

SUBJECT:	GRADE:			DATE:	WEEK:	CAPS SECTION:
EMS	7	8	☒ 9	Term 1: Lesson 2	Term 1: Lesson 2	Financial Literacy
AIMS OF LESSON:	<u>Learners must be able to understand:</u> 1. Calculation of cost prices, selling prices and profit mark-up % 2. The effect of cash transactions (trading business) on the accounting equation 3. The cash journals of a trading business					
RESOURCES	<u>PAPER BASED RESOURCES:</u> • Textbooks			_____: • _____ • _____ • _____		
INTRODUCTION	Prior content knowledge: The effect of cash transactions (service business) on the accounting equation and the CRJ and CPJ of a service business Link with the next lesson: General Ledger of a sole trader By the end of the lesson learners will be able to: • Show the effect of cash transactions (trading business) on the accounting equation • Enter transactions in the CRJ and CPJ of a sole trader					  
TERMINOLOGY	Any terms that appear in the topic that do not form part of the learner's normal vocabulary. • Accounting equation • Assets • Liabilities • Owners' equity • Income • Expenses • Cash register roll • Duplicate receipt • Electronic Fund Transfers (EFTs) • Selling price					  

The Basic Accounting Equation

Owner's Equity

- ♦ Ownership claim on total assets.
- ♦ Referred to as residual equity.
- ♦ Investment by owners and revenues (+)
- ♦ Drawings and expenses (-).

Assets

=

Liabilities

+

Owner's Equity

LO 6: State the accounting equation, and define its components.

- Cost price
- Profit mark-up %
- Trading stock/goods/merchandise
- Sales
- Cost of sales

Introduction



ACCOUNTING EQUATION

$$\text{ASSETS (A)} = \text{EQUITY (E)} + \text{LIABILITY (L)}$$

CLASSIFICATION OF ACCOUNTS

CONTENT:
CONCEPTS
and/or
SKILLS

ASSETS		
Non-current Assets		Current assets
Tangible/Fixed assets	Financial assets	
▪ Land & Buildings ▪ Equipment ▪ Vehicles	▪ Fixed Deposit	▪ Trading Stock ▪ Debtors Control ▪ Bank ▪ Cash Float ▪ Petty Cash
LIABILITIES		
Non-current liabilities		Current liabilities
▪ Loan		▪ Creditors Control ▪ Bank Overdraft



OWNER'S EQUITY/ EQUITY (Net Worth)	
• Drawings	• Capital
Expenses/Losses	Income/Profit
• Cost of Sales • Rent Expense • Salaries & Wages • Stationery • Rates • Insurance • Water & Electricity • Advertising • Bank Charges • Telephone • Repairs • Packing Material • Donations	• Sales • Current Income • Rent Income • Commission (income) • Donations (income)



ACCOUNTING PRINCIPLES

Dr	ASSETS	Cr	Dr	LIABILITIES	Cr
	+	-		-	+
Dr	OWNER'S EQUITY				Cr
	-			+	
	(Drawings decreases Owners' Equity) (Expenses decreases Owner's Equity)			(Capital increases Owner's Equity) (Income increases Owner's Equity)	



A business generating income by buying goods/merchandise and selling it at a higher price.

CALCULATION OF COST OF SALES

Selling price minus the Cost price = Gross profit

$$\text{SP} - \text{CP} = \text{GP}$$

The percentage mark-up is on the cost price. Accept/Assume that the Cost price is ALWAYS 100 %. Example: Calculate the cost of sales if the profit mark-up is 25 % and the selling price is R4 000.

$$\text{CP} = 100 \%$$

$$+ \text{GP} = 25 \%$$

$$\text{SP} = 125 \%$$

IT IS ALWAYS THE UNKNOWN DIVIDED BY THE KNOWN

$$\frac{100}{125} \quad \times \quad \frac{4\,000}{1} = \text{R3 200}$$

CALCULATION OF SALES

Selling price minus the Cost price = Gross profit

$$\text{SP} - \text{CP} = \text{GP}$$



The percentage mark-up is on the cost price. Accept/Assume that the Cost price is ALWAYS 100 %. Example: Calculate the selling price if the profit mark-up is 50 % and the selling price is R2 000.

$$\begin{array}{lcl} \text{CP} & = & 100 \% \\ + \text{ GP} & = & 50 \% \\ \text{SP} & = & 150 \% \end{array}$$

IT IS ALWAYS THE UNKNOWN DIVIDED BY THE KNOWN

$$\frac{150}{100} \quad \times \quad \frac{2\,000}{1} = \text{R3 000}$$

CALCULATION OF PROFIT MARK-UP /PROFIT PERCENTAGE

Selling price – Cost price = Profit

$$\frac{\text{Profit}}{\text{Cost of sales}} \quad \times \quad \frac{100}{1}$$

Selling price – Cost price = Profit

$$\begin{array}{lcl} 10\,000 - 5\,000 = 5\,000 \\ \frac{5\,000}{5\,000} \quad \times \quad \frac{100}{1} & = & 100 \% \end{array}$$

Source documents used to record cash transactions in the books of the business:

- ~~* Duplicate receipt~~: to record cash received
- Electronic Fund Transfers (EFT reference number): to record cash payments
- Cash register roll: to record cash sales

customer - original

CR2



CASH TRANSACTIONS OF A TRADING BUSINESS (EXAMPLE):

Analyse the transactions according to the answer sheets. The business sells goods with a profit mark-up of 50 % on cost price.

$$SP = 150\% \quad [CP + MU] \\ 100\% + 50\%$$

TRANSACTIONS:

1. Bought goods from L Manas and paid by EFT no 1, R3 600. ✓
2. Sold goods of R4 050 according to the cash register roll. ✓

$$A = OE + L$$

ASSETS			OWNERS' EQUITY		SOURCE DOCUMENT	JOURNAL
No	Effect	Reason	Effect	Reason		
1	+ 3 600 ✓	Trading stock increases ✓			EFT reference number ✓	CPJ ✓ purchase
	- 3 600 ✓	Cash decreases ✓				
2	+ 4 050 ✓	Cash increases ✓	+ 1 350 ✓	Profit	Cash register roll	CRJ ✓ receipts
	- 2 700 ✓	Trading stock decreases				

Calculation of cost of price:

CP = 100 %

GP = 50 %

SP = 150 %

$$100/150 \times R4\ 050 = R2\ 700$$

$$\frac{MU}{CP} = \frac{50}{100} = \frac{1}{2}$$

$$\frac{100}{150} = \frac{2}{3}$$

$$2 \times 1350 = 2700$$

$$\begin{array}{r} + 3600 \\ - 3600 \\ \hline 0 \end{array}$$

$$\begin{array}{l} SP (150\%) \\ 4050 \\ \times \frac{100}{150} \\ \hline 2700 \end{array}$$

$$\begin{array}{l} + 1350 \\ (MU - 50\% \\ of CP) \end{array}$$

Trading business (sells goods/products for cash)



Cash Receipts Journal of Talitha Traders – January 2019

CRJ1

Doc No	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of Sales	Sundry Accounts		
								Amount	Fol	Details



The cost price of goods sold

The selling price of goods sold
(cost price + profit)

Trading business (payments by EFTs)

Cash payments journal of Talitha Traders – January 2019

CPJ1

Doc No	Day	Details	Fol	Bank	Trading Stock	Stationery	Wages	Sundry Accounts		
								Amount	Fol	Details



Amount paid for **goods** purchased (for re-selling)



TRANSACTIONS:

2020 JANUARY

20 Purchased trading stock for R5 500 from Makro Wholesalers and paid by EFT, 01.

ACCOUNTING EQUATION

A		=	E	
Effect	Reason		Effect	Reason
-5 500	Cash/Bank decreases			
+5 500	Trading stock increases			

Cash Payments Journal of Talitha Traders – January 2020

CPJ1

Doc No	Day	Details	Fol	Bank	Trading stock		Sundry accounts		
							Amount	Fol	Details
EFT 01	20	Makro Wholesalers		5 500	5 500				



2020 JANUARY

31 Sold goods for cash, R4 500. The cost price was R3 000.

ACCOUNTING EQUATION

A		=	E	
Effect	Reason		Effect	Reason
+ 4 500	Cash/Bank increases		+1 500	Profit earned/ Profit
- 3 000	Trading stock decreases			

Cash Receipts Journal of Talitha Traders – January 2020

CRJ1

Doc no	Day	Details	Fol	Analysis of receipts	Bank	Sales	Cost of sales	Sundry accounts		
								Amount	Fol	Details
CRR	31	Sales		4 500	4 500	4 500	3 000			



Activity 1

Analyse the transactions according to the answer sheets. The business sells goods with a profit mark-up of 100 % on cost price.

TRANSACTIONS:

1. The owner increased his capital contribution from R100 000 to R150 000 by depositing it directly in the bank account of the business
2. Bought stationery per EFT (no 1), R1 800.
3. Bought trading stock, paid the amount of R5 000 by EFT (no 2).
4. Bought equipment for R15 000 and paid by EFT (no 3).
5. Received payment for rent from our tenant, R12 000.
6. Sold stock with a cost price of R200 according to the cash register roll.
7. Salaries paid for the month by EFT, R75 000.
8. Cash sales for the day amounted to R12 000.



		ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
	No	Effect	Reason	Effect	Reason		
	1.						
	2.						
	3.						
	4.						
	5.						



		ASSETS		OWNERS' EQUITY		SOURCE DOCUMENT	JOURNAL
	No	Effect	Reason	Effect	Reason		
	6.						
	7.						
	8.						



Informal assessment:

Thandi Kumalo owns a hairdressing salon called Thandi's Styles. She provides a hairdressing service and sells various hair products, such as shampoos, combs and hair extensions. Thandi uses a mark-up of 25 % on cost. **NOTE: All payments are made via EFT.** Analyse the transactions according to the answer sheets.

TRANSACTIONS:

1. The owner, Thandi deposited R500 000 in the current bank account of the business, Thandi Styles as capital contribution.
2. Purchased shampoos and combs as trading stock and paid by EFT (no 1), R5 000.
3. Sold goods according to cash register roll, R3 900.
4. Paid the water and electricity account to the municipality, R4 900.
5. Paid the wages, R8 500.
6. Paid the telephone account to Telkom, R1 200.
7. Bought hairdryers from LDT Ltd and paid R13 500.
8. Received R3 000 for services rendered.
9. Purchased shampoo and conditioner to use in the salon and paid R2 500.



		ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
	No	Effect	Reason	Effect	Reason		
	1.						
	2.						
	3.						
	4.						



	No	ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
	5.						
	6.						
	7.						
	8.						
	9.						



Activity 2

James Traders is owned by A James. The business uses a mark-up of 100% on cost.

Required:

1. Record the following transactions in the:

- 1.1 Cash Receipts Journal
- 1.2 Cash Payments Journal

NB: DO NOT CLOSE OFF THE JOURNALS.

Transactions: March 2020

- 1 Bought a vehicle from Baron Motors and paid by EFT, no. 34, R280 000.
- 4 Cash sales according to cash register roll 5 amounted to R8 000.
- 6 The owner, A James, deposited R25 000 directly into the current bank account of the business as a capital contribution.
- 7 Received R6 000 from a tenant, A. Arries for the monthly rent.
Paid the weekly wages, R3 000.
- 8 Bought merchandise from Mel Stores for R2 400 and paid by EFT.
Sold goods for cash. Cost price, R7 000.
- 12 Paid R1 900 by EFT to Old Mutual to pay the insurance of the business, R1 300 and the rest to pay the personal insurance of the owner.



Memorandum: Activity 1



MEMORANDUM OF ACTIVITIES

	ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
No	Effect	Reason	Effect	Reason		
1.	+50 000	Cash increases	+ 50 000	Owner's capital contribution	Duplicate receipt/Bank deposit slip	CRJ
2.	- 1 800	Cash decreases	- 1 800	Stationery-expense	EFT reference number	CPJ
3.	+ 5 000	Trading stock increases			EFT reference number	CPJ
	- 5 000	Cash decreases				
4.	-15 000	Cash decreases			EFT reference number	CPJ
	+15 000	Equipment increases				



	ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
	No	Effect	Reason	Effect	Reason	
	5.	+12 000	Cash increases	+12 000	Rent-income	Duplicate receipt CRJ
	6.	+ 400	Cash increases	+ 200	Profit	Cash register roll CRJ
		- 200	Trading stock decreases			
	7.	-75 000	Cash decreases	-75 000	Salaries-expense	EFT reference number CPJ
	8.	+12 000	Cash increases	+ 6 000	Profit	Cash register roll CRJ
		- 6 000	Trading stock decreases			



Memorandum: Informal assessment:

	ASSETS		OWNERS' EQUITY		SOURCE DOCUMENTS	JOURNAL
No	Effect	Reason	Effect	Reason		
1.	+500 000	Cash increases	+500 000	Owner's capital contribution	Bank deposit slip	CRJ
2.	- 5 000	Cash decreases			EFT reference number	CPJ
	+ 5 000	Trading stock increases				
3.	+ 3 900	Cash increases	+ 780	Profit	Cash register roll	CRJ
	- 3 120	Trading stock decreases				
4.	- 4 900	Cash decreases	- 4 900	Water & electricity-expense	EFT reference number	CPJ
5.	- 8 500	Cash decreases	- 8 500	Wages-expense	Bank statement	CPJ
6.	- 1 200	Cash decreases	- 1 200	Telephone-expense	EFT reference number	CPJ



7.	- 13 500	Cash decreases			EFT reference number	CPJ
	+ 13 500	Equipment increases				
8.	+ 3 000	Cash increases	+ 3 000	Income earned	Cash register roll	CRJ
9.	- 2 500	Cash decreases	- 2 500	Material cost-expense	EFT reference number	CPJ

Memorandum: Activity 2

CASH RECEIPTS JOURNAL OF JAMES TRADERS – MARCH 2020

CRJ 2

[illegible]

**CASH PAYMENTS JOURNAL OF JAMES TRADERS – MARCH 2020****CPJ 2**

Doc	Day	Details	Fol	Bank	Trading stock	Wages	Sundry accounts		
							Amount	Fol	Details
EFT34	1	Baron Motors		280 000✓			280 000✓		Vehicles✓
EFT35	7	Cash		3 000✓		3 000✓			
EFT36	8	Mel Stores		2 400✓	2 400✓				
EFT37	12	Old Mutual		1 900✓			1 300✓		Insurance✓
							600✓✓		Drawings✓