527-2703
Mailing Address	3301 Boston Street Baltimore, MD 21224

Summary of Accounts

Account Type	Account Number	Ending Balance
HOWARD RELATIONSHIP CHECKING	XXXXXXXX4101	$5,684.22

HOWARD RELATIONSHIP CHECKING-XXXXXXXX4101

Primary Checking

Account Summary

Date	Description	Amount
09/01/2018	Beginning Balance	$18,805.47
	3 Credit(s) This Period	$4,293.20
	20 Debit(s) This Period	$17,414.45
09/21/2018	Ending Balance	$5,684.22

Account Activity

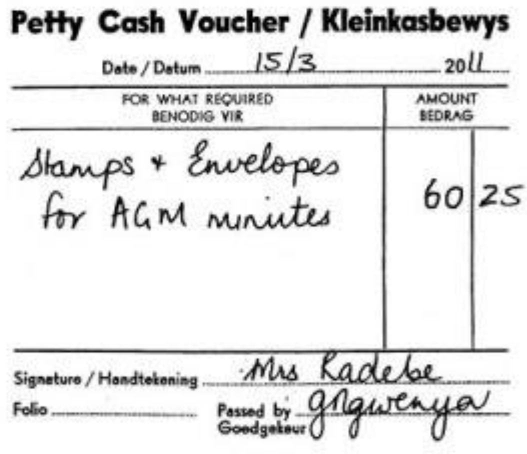
Post Date	Description	Debits	Credits	Balance
09/01/2018	Beginning Balance			$18,805.47
09/04/2018	Signature POS Debit 09/02 MD BALTIMORE GIANT FOOD INC SEQ# 071582	$57.48		$18,747.99
09/04/2018	Nationstar dba Mr Cooper XXXXXX8179	$1,989.60		$16,758.39
09/05/2018	HMS WARRANTY 8002473680 5829389	$42.99		$16,715.40
09/05/2018	SAMS CLUB MC ONLINE PMT CKF426104254POS	$4,671.42		$12,043.98
09/05/2018	DISCOVER BANK ETRANSFER	$8,212.00		$3,831.98
09/06/2018	BLTMORE GAS ELEC ONLINE PMT	$160.75		$3,671.23
09/06/2018	AMAZON	$170.00		$3,501.23
09/06/2018	DEVONSHIRE II CO CONS CP BC5198	$195.00		$3,306.23
09/07/2018	DEPOSIT		$653.25	$3,959.48

Source: *https://www.google.com/search?q=bank+statement+example&tbm=isch&ved=2ahUKEwiY8oju78DtAhUNKRQKHUnYBFsQ2-cCegQIABAA&oq=bankstatement+example&gs*

- **Payments from petty cash in the petty cash journal:**

When cash is taken from the petty cash to pay expenses, a *petty cash voucher* is completed. The duplicate is used to record the transaction in the *petty cash journal.*

This is an example of a petty cash voucher:


Petty Cash Voucher / Kleinkasbewys

Date / Datum 15/3 2011

FOR WHAT REQUIRED BENODIG VIR	AMOUNT BEDRAG	
Stamps + Envelopes for AGM minutes	60	25

Signature / Handtekening Mrs Kadebe

Folio

Passed by Goedgekeur gNgwenya

Bron: *https://kenyanladytrep.files.wordpress.com/2014/07/petty-cash-voucher-sample.jpg?w=300&h=249*

Subsidiary journals used:		
Cash received	Cash receipts journal	CRJ
Cash paid	Cash payments journal	CPJ
Goods sold on credit	Debtors journal	DJ
Goods returned by debtors	Debtors allowances journal	DAJ
Goods purchased on credit	Creditors journal	CJ
Goods returned to trade creditors	Creditors allowances journal	CAJ

Source documents used:

- A *credit invoice* is *issued* when goods are sold, or services are rendered on credit.
- A *credit invoice* is *received* when goods are bought, or services are received on credit.
- A *bank statement* is used when money is paid out of the bank account with *electronic funds transfers*.
- A *cash register roll* is a summary of the day's cash transactions and is printed by a cashier at the end of the day.
- *Cash invoice* is *issued* when goods or services are rendered for cash for a single transaction.
- A *receipt* is *issued* as proof of payment when money is received for a single transaction.
- A *credit note* is *issued* when the account of a debtor is reduced.
- A *credit note* is *received* when the account of a creditor is reduced.
- A *petty cash voucher* is used for payments from petty cash. The entries are recorded in the *petty cash journal*.

Example 4

Organic Veggies is a farm that specializes in the production of organic produce. The farm also has a farmstall with one cashier. The farmer, Sophia, asked for your assistance in determining which source document fits which transaction.

Fit column B with column A to show which transaction fits which source document.

Column A		Solution	Column B	
1.	Credit invoice issued	D	A.	Sophia bought stationary, paying from petty cash.
2.	Credit invoice received	J	B.	The farm paid rent for its land electronically from the farm's bank account.
3.	Credit note issued	G	C.	Sophia bought 6 boxes of seed form a supplier. She noticed that 1 box was never delivered. She demanded a discount for this box and the supplier allowed this discount.
4.	Credit note received	C	D.	The farm sold 400 heads of lettuce to a supermarket on credit.
5.	Cash invoice issued	H	E.	The farm paid with an EFT for repairs on an irrigation pump.
6.	Cash register roll	I	F.	Sophia issued this document to her neighbour for rent received from him for a part of the farm.
7.	Receipt issued	F	G.	The supermarket sent 3 spoiled heads of lettuce back to Sophia. She reduced their outstanding account accordingly.
8.	Electronic fund transfer	B	H.	The cashier printed of the farm stall all the cash sales' transactions for the day on this source document.
9.	Petty cash voucher	A	I.	Sophia bought all her seed for the next planting season on credit.

Example 5

Piping Galore is a plumber who also sells taps. When the owner, Ben Piping, heard about your knowledge of accounting, he asked you for help with source documents and subsidiary journals.

Match column A to column B to indicate which source documents are used to capture transactions in which subsidiary journals. Options in column A can be used more than once in column B.

Column A	Column B	Solution
Credit invoice received	Cash receipts journal	Cash invoice issued Cash register roll Receipt issued
Credit invoice issued	Cash payments journal	Electronic funds transfer
Credit note received	Creditors journal	Credit invoice received
Credit note issued	Creditors allowances journal	Credit note received
Cash invoice issued	Debtors journal	Credit invoice issued
Cash register roll	Debtors allowances journal	Credit note issued
Receipt issued	Petty cash journal	Petty cash voucher
Electronic funds transfer		
Petty cash voucher		

2.7 Perpetual inventory system

When the perpetual inventory system is used two double entries are completed when goods are sold.

2.7.1 Cash sales

A double entry is completed at *sales price*.

When goods are sold for cash, the following entries are completed:

- the bank account (asset increase) is debited with the sales price
- sales account (income increase) credited with the sales price.

A double entry is completed at *cost price*.

When goods are sold for cash, the following entries are completed:

- the cost of sales account (cost price of goods sold) is debited (expense increase)
- the trading stock account (asset decrease) is credited.

Example 6

Trading stock sold according to the cash register roll, R7 000. (Cost price R5 250)

Mamelodi Traders General ledger			
(Assets)	**Bank**		
Sales	7 000		
(Income)	**Sales**		
		Bank	7 000
(Expense)	**Cost of sales**		
Trading stock	5 250		
(Assets)	**Trading stock**		
		Cost of sales	5 250

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L
Bank	Sales	Cash register roll	CRJ	+ 7 000	+7 000	
Cost of sales	Trading stock	Cash register roll	CRJ	-5 250	-5 250	

Question 10

Trading stock sold according to the cash register roll, R14 000. (Cost price R7 000)

Mamelodi Traders General ledger			
(Asset)	**Bank**		
(Income)	**Sales**		
(Expense)	**Cost of sales**		
(Asset)	**Trading stock**		

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L

2.7.2 Credit sales

A double entry is completed at sales price.

When goods are sold on credit, the following entries are completed:

- the debtors control account (asset increase) is debited with the sales price
- sales account (income increase) credited with the sales price.

A double entry is completed at *cost price*.

When goods are sold for cash, the following entries are completed:

- the cost of sales account (cost price of goods sold) is debited (expense increase)
- the trading stock account (asset decrease) is credited.

Example 7

Credit sales of trading stock according to the invoice, R7 000. (Cost price R5 250)

Mamelodi Traders General ledger			
(Assets)	**Debtors control**		
Sales	7 000		
(Income)	**Sales**		
		Bank	7 000
(Expense)	**Cost of sales**		
Trading stock	5 250		
(Assets)	**Trading stock**		
		Cost of sales	5 250

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L
Debtors control	Sales	Cash register roll	CRJ	+ 7 000	+7 000	
Cost of sales	Trading stock	Cash register roll	CRJ	-5 250	-5 250	

Question 11

Trading stock sold according to the credit invoice, R21 000. (Cost price R12 000)

Mamelodi Traders General ledger			
(Asset)	**Debtors control**		
(Income)	**Sales**		
(Expense)	**Cost of sales**		
(Assets)	**Trading stock**		

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L

2.7.3 Cash purchases

When trading stock is purchased for cash, the following entries are completed:

- the trading stock account is debited (asset increases)
- the bank account is credited (asset decreases).

Example 8

Mamelodi Traders purchased goods from ABC Wholesalers for cash, R7 200.

Mamelodi Traders General ledger			
(Asset)		**Trading stock**	
Bank	7 200		
(Asset)		**Bank**	
		Trading stock	7 200

Accounting equation

Account debited	**Account credited**	**Source document**	**Subsidiary journal**	**A**	**E**	**L**
Trading stock	Bank	Bank statement	CPJ	+7 200 -7 200		

Question 12

Mamelodi Traders received a cash invoice from ABC Wholesalers for R14 800. The amount was paid with a debit card.

Mamelodi Traders General ledger			
(Asset)		**Trading stock**	
(Asset)		**Bank**	

Accounting equation

Account debited	**Account credited**	**Source document**	**Subsidiary journal**	**A**	**E**	**L**

2.7.4 Credit purchases

When trading stock is purchased on credit, the following entries are completed:

- the trading stock account is debited (asset increases)
- the creditors control account is credited (liability increases).

Example 9

Mamelodi Traders purchase goods on credit from ABC Wholesalers for R17 200.

Mamelodi Traders General ledger			
(Asset)		**Trading stock**	
Creditors control	17 200		
(Asset)		**Creditors control**	
		Trading stock	17 200

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L
Trading stock	Creditors control	Credit invoice received	CJ	+17 200		+17 200

Question 13

Mamelodi Traders received a credit invoice from ABC Wholesalers for R16 200 for goods purchased on credit.

Mamelodi Traders General ledger			
(Asset)	Trading stock		
(Asset)	Creditors control		

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	E	L

2.7.5 Determine trade discount, cash discount and cost price of goods purchased

Cost price less trade discount	Subtract trade discount from cost price to determine actual cost price. No entry for trade discount.
Cost price less cash discount if the goods are paid immediately	Subtract cash discount from cost price to determine actual cost price. No entry for cash discount.

Trade discount

When a business buys goods from a factory or wholesaler, trade discount is allowed for bulk purchases because the goods are bought for resale.

No entry is completed for the trade discount. Deduct the trade discount from the price to determine the actual purchase price that the business will pay.

Trade discount is deducted from the purchase price before the entry is recorded because the discount reduces the purchase price and the amount paid or owed to the creditors.

Cash discount

Cash discount is deducted from the purchase price before the entry is recorded because the cash discount reduces the purchase price and the amount paid.

Example 10

Trade discount on credit transactions

Mamelodi Traders bought goods from ABC Wholesalers on credit, R8 000. Received 10% trade discount.

Determine the purchase price.

Deduct the trade discount from the purchase price. Complete an entry for R7 200, because that is the purchase price that the business will pay. Trade discount is not recorded.

Price	=	8 000	=	8 000
Trade discount	=	8 000 x 10%	=	(800)
Purchase price	=		=	7 200

Mamelodi Traders General ledger			
(Asset)	**Trading stock**		
Creditors control	7 200		
(Liability)	**Creditors' control**		
		Trading stock	7 200

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
Trading stock	Creditors control	Credit invoice	CJ	+ 7 200		+ 7 200

Example 11

Cash discount on cash transactions

Mamelodi Traders paid with an EFT for goods purchased from ABC Wholesalers for cash, R18 000 less 10% cash discount.

Determine the purchase price.

Deduct the cash discount from the purchase price. Complete an entry for R16 200, because that is the purchase price that the business will pay. Cash discount is not recorded.

Price	=	8 000	=	18 000
Trade discount	=	8 000 x 10%	=	(1 800)
Purchase price	=		=	16 200

Mamelodi Traders General ledger			
(Asset)	**Trading stock**		
Bank	16 200		
(Liability)	**Bank**		
		Trading stock	16 200

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
Trading stock	Bank	Bank statement	CPJ	+ 16 200 -16 200		

Question 14

Mamelodi Traders paid with a debit card for goods purchased from ABC Wholesalers for R40 000 less 15% cash discount.

Mamelodi Traders received a credit invoice for goods purchased from Quick Suppliers at R26 000 less 10% trade discount.

Determine the purchase price.

Price	=	
Cash discount	=	
Purchase price	=	
Price	=	
Trade discount	=	
Purchase price	=	

Mamelodi Traders General ledger			
(Asset)	**Trading stock**		
(Asset)	**Bank**		
(Liability)	**Creditors control**		

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L

2.7.6 Trading stock purchased and returned

When trading stock is purchased on credit, the following entries are completed:

- the trading stock account is debited (asset increases)
- the creditors control account is credited (liability increases).

When goods are returned to the supplier, the following entries are completed:

- trading stock decreases on the credit side (asset decreases).
- the creditors control account is debited side (liability decreases).

Example 12

Goods purchased and returned

The following entries appeared in the financial records of Mamelodi Traders.

A. Bought goods for R800 on credit from Petrus Traders.
B. Received a credit note for R100 from Petrus Traders for goods returned.

Determine the amount that will be paid to Petrus Traders.

Mamelodi Traders General ledger			
(Asset)	**Trading stock**		
Creditors control	800	Creditors control	100
(Liability)	**Creditors' control**		
Trading stock	100	Trading stock	800

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
Trading stock	Creditors control	Invoice received	CJ	+ 800		+800
Creditors control	Trading stock	Credit note received	CAJ	-100		-100

Question 15

The following entries appeared in the financial records of Mamelodi Traders.

A. Received a credit invoice for R4 000 from Petrus Traders for goods purchased on credit.

B. Received a credit note for R300 from Petrus Traders for goods returned.

Complete the ledger and effect on the accounting equation.

Mamelodi Traders General ledger	
(Asset)	**Trading stock**
(Liability)	**Creditors' control**

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L

Subtract the trade discount from the purchase price to determine the price paid for the goods. No entry is recorded for the trade discount.

Subtract the cash discount from the purchase price to determine the price paid for the goods. No entry is recorded for the cash discount.

2.7.7 Determine the gross profit, cost of sales and sales price

Profit on cost price	Cost price = 100%
Profit on sales price	Sales price = 100%

It is very important to determine whether the percentage profit is calculated on:

- Cost price
- Sales price/gross profit percentage

Example 13

Profit on cost price

Mamelodi Traders maintains a profit of 50% on cost price. The sales price is R3 000.

Determine the cost price and gross profit.

When the profit is calculated on cost price, the cost price is 100%

Cost price	=	100%	=	100/150 x 3 000	2 000
Profit	=	50%	=	50/150 x 3 000	1 000
Sales price	=	150%	=		3 000

Example 14

Profit on sales price

Mamelodi Traders maintains a profit of 50% on sales price. The sales price is R3 000.

Determine the cost price.

When the profit is calculated on sales price, the sales price is 100%

Sales price	=	100%	=		3 000
Profit	=	50%	=	50/100 x 3 000	
Cost price	=	50%	=	50/100 x 3 000	1 500

Question 16

Complete the following calculations and indicate the effect on the accounting equation of Mamelodi Traders.

1. The sales price of goods is R3 200. Maintain a profit of 60% on cost price.
2. The sales paid with a credit card is R3 200. Maintain a profit of 60% on sales price.
3. The sales price of goods sold on credit is R4 800. Maintain a profit of 80% on sales price.
4. The sales price of goods is R4 800 paid with a debit card. Maintain a profit of 80% on cost price.

Determine the cost price and gross profit.
When the profit is calculated on cost price, the cost price is 100%.

1	Cost price	=	
	Profit	=	
	Sales price	=	

When the profit is calculated on sales price, the sales price is 100%.

2	Sales price	=				
	Profit	=				
	Cost price	=				

3	Sales price	=				
	Profit	=				
	Cost price	=				

4	Cost price	=				
	Profit	=				
	Sales price	=				

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
1.						
2.						
3.						
4.						

When the perpetual inventory system is used the value of trading stock on hand can be determined at any time during the financial year by balancing the trading stock account, because trading stock purchased is debited and the cost price of trading stock sold is credited in the trading stock account.

Two double entries are completed when goods are sold or when debtors return goods. The first double entry made is for the sales price. The second double entry is made for the cost price. Any entry increasing or decreasing the trading stock must be recorded in the trading stock account.

Example 15

Profit on cost price

Mamelodi Traders maintains a profit of 25% on cost price. The cost price of the trading stock sold is R2 500.

Determine the gross profit and sales price.
When the profit is calculated **on** cost price, the cost price is 100%.

Cost price	=	100%	=	2 500	
Profit	=	25%	=	25/100 x 2 500	625
Sales price	=	125%	=	125/100 x 2 500	3 125

Mamelodi Traders General ledger			
(Income)	**Sales**		
		Bank	3 125
(Asset)	**Bank**		
Sales	3 125		
(Asset)	**Trading stock**		
		Cost of sales	2 500
(Expense)	**Cost of sales**		
Trading stock	2 500		

Account debited	**Account credited**	**Source document**	**Subsidiary journal**	**A**	**O/E**	**L**
Bank (Asset)	Sales (Income)	Cash register roll/ cash invoice issued	CRJ	+ 3 125	+ 3 125	
Cost of sales (expense)	Trading stock (asset)	Cash register roll/ cash invoice issued	CRJ	- 2 500	- 2 500	

Example 16

Profit on sales price

Mamelodi Traders maintains a profit of 25% on sales price when inventory is sold on credit. The cost price of the goods is R2 400.

Determine the following the gross profit and sales price.
When the profit is calculated **on** sales price, the sales price is 100%.

Sales price	=	100%	=	100/75 x 2 400	3 200
Profit	=	25%	=	25/75 x 2 400	800
Cost price	=	75%	=	2 400	

Mamelodi Traders General ledger			
(Asset)	**Debtors' control**		
Sales	3 200		
(Income)	**Sales**		
		Debtors control	3 200
(Asset)	**Trading stock**		
		Cost of sales	2 400
(Expense)	**Cost of sales**		
Trading stock	2 400		

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
Debtors control	Sales	Credit invoice	DJ	+ 3 200	+ 3 200	
Cost of sales	Trading stock	Credit invoice	DJ	- 2 400	- 2 400	

Question 17

Complete the following calculations and indicate the effect on the accounting equation of Mamelodi Traders.

1. The profit is R6 000. Maintain a profit of 60% on cost price.
2. The profit is R6 000. Maintain a profit of 60% on sales price.
3. The profit is R4 800. Maintain a profit of 80% on sales price.
4. The profit is R4 800. Maintain a profit of 60% on cost price.

Determine the sales price and gross profit.
When the profit is calculated on cost price, the cost price is 100%.

1	Cost price	=
	Profit	=
	Sales price	=

When the profit is calculated on sales price, the sales price is 100%.

2	Sales price	=				
	Profit	=				
	Cost price	=				

3	Sales price	=				
	Profit	=				
	Cost price	=				

4	Cost price	=				
	Profit	=				
	Sales price	=				

Example 17

Profit on cost price
The entity maintains a profit of 60% on cost. The profit is R2 400.

Determine the sales price and the cost price
When the profit is calculated **on** cost price, the cost price is 100%.

Cost price	=	100%	=	100/60 x 2 400	4 000
Profit	=	60%	=		2 400
Sales price	=	160%	=	160/60 x 2 400	6 400

Example 18

Profit on sales price

Mamelodi Traders maintains a profit of 60% on sales price. The profit is R2 400.

Determine the gross profit and determine the cost of sales

When the profit is calculated **on** sales price, the sales price is 100%.

Sales price	=	100%	=	100/60 x 2 400	4 000
Profit	=	60%	=		2 400
Cost price	=	40%	=	40/60 x 2 400	1 600

When the profit is calculated on cost price, the cost price = 100%.
When the profit is calculated on sales price, the sales price = 100%.

Question 18

Complete the calculations to determine the missing figures.

Sale price	Profit mark-up on cost price	Cost price
(a)	80%	R60 000
R18 000	(b)	R12 000
R36 000	33 1/3%	(c)

(a)	Cost price			
	Profit			
	Sales price			
(b)	Cost price			
	Profit			
	Sales price			
(c)	Cost price			
	Profit			
	Sales price			

Tips:

1. Determine whether it is a cash or credit transaction. When the bank has a favourable balance a cash transaction will effect assets. If the bank has an unfavourable balance, the transactions will effect liabilities.
2. A credit transaction with debtors (asset) effect assets.
3. A credit transaction with creditors (liability) effect liabilities.

Example 19

The information was obtained from the accounting records of Norman Stores for May 2024:

Transactions

1. Purchased merchandise on credit, R4 000 less 20% trade discount from Pompi Traders.
2. Issued a receipt for R1 060 from Protea Florist for rent for part of the building.
3. Paid the telephone account with an EFT to Telkom, R210.
4. EFT R1 300 to Pompi Traders in part settlement of their account.
5. Cash sales, R4 000 less 10% cash discount. (cost price R2 600).
6. Withdraw cash from the ATM for equipment purchased, R1 500 less 10% cash discount.

7. EFT R140 to pay wages.
8. Receive commission for goods sold, R150.
9. Bought equipment on credit from AB Stores, R480.
10. Sold goods on credit to K. Louw, R3 000 less 15% trade discount (cost price R1 800).
11. Issued a receipt for R800 to K. Louw.

1. Indicate the effect that each of the transactions of Norman Stores has on the accounting equation. The entity uses the perpetual inventory system. Indicate an increase with a + and a decrease with a –.
2. Prepare the accounts in the general ledger of Norman Stores.

No	Assets		Owner's equity		Liabilities	
	Effect	**Reason**	**Effect**	**Reason**	**Effect**	**Reason**
1	+ 3 200	Trading stock increased			+ 3 200	Creditors increased
2	+ 1 060	Bank increased	+ 1 060	Rent increased profit		
3	-210	Bank decreased	-210	Telephone expense decreased profit		
4	-1 300	Bank decreased			-1 300	Creditors decreased
5a	+3 600	Bank increased	+ 3 600	Sales increased profit		
5b	-2 600	Trading stock increased	-2 600	Cost of sales decrease profit		
6	+ 1 350 - 1 350	Equipment increased Bank decreased				
7	-140	Bank decreased	-140	Wages decreased profit		
8	+150	Bank increased	+150	Commission received		
9	+ 480	Equipment increased			+480	Creditors increased
10	+2 550	Debtors increased	+2 550	Sales increased profit		
	-1 800	Trading stock increased	-1 800	Cost of sales decreased profit		
11	+800 -800	Bank increased Debtors decreased				

Norman Stores
General ledger

Dr/Debit			Bank			Cr/ Credit
May 2	Rent income	1 060	May 3	Telephone	210
5	Sales	3 600	4	Creditors control	1 300
8	Commission income	150	6	Equipment	1 350
11	Debtors control	800	7	Wages	140
			Creditors control		
May 4	Bank	1 300	May 1	Trading stock	3 200
			10	Equipment	480
			Trading stock		
May 1	Creditors control	3 200	May 5	Cost of sales	2 600
			10	Cost of sales	1 800
			Debtors control		
May 10	Sales	2 550	May 11	Bank	800
			Equipment		
May 6	Bank	1 350			
9	Creditors control	480			
			Sales		
			May 5	Bank	3 600
			10	Debtors control	2 550

Cost of sales					
May 5	Trading stock	2 600			
10	Trading stock	1 800			
Commission income					
			May 8	Bank	150
Telephone					
May 3	Bank	210			
Rent income					
			May 2	Bank	1 060
			11	Debtors control	2 550
Wages					
May 7	Bank	140			

2.7.8 Debtors' allowances

When the debtors return goods, the following two double entries are completed:
Double entry at sales price
Debit debtors' allowances (reduce income from sales)
Credit debtors' control (reduce outstanding debt of debtors).

Double entry at cost price
Debit trading stock (increase asset)
Credit cost of sales (decrease expense).

Example 20

Goods returned
On 1 May 2024, the outstanding amount on Peter's account is R500. On 5 May 2024 goods returned by Peter, R40. Mamelodi Traders maintains a profit of 25% on sales price.

1. Determine whether the entry will effect cost of sales.
2. Determine the cost price.
3. Determine how much gross profit is lost.

Sales price	=	100%	=	40		40
Profit	=	25%	=	25/100 x 40		10
Cost price	=	75%	=	75/100 x 40	=	30

Complete *two* double entries:

- Reduce the debtors control account on the credit side and debit the debtors allowances account with the sales price, R40.
- Increase the trading stock account on the debit side and reduce the cost of sales account on the credit side with the cost price, R30.

Mamelodi Traders General ledger					
(Asset)		**Trading stock**			
May 5	Cost of sales	30			
(Asset)		**Debtors control**			
May 1	Balance	500	May 5	Debtors allowances	40
(Expense)		**Debtors allowances**			
May 5	Debtors control	40			
(Expense)		**Cost of sales**			
			May 5	Trading stock	30

Accounting equation

Account debited	Account credited	Source document	Subsidiary journal	A	O/E	L
Debtors allowances	Debtors control	Credit note	DAJ	-40	-40	
Trading stock	Cost of sales	Credit note	DAJ	+30	+30	

Question 19

Use the information in the information pages obtained from the accounting records of Carlos Traders for March 2024. The entity maintains a profit of 50% on cost.

1. Cash sales to M.Nel according to the cash invoice, R21 000.
2. Received a credit invoice from High Traders for R9 000 less 20% trade discount for goods purchased.
3. Services rendered on credit to S. Snyman, R1 800.
4. Received a credit invoice from Quality Traders for equipment purchased, R3 000.
5. Obtain a loan from the bank for R10 000.
6. EFT for R2 000 to pay the monthly instalment on the loan.
7. Debit card transaction to buy a computer, R8 000 less 10% trade discount.
8. Issued a credit note to M. Nel for R1 500 for goods returned.
9. Received a credit note from Quality Traders for R480 for equipment returned.
10. EFT for interest on loan at 12% per annum for one on the outstanding amount of R60 000.

Indicate if the elements of the accounting equation increase or decrease.

No	Account debited	Account credited	Source document	Subsidiary journal	Assets	Equity	Liabilities
Ex	**Drawings**	**Bank**	**Bank statement**	**CPJ**	**-200**	**-200**	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

Question 20

Use the information obtained from Lara Traders. The entity maintains a profit of 75% on cost.

1. Credit sales to P. Louw, R3 500.
2. Received a credit invoice from High Traders for R9 000 less 20% trade discount for goods purchased.
3. The owner paid R20 000 in the bank account to increase his capital contribution.
4. The bank paid the fixed deposit of R10 000 on maturity date plus the interest on the fixed deposit at 5% per annum for six months in the bank account of the business.
5. Obtain a loan from the bank for R80 000 at an interest rate of 12% per annum.
6. Cash purchases of stationery, R200. Issued petty cash voucher.

7. Paid interest on loan to the bank for one month at 12% per annum on the outstanding balance of R80 000.
8. Received a credit invoice to buy a computer, R8 000 less 10% trade discount.
9. Issued a credit note for R210 to A. Nel for goods returned.
10. Received a credit note for R200 from Brown Suppliers for goods returned.

Indicate if the amount increases or decreases.

No	Account debited	Account credited	Source document	Subsidiary journal	Assets	Equity	Liabilities
Ex	Drawings	Bank	Cheque counterfoil	CPJ	-200	-200	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

Question 21

The information was obtained from Werner Traders that maintains a profit of 80% on cost.

1. EFT for equipment purchased, R14 000 less 10% trade discount.
2. Credit sales to K. Louw, R39 600.
3. Purchased goods on credit from Olympic Traders, R30 000 less 20% trade discount.
4. Received interest at 4% per annum on a fixed deposit of R20 000 for three months.
5. Received a credit note for R3 600 from Quality Suppliers for goods returned.
6. Issued a credit note for R720 to CAN Stores for inventory returned.

You must record the account debited, account credited, source document and subsidiary journal used and the effect of the transaction on assets, equity and liabilities.

No	Account debited	Account credited	Source document	Subsidiary journal	Assets	Equity	Liabilities
1							
2							
3							
4							
5							
6							

<table>
<tr><th colspan="4">SUMMARY</th></tr>
<tr><td>Debit</td><td colspan="2">ASSETS</td><td>Credit</td></tr>
<tr><td colspan="2">+</td><td colspan="2">-</td></tr>
<tr><td>Debit</td><td colspan="2">EQUITY</td><td>Credit</td></tr>
</table>

-		**+**
Debit	**LIABILITIES**	**Credit**
-		**+**
Debit	**EXPENSES**	**Credit**
+		
Debit	**INCOME**	**Credit**
		+

2.8 Accounting cycle

Source documents

Accountant

Complete subsidiary journals

CRJ **CPJ** **CJ** **DJ** **PCJ** **DAJ** **CAJ** **GJ**

Ledger

Debtors' ledger:

The ledger accounts of individual debtors

General ledger:

Equity:
Capital/ Drawings

Balance sheet accounts:
Assets:
- Land and buildings
- Equipment & machinery
- Vehicles
- Investments
- Bank, petty cash, cash float
- Inventories
- Debtors control

Liabilities:
- Loans
- Creditors control

Nominal accounts (N-accounts):
Income:
- Rent income
- Interest income
- Sales

Expenses:
- Cost of sales
- Rent expense
- Water and electricity

Creditors' ledger:

The ledger accounts of individual creditors

Trial balance

↓

Income statement
(Income and expenses to calculate profit)

↓

Balance sheet
(Assets, liabilities and equity accounts)

↓

Analysis and interpretation of financial statements

Questions

1. Name the elements of the accounting equation.
2. Name the document used as proof of payment when money is received.
3. Name the document used when goods are purchased.
4. Name the document used when goods are returned by clients.
5. Name two transactions that will effect on cost of sales?
6. On which side of the ledger account will assets increase and decrease.
7. On which side of the ledger account will liabilities increase and decrease.
8. On which side of the ledger account will income increase and decrease?
9. On which side of the ledger account will expenses increase and decrease?

Solutions

1. Assets, liabilities and equity.
2. Receipt.
3. Invoice received.
4. Credit note issued.
5. When goods are sold for cash or on credit the cost of sales account is debited and the inventory account credited to increase the expense "cost of sales" and decrease the asset "inventory".

   When goods are returned by clients the inventory account is debited and the cost of sales account is credited to increase the asset "inventory" and reduce the expense "cost of sales."
6. Assets increase on the debit side and decrease on the credit side.
7. Liabilities increase on the credit side and decrease on the debit side.
8. Income increase on the credit side and decrease on the debit side.
9. Expenses increase on the debit side and decrease on the credit side.

Terms and concepts

Accounting equation:	Assets = Equity + Liabilities
Asset:	Assets are owned by the entity because of a transaction in the past that have the potential to generate future economic benefits.
Debit card:	Debit card is linked to the bank account. The bank transfers the amount from the bank account of the client to the bank account of the business.
Double entry principle:	According to the duality principle a double entry is completed in the general ledger. One entry is completed on the debit side and the second entry on the credit side of the general ledger.
Electronic fund payment:	EFT to transfer the money from the account of the business to the bank account of the person receiving the money.
Equity:	Owners' equity is the net worth of an entity after liabilities have been deducted from all assets.
Expense:	Expenses are paid by the entity. Expenses decrease profit and equity.
General ledger:	The general ledger is used to record a double entry for each transaction.
Income:	Income is received by the entity for services rendered or inventories sold. Income increases profit and equity.
Liability:	Liabilities are obligations arising from past transactions concluded which the entity must settle by the sacrificing of economic resources.
Source documents:	Documents used to record entries in the financial records of the entity.
Subsidiary journals:	Subsidiary journals are used to record the source documents. From the subsidiary journals entries are posted to the ledger accounts.