ACCOUTING CONCEPTS

Sole Trader

- AKA Sole Proprietor
- Entrepreneur is the only owner and manager
- Simplest and least expensive form of ownership
- Few/no legal requirements

The Accounting Equation
Assets = Owner's Equity + Liabilities

Capital

- Owners investment in the business
- eg. You put R50 000 towards starting/maintaining your business

Owner's Equity

- Total investment the owner had in the business
- OE increases if the business makes a profit
- OE decreases if the business makes a loss
- EG. You invest R50 000 in your business and make a profit of R20 000. OE = R70 000

Assets

- Owned by the business.
- Have value
- <u>Fixed-assets</u>: help the business make money and aren't exchanged for money (land, buildings, machinery, equipment, vehicles)
- <u>Current assets</u>: items that can be converted into cash (Stock, debtors, cash)

Liabilities

- Long Term:
  - Only payable after a period of one year (i.e) payment is made over many years.
    - Mortgage loan
    - Current:
  - Must be paid within one year
    - Money owed to creditors
- Creditor: Business owes money to another business
- Debtor: Money is owed to the business

Profit = Income - Expense

Income

- Money earned by the business
- For selling goods/providing services
- AKA revenue

Expenses

- Costs for running the business
- Unlike assets, have no lasting value
- Expenses are used up and consumed
- Eg. Rent, water, electricity, phone calls, stationery, advertising, wages, supplies

Profit

- Money left over after all expenses have been paid
- Profit = income – expenses
- Increase profit?
    - Increase income
    - Reduce expenses
- Increase OE = business is worth more

Loss

- Shortfall that occur when
    - Expenses greater than income
- Sole Trader responsible for loss
- Too much loss = business closes down
- Decreases OE = business is worth less

BANKING

- Open bank account in business' name
- All money received/paid should flow through this account
- Separate from owner's personal account
- Current account (day-to-day activities)
    - Deposit, withdrawl using cheque, ATM or EFT

Transactions

- AKA business deal
- Incoming transaction
    - Cash from customers
    - Receiving interest
    - Outgoing transaction
    - Pay for stock
    - Paying expenses (eg. Rent, salaries, transport)
    - Repay loan

Debit and Credit

- Debit
    - Entered on the LEFT of an account
    - Increases an asset or expense account
    - Decreases a revenue, capital or liability account
- Credit
    - Entered on the RIGHT of an account
    - Decrease an asset or expense account
    - Increases a revenue, capital or liability account

Cash Receipts

- Every transaction begins with a source document
- Business receives money, customer gets a receipt
- Receipt should contain
    - Receipt number
    - Name of business
    - Details of goods/services sold
    - Date
    - Amount paid

Cash Payment

- Business makes payments using
    - Cheques
    - Internet Banking (EFT)
- Cheque counterfoil is the source document
    - Cheque number
    - Name of person/business being paid
    - Date
    - Amount being paid
    - Details of reason for payment

Subsidiary Journal

- CRJ – Cash Receipts Journal
    - Record all receipts of cash / all money going INTO the business
- CPJ – Cash Payments Journal
    - Record of all payments of cash / all money going OUT of the business

Bank Statement

Fill in the answers on the table below

Transaction	Debit	Credit	Date	Balance
Opening Balance			1/03/2021	1200
Interest Earned		450	8/03/2021	?
Car Service	800		17/03/2021	850
Income / Salary		?	25/03/2021	2050
Rent Expense	550		26/03/2021	?
Water	?		29/03/2021	800
Petrol	?		31/03/2021	680

GOODS AND SERVICES

Sell **products/merchandise/trading stock** = **SALES**

Offer a **service** for money = **CURRENT INCOME**