INTRODUCTION TO ACCOUNTING
## ACCOUNTING TERMS

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sole trader</strong></td>
<td>The only person that owns a business.</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>The money used to start a business by the owner.</td>
</tr>
<tr>
<td><strong>Owner’s Equity</strong></td>
<td>The owner’s contribution to a business and how much the business is worth.</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>Money or anything that you own that can be turned into money, including loans and other payments owed to you.</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td>Land and buildings, vehicles and equipment bought to operate a business efficiently. Their value usually does not change much over a short period of time and are expected to last for a relatively long period of time. They are not bought or sold regularly. (Assets kept for longer than 12 months.)</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td>Money in the bank, a cash float or petty cash, as well as trading stock the business has for sale and money owed to the business by debtors. (Assets kept for less than 12 months.)</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td>Money earned/received by a business.</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>The daily running costs of a business.</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>The amount of money left over after all the expenses have been paid.</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>Money owed to a person/business/bank.</td>
</tr>
<tr>
<td><strong>Drawings</strong></td>
<td>What the owner takes out of the business for personal use.</td>
</tr>
<tr>
<td><strong>Transaction</strong></td>
<td>A business deal.</td>
</tr>
<tr>
<td><strong>Source document</strong></td>
<td>The first document on which a transaction is recorded.</td>
</tr>
<tr>
<td><strong>Subsidiary journal</strong></td>
<td>A journal in which transactions are summarized before being recorded in the General Ledger.</td>
</tr>
</tbody>
</table>
**Why do we do Accounting?**

1. For the owner to calculate whether he has made a profit or loss.
2. For SARS to determine the tax liability of the business.
3. Allows the owner to control and manage expenses and other aspects.
4. In order to have something to show possible investors.
5. In order to have something to show the bank when borrowing money.

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**THE ACCOUNTING CYCLE**

The accounting process is a series of activities that begins with transactions and ends with the closing of the books. It is repeated each reporting period and includes these major steps:

1. Source Documents
2. Journals
3. General Ledger
4. Financial Statements

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**In Grade 8 we deal with the topics which are bolded.**

You will study the others in Grade 9.
Incomes Vs Expenses Vs Assets

<table>
<thead>
<tr>
<th>Incomes</th>
<th>Expenses</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>That which is earned for performing a service.</td>
<td>The payment made for something that is consumed by the business – i.e. used up.</td>
<td>Something of value that is durable, and kept for a long time and that the business owns.</td>
</tr>
</tbody>
</table>

The Types of Transactions that we record:
We will divide the transactions into the categories mentioned above:

1. Receiving an INCOME:

   1.1 **Capital Received**
   This is an important transaction, as it is the first transaction that a business will need to record! Capital is the money that the owner invests in the business. This money can then be used to buy other stuff.

   1.2 **Current Income**
   When a business performs a service, the money received from the client is referred to as current income. It is important to specify where money comes from. Why?

   1.3 **Rent Income**
   If the business owns a property, and rents this property to a tenant, the money received is referred to as rent income.

2. Paying for EXPENSES

   Each transaction will describe the nature of the expense. Companies use certain terms to describe the particular expense. It is important that we all use the same terms.

   2.1 **Stationery** Pens and Paper!
   2.2 **Materials** The things we use when we render (provide) a service.
   2.3 **Rent Expense** What we pay for our premises
   2.4 **Wages** The weekly payment to staff.
   2.5 **Salaries** The monthly payment to staff.
   2.6 **Advertising** We pay advertisers for advertising!
   2.7 **Packing material** The things we use to pack our products.
   2.8 **Telephone** We pay for calls made.
   2.9 **Drawings** The money that the owner takes for his/her personal use.
   2.10 **Water and Electricity** We pay this to the municipality.

3. The purchase of ASSESTS:

   We can categorize assets, things that the business owns and that are of value to the business, into two types:

   1. **Current assets**: assets that the business keeps for less than one year.
   2. **Non-current assets**: assets that the business keeps for more than one year.
CURRENT ASSETS: Although there are a variety of current assets, in grade eight we only work with one: **Money**
- Does this have value to the business?
- Does the business ‘own’ its own money?
  - The answer is yes to both of these, therefore it must be an asset!

*Because businesses keep all their money in the bank, the accounting term we use for money/cash, is BANK. This refers to the account in which we record the receipt of money, as well as the payment of money.*

NON-CURRENT ASSETS: There are a number of different types of non-current assets:

- **Land and buildings:** This is property that the business owns (not rents)!
- **Equipment:** This is the equipment that the business uses for example a computer.
- **Vehicles:** The various modes of transport that a business may own, usually cars and motorbikes.

When we record any transaction, it is important that we use the terms introduced above, this enables accountants from other businesses to understand the accounting records!

When we record a transaction, we need to decide what the accounts involved are.

**NB** Because each transaction will involve money, whether we are receiving or spending, the bank account will be involved! In addition to this one other account will also be affected, as we need to record why the money was received or spent.

*This is referred to as the double entry system.*

Liabilities:
If a business does not have the available funds to purchase goods, it has the option of either taking out a loan, or buying the goods on credit. The end result of these two options being the same, the business gets the goods, however it now owes a third party a sum of money.

Like assets, we differentiate between liabilities that are held for different lengths of time.

- **Long-term liabilities:** Long-term liabilities (or non-current) are liabilities that exist for any period longer than twelve months.
  - **Example**: long term loans

- **Current liabilities:** These are short term, and will be repaid within twelve months.
  - Examples of these include: Creditors, Short term loans, Bank overdrafts
If a business makes a profit it belongs to the __________________________. If he leaves the profit in the business it ___________________ his investment and his owner’s equity in the business.

If the business makes a loss it ________________________ the money invested in the business.

**INCOME – EXPENSES = PROFIT OR LOSS**

Income **INCREASES** Owner’s equity.

Expenses **DECREASE** Owner’s equity.

**Activity 4.1 (Page 42)**

1.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ASSET</th>
<th>LIABILITY</th>
<th>OWNER’S EQUITY</th>
<th>EXPENSE</th>
<th>INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan from bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cell phone costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money received for rent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. What is the difference between an **asset** and an **expense**?

**Asset** ________________________________________________________________

**Expense** _____________________________________________________________

3. How does one calculate the profit made by a business?

______________________________________________________________
4. If the profit of each of the following businesses is reinvested in the business, calculate the missing information in each of the following cases.

(a) ______________________________________

(b) ______________________________________

(c) ______________________________________

(d) ______________________________________

(e) ______________________________________

**SOURCE DOCUMENTS**

**What are source documents?**

Source documents are the pieces of paper that transactions are recorded on. The information that appears on the source documents is what is used to begin the Accounting Cycle. It is important that the information is correct otherwise the owner will not be able to making good decisions.

Source documents are proof that a transaction has taken place.

**Common information found on a source documents**

The following information is needed in a source document:

- The date the transaction took place
- The source document number
- The amount that was paid
- Who was involved in the transaction
- What the transaction was for.

A source document number is usually pre-printed on the document and in numerical order. This is to make sure that none of the documents go missing and are kept in a logical order.

If a document does go missing the reason need to be investigated in case of **fraud**.

Fraud is when people steal assets for example money and stock from the business.
Source documents for receiving money

Receipt

A receipt is given to a customer when the business receives money.

Examples include:

- The owner putting capital into a business
- The business receiving money for rent
- The business receiving money from customers for goods and services.

An example of a receipt

![Receipt Example]

Activity 5.2 (Page 53)

1. 

2. 

3. 

4. 

5. 

6. 

7. 

_________________________________________________________________________
CASH REGISTER ROLL (Till slip)

A cash register slip is the source document that is given to a customer when they pay for a good or service at a till point. A cash slip identifies items on which VAT is charged.

Activity 5.3 (Page 54)

1. 

2. 

3. 

4. 

------------
DEPOSIT SLIP

A deposit slip is filled out when money is taken to the bank to be deposited into a business’s account. A business receives a deposit book that is a pad of deposit slips from the bank when they open a bank account in the name of the business.

Businesses need proof that the money has been deposited into the account. Owners often do not do the banking themselves on a daily basis and must trust someone else to do this. When a person takes money to the bank to be deposited, they must complete a deposit slip.

The deposit slip along with all the cash and cheques are taken to the teller and they will check whether the cash and the total on the deposit slip are the same.

Activity 5.4 (Page 55)

1. ____________________________________________________________
2. ____________________________________________________________
3. ____________________________________________________________
4. ____________________________________________________________
5. ____________________________________________________________
6. ____________________________________________________________
Source documents for paying money

CHEQUES AND CHEQUE COUNTERFOILS

Cheques are used by businesses and people to pay for things. Many businesses do not accept cheques because of cheque fraud.

Cheque counterfoils are found on the side of the cheque. The counterfoil allows you to fill in all the information you have filled in on the cheque.

This information includes:

- The date on which the transaction was done
- Who is being paid
- The amount paid
- What the cheque is paying for.

A cheque can be made out for cash.
Activity 5.5 (Page 57)

Use the example of the cheque on page 56 to answer the following questions.

1. **Drawer** ______________________________________________________________

   **Drawee** ______________________________________________________________

   **Payee** ______________________________________________________________

2. ______________________________________________________________________
   ______________________________________________________________________

3. ______________________________________________________________________

4. ______________________________________________________________________

5. ______________________________________________________________________

6. ______________________________________________________________________

7. ______________________________________________________________________

8. ______________________________________________________________________
ELECTRONIC FUNDS TRANSFER (EFT)

An electronic transfer is also used by a business to make a payment.

The proof of payment is used to record the transaction in the Cash Payments Journal.

Internet Banking : Notice of Payment  28 JUL 2012

Subject: Notice of Payment: C.C RIPPON
Please be advised that NORMAN ZOE made a payment to your account as indicated below.

| Payment date: | 28/07/2012 |
| Payment made by: | N.ZOE |
| Payment made to: | C.C. RIPPON |
| Beneficiary bank name: | FNB |
| Beneficiary account number: | 6207 3670 294 |
| Bank branch code: | 201 509 |
| For the amount of: | R6, 700.00 |
| Reference on beneficiary statement : | NORMAN |

- Payment made on weekdays before 15:30 will be credited to the receiving bank account by midnight of the same day
- Payment made on weekdays after 15:30 will be credited by midnight the following day.
- Payments made on Saturday, Sunday or Public holiday will be credited to the account by midnight of the 1st following weekday.

If you need more information or assistance, please call Absa on 08600 111 124 or +27 11 276 7900 (International calls).

Yours Sincerely

General Manager: Digital Channel

This document is intended for use by the addressee and is privileged and confidential. If the transition has been misdirected to you, please contact us immediately. Thank you.

Absa Bank Limited, Reg No: 1986/004784/08

Director: D C Crouje
BANK STATEMENTS

A bank statement is a document received from the bank at the end of the month showing money going in and out of a business account. If an account holder has Internet banking, the account holder can see their account details when they log onto their account.

Activity 5.6 (Page 59)

Look at the Bank Statement on page 58 and answer the following questions.

1. ________________________________
2. ________________________________
3. ________________________________
4. ________________________________
5. ________________________________
6. ________________________________
7. ________________________________
8. ________________________________
CASH SALES INVOICE

Businesses can choose whether the source document they give their customers is a Cash Register Roll (CRR) or a Cash Invoice. The information printed on the documents is the same but in a different format.

Activity 5.7 (Page 60)

Look at the Cash Invoice on page 60 and answer the following questions.

1. ________________________________________________________________

2. ________________________________________________________________

3. ________________________________________________________________

4. ________________________________________________________________

5. ________________________________________________________________

6. ________________________________________________________________
Paste your source document on this page and identify it.
THE ACCOUNTING EQUATION

(A = OE + L)

What is the Accounting Equation?

The owner invests money (capital) of R300 00 in the business. This money, together with the borrowed money (liability) R200 000 should equal the value of the assets of the business (land and buildings, equipment, vehicles, stock and cash), worth R500 000.

This relationship between assets, owner’s equity and liabilities is shown as an equation.

The right hand side of the equation must always equal the left-hand side of the equation.

Fill in the missing amount in each of these Accounting Equations:

1. \[ A = OE + L \]
   \[ \text{R6800} = \text{R4800} \]

2. \[ A = OE + L \]
   \[ \text{R13000} = \text{R20000} \]

3. \[ A = OE + L \]
   \[ \text{R4500} = \text{R1500} \]

4. \[ A = OE + L \]
   \[ \text{R3780} = \text{R0} \]

5. \[ A = OE + L \]
   \[ \text{R6120} = \text{R0} \]

6. \[ A = OE + L \]
   \[ \text{R16400} = \text{R24600} \]
7. \[ A = OE + L \]
   
   \[ \text{R180000} = \text{R171000} \]

8. \[ A = OE + L \]
   
   \[ \text{R1806} = \text{R706} \]

**Activity 4.3 (Page 47)**

Show how the following transactions will affect the Accounting Equation.

<table>
<thead>
<tr>
<th>No.</th>
<th>Transaction</th>
<th>A = OE + L</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The owner invests R870 000 in the business.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Bought equipment for R26 000 cash.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Borrowed R50 000 from the bank.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Bought stock for R44 000 cash.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Paid back R10 000 of the loan.</td>
<td></td>
</tr>
</tbody>
</table>
1. The owner of PV Ltd contributed R100 000 towards capital and deposited this in the bank account of the business.

   \[ A = OE + L \]

2. PV Ltd bought equipment for R10 000 and paid cash from their bank account.

   \[ A = OE + L \]

3. PV Ltd bought trading stock for R50 000 on credit.

   \[ A = OE + L \]

4. The owner withdrew R5 000 from the bank for his personal use.

   \[ A = OE + L \]

5. PV Ltd paid their creditor R20 000 cash from their bank account.

   \[ A = OE + L \]
Calculate the following. Show all your working.

1. If the total assets of a business are R532967 and the total liabilities are R76219, what is the owner’s equity?

2. If an owner invests R350000 in a business and the business has liabilities of R24687, what is the value of the assets of the business?

3. A business has assets of R492763 and the owner’s equity is R450000. Calculate the total of the liabilities of the business.

4. A business has fixed assets worth R157962 and liabilities of R314573. If the owner’s equity is R200000, calculate the value of the current assets.
Activity 4.4 (page 48)

Show whether the following statements are True or False. If False, give a reason for your answer and correct the transaction so the statement will be True.

<table>
<thead>
<tr>
<th>No.</th>
<th>Transaction</th>
<th>A</th>
<th>O</th>
<th>+</th>
<th>L</th>
<th>T</th>
<th>F</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The owner invests R350 000 in the business.</td>
<td>+350 000</td>
<td>+350 000</td>
<td></td>
<td></td>
<td></td>
<td>T</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Borrowed R80 000 from a bank.</td>
<td>+80 000</td>
<td>+80 000</td>
<td></td>
<td></td>
<td></td>
<td>T</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Bought equipment for R40 000 cash.</td>
<td>+/- 40 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>T</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Paid R1 000 wages.</td>
<td>-1 000</td>
<td></td>
<td></td>
<td></td>
<td>F</td>
<td></td>
<td>-1 000</td>
</tr>
<tr>
<td>5.</td>
<td>Received R15 000 for cash sales.</td>
<td>+15 000</td>
<td>+15 000</td>
<td></td>
<td></td>
<td>T</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INTERESTING ASPECTS

The Accounting Equation has two sides:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Owner’s Equity + Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DEBIT side</td>
</tr>
<tr>
<td></td>
<td>CREDIT side</td>
</tr>
</tbody>
</table>

Left hand side = DEBIT side
Right hand side = CREDIT side