INTRODUCTION TO ACCOUNTING

NAME:

CLASS:
### ACCOUNTING TERMS

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset</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>Capital</strong></td>
<td>The money used to start a business.</td>
</tr>
<tr>
<td><strong>Owner’s Equity</strong></td>
<td>The owner’s contribution to a business.</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>Money owed to a person/business/bank.</td>
</tr>
<tr>
<td><strong>Creditor</strong></td>
<td>A person/business/bank to whom a business owes money.</td>
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<tr>
<td><strong>Debtor</strong></td>
<td>A person who owes money to a business.</td>
</tr>
<tr>
<td><strong>Accounting Equation</strong></td>
<td>Assets = Owner’s Equity + Liabilities.</td>
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<tr>
<td><strong>Income Statement</strong></td>
<td>The statement which reflects the income and expenses of a business in order to calculate the profit/loss.</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>The statement of the Accounting Equation or wealth of a business.</td>
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</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.

**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

- **Cash Register Roll**
- **Duplicate Receipts**
- **Deposit Slips**
- **Cheque Counterfoils**
- **Invoices/statements**
- **Duplicate invoice**
- **Invoices**

- **Cash Receipts Journal** (CRJ)
- **Cash Payments Journal** (CPJ)
- **Debtors Journal** (DJ)
- **Creditors Journal** (CJ)

**Balance Sheet**

- **Nominal Accounts**
- **Income Statement**

**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 stuff we use when we render 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 stuff we use to pack our products.
   2.8 Telephone         We pay for calls made!
   2.9 Drawings          The money that the owner takes.
   2.10 Water and Electricity We pay this to the municipality.

3. The purchase of Assets:

   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.
e.g. 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
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.

\[ A = OE + L \]
Fill in the missing amount in each of these Accounting Equations:

1. \[ A = OE + L \]
   \[ R6800 = R4800 + 2000 \]

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

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

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

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

6. \[ A = OE + L \]
   \[ R16400 = R24600 \]

7. \[ A = OE + L \]
   \[ R180000 = R171000 \]

8. \[ A = OE + L \]
   \[ R1806 = R706 \]
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.
SOURCE DOCUMENTS

CASH REGISTER ROLL

A till slip is issued by a business for a cash purchase. The duplicate is used to record the transaction in the Cash Receipts Journal.

1. On what date was the purchase made?

2. What is the name of the person who took the customer's money?

3. From which business was the purchase made?

4. At what rate is VAT charged?

5. How much VAT was charged?

6. What do the A and C refer to?

---

Solly's Cash Dealers

TEL NO:

VAT REG NO:

RETAIL AS PROOF OF PURPOSE
HOU AS BEWYS VAN AANKOOP

1120 CASH-1 5798 0119 012

MENS SLEEPWEAR A 49.95
39193299
MENS SLEEPWEAR A 79.95
3905299
CHILDRENS FOOTWEAR A 99.95
39080608
WHITE SANDWICH A 3.79
BROWN SANDWICH C 3.79
500ML FRUIT PUNCH A 4.79
GIFTS A 39.95
38767371
GOLDEN DEL BAG C 5.99
YELLOW PAPAYA C 14.99
65G SWEETS A 2.19
1L AYR L/F SACHET MILK C 3.69
FOODS TOTAL : 39.23
TEXTILES TOTAL : 269.80
TOTAL 309.03

TAX INVOICE

A – 14% VAT 34.46
VAT TOTAL 34.46

ACCOUNT NUMBER
CHEQUE 309.03

CASHIER - PUMLA MNYUYEDWA

3/11/2001 11:20
RECEIPT

A receipt is issued when a business receives a payment. The duplicate is used to record the transaction in the Cash Receipts Journal.

1. Who paid the money?

2. Who is the person who issued the receipt?

3. When was the receipt issued?

4. What is the receipt number?

5. What amount was received?

6. What are the advantages of an electronic system?
A deposit slip is filled in when a business deposits cash and cheques in the bank.

1. Into which bank was the deposit made? ...........................................................

2. Who made the deposit? ..................................................................................

3. On date was the deposit made? ....................................................................

4. Into what account was the deposit made? ......................................................

5. How much cash was deposited? ....................................................................

6. What was the total value of the deposit? .........................................................
CHEQUE

A cheque is used when a business makes a payment. The cheque counterfoil is used to record the transaction in the Cash Payments Journal.

1. Who was the payer? .................................................................

2. Where does the payer bank? ....................................................

3. What date was the payment made? ...........................................

4. What is the number of the cheque? .........................................

5. Who was paid? ........................................................................

6. How much was paid? ..............................................................

7. What was bought? ..................................................................
ELECTRONIC FUNDS TRANSFER

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.

13

1. Who was the payer?

2. Where does the payer bank?

3. What date was the payment made?

4. Who was paid?

5. How much was paid?

6. Where does the payee bank?
INVOICE

An invoice is issued when a debtor makes a purchase from a business with the intention of paying at a later date. The duplicate is used to record the transaction in the Debtors Journal.

An invoice is received when a business makes a purchase with the intention of paying at a later date. The original invoice is used to record the transaction in the Creditors Journal.

1. On what date was the purchase made?
   ..............................................................................

2. What is the name of the debtor?
   ..............................................................................

3. To which business does the debtor owe money?
   ..............................................................................

4. How much does the debtor owe the creditor?
   ..............................................................................

5. If the cost of the items purchased amounts to R4 990, why does the debtor owe R5 688,60?
   ..............................................................................

6. What was the total value of the goods the debtor may purchase on credit?
   ..............................................................................

7. How much must the debtor pay if the account is settled after 23 days?
   ..............................................................................
STATEMENT

A statement shows the records all the purchases and payments of a debtor to a business.

Sport Tracker CC
44 Plein Street
Cape Town
8001

Statement
To: Boots n All
Invoice 234 for the month of September 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 September 2012</td>
<td>Balance owing</td>
<td></td>
<td></td>
<td>987</td>
</tr>
<tr>
<td>6 September 2012</td>
<td>Invoice 333</td>
<td>1 655</td>
<td></td>
<td>2 642</td>
</tr>
<tr>
<td>22 September 2012</td>
<td>Credit Note 22</td>
<td></td>
<td>105</td>
<td>2 537</td>
</tr>
<tr>
<td>28 September 2012</td>
<td>Receipt 101</td>
<td>987</td>
<td></td>
<td>1 550</td>
</tr>
</tbody>
</table>

Balance owing as at 30 September 2012: R1 550

Overdue: 0

All amounts paid within 30 days will qualify for a 5% discount.

1. What is the date of the statement? .................................................................
2. What is the name of the debtor? .................................................................
3. How much was owed by the debtor on 1/09/2012? ........................................
4. How much altogether was owed on 20/09/2012?
........................................................................................................
5. How much did the debtor pay in the period of the statement? ....................
6. How many purchases were made in the period of the statement? ..............
7. How many items were returned in the period of the statement? ..............
8. What words tell you an item was returned? ..............................................
Paste your source documents on this page and identify them.
Up until now, we have looked at accounting theory and principles, not actual accounting that accountants do! It is now necessary to look at how to actually record transactions in the accounting system.

To do this we follow a process that you should be aware of already, this process begins with what we refer to as the books of first entry. The books of first entry are divided into two books, the Cash Receipts Journal, where we record cash in, and the Cash Payments Journal in which we record cash out.

**The Cash Receipts Journal: Format**

Cash Receipts Journal of Anytrader for October 2005

<table>
<thead>
<tr>
<th>Do</th>
<th>Day</th>
<th>Details</th>
<th>Analysis</th>
<th>Bank</th>
<th>Current Income</th>
<th>Sundry Amount</th>
<th>Details of Sundry</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>3</td>
<td>A. Trader</td>
<td>100 000</td>
<td>100 000</td>
<td>100 000</td>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td>5</td>
<td>L. Jet</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100 000</td>
<td>100 000</td>
</tr>
</tbody>
</table>

**Transactions:**

3 The owner, A Trader, invested Capital of R100 000, Issued himself with Receipt 001
5 Earned an income of R500 for performing a service for L. Jet, issued her with receipt 002.

**Notes:**

1 Write the name of the other party, if the name is not known, write cash.
2 This is a part of the bank column, if more than one amount is received on a particular day, the amounts are added up in the analysis column, and the total goes into the bank column.
3 This is the amount received; every transaction will affect the bank column. This is a debit entry.
4 These are the contra accounts, the other accounts involved in the transaction. They are the credit part of the transaction.
5 Because we cannot have a column for every account, we use the sundry column. Any account can be recorded in the sundry column.
The Cash Payments Journal: Format

Cash Payments Journal of Anytrader for October 2005

<table>
<thead>
<tr>
<th>doc</th>
<th>day</th>
<th>Details</th>
<th>Bank</th>
<th>Wages</th>
<th>Materials</th>
<th>Sundry Amount</th>
<th>Details of Sundry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7</td>
<td>S. Test</td>
<td></td>
<td>800</td>
<td>800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>Makro Stores</td>
<td></td>
<td>900</td>
<td>900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>Steer &amp; Co.</td>
<td></td>
<td>950</td>
<td></td>
<td>950</td>
<td>Rent expense</td>
</tr>
</tbody>
</table>

Transactions:

7    Paid S. Test R800 with cheque 001 for wages for the first week of business
9    Bought materials from Makro Stores for R900 paid with cheque 002.
11   Paid the rent for the month, to Steer and co. R950, issued cheque 003.

Notes:

1    The name that appears on the cheque is written here. Often cash cheques are issued, in this case, the word cash is written.
2    There is no analysis column in the Cash Payments Journal.
3    This is the amount being paid. It is a credit to the bank account – bank is an asset, and assets decrease on the credit side.
4    These are the contra accounts, they are expenses and assets, that are getting bigger, therefore these are debits.
5    If a column is not present for an account, the sundry column is used. As in the CRJ.
Exercise one:

**Recording transactions in the Journals (CPJ and CRJ)**

To record transactions, we use the Cash Receipts Journal and the Cash Payments Journal, all money that is received is recorded in the Cash Receipts Journal, while all money paid is recorded in the Cash Payments Journal. These journals are known as the books of first entry, as they record the transactions for the first time!

Record the following transactions in the Cash Receipts and Cash Payments Journals of Dial a Nerd Computer Services CC for the month of April. Use the journals provided.

*Record the following transactions of Dial a Nerd, for the month of April 2011:*

2 Humpphy Finklestein, a computer engineer, started a computer services company and deposited R150 000 in the company’s bank account as capital.

3 Humpph, as his friends calls him, bought a Vespa scooter from *Piaggio Scooters* for R15 000 in order to get to and from his clients.
   He also invested (purchased) R80 000 in an office, which he plans to share with another company.

4 On his first day of business, Humpph earned R4000 from servicing computers.

5 Paid the *Cape Argus* R350 for an advert placed in the Weekend Argus.

6 The advert brought in more business, earned R2000.

9 Bought stationery from *Waltons Stationers*, R900.

13 Humpph (who is also a computer programmer) bought a super computer from *Rectron Computers* for R14 000 to use for programming.

15 Placed another advert, this time in the *Cape Times*, R500.

18 Due to the advert, had a busy day – earned R8000

20 Had letterheads printed, and bought more stationery, paid *PNA* R500

26 Realising the need for tools to open up and fix computers, Humpph bought a set of titanium tools from *FEDS Tools*, paid R1100.

30 Received R1500 rent from our tenant.
   Paid *Telkom* R190 for the telephone account.
   Finklestein took a salary for himself of R7500.
### Cash Receipts Journal of Dial a Nerd for April 2011

<table>
<thead>
<tr>
<th>Doc</th>
<th>Day</th>
<th>Details</th>
<th>Fol</th>
<th>Analysis</th>
<th>Bank</th>
<th>Current Income</th>
<th>Sundry Accounts</th>
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### Cash Payments Journal of Dial a Nerd for April 2011

<table>
<thead>
<tr>
<th>Doc</th>
<th>Day</th>
<th>Details</th>
<th>Fol</th>
<th>Bank</th>
<th>Advertising</th>
<th>Stationery</th>
<th>Sundry Accounts</th>
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Exercise Two:

Recording Transactions in the Cash Receipts and Payments Journals

You are the new accountant of Fairy King Enterprises, a business run by an ex-teacher Mr Slincol, who decided to move into the lucrative field of hosting children’s parties. Mr Slincol has provided you with a record of the past month’s transactions. **You are required to record these transactions in the relevant books of first entry.**

Transactions for the month of May 2012:

1. Mr Slincol decided to invest an additional R25 000 in his business in order to expand, he issued himself receipt no 033.
   
   Bought balloons and party hats from Wonderland CC, paid the amount of R150 with cheque number 0076.

5. Performed a party for a regular client A. Treefellow, and was paid R250, issued receipt no. 034.

9. Bought a vacuum cleaner, to clean up the usual mess after a party, paid Game Stores R400 with cheque no. 0077.

11. Organised a party at Kirstenbosch Gardens for R. Bush, got paid R450 and issued receipt 035.

13. Bought food for the rats, cats and rabbit that are an important part of any party, paid Pets r Us R45 with cheque 0078

21. Paid the municipality R100 for water and electricity with cheque 0079.

24. Performed at the Spur for a nine year old client, J. Rust, charged R150, issued receipt no. 036.

28. Paid Telkom R360 by cheque 0080, of this amount, R120 was for the owners personal account.

30. Received R1500 for renting out the garage that we do not use, from B. Simpson issued receipt 037.

   Paid the rent for the office to Steer and Co, paid the amount of R3000 with cheque no. 0081.
### Cash Receipts Journal of Fairy Kin Enterprises for October 2012

<table>
<thead>
<tr>
<th>Doc</th>
<th>Day</th>
<th>Details</th>
<th>Fol</th>
<th>Analysis</th>
<th>Bank</th>
<th>Current Income</th>
<th>Sundry Accounts</th>
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### Sundry Accounts

<table>
<thead>
<tr>
<th>Amount</th>
<th>Details</th>
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<td></td>
<td></td>
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### Cash Payments Journal of Fairy King Enterprises for October 2012

<table>
<thead>
<tr>
<th>Doc</th>
<th>Day</th>
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### Sundry Accounts

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Exercise three:

Sam King Snake Catcher CC

Record the following transactions of Sam King Snake Catcher CC for the first week of October 2012. Sam King who grew up catching and collecting snakes with her parents in the Kruger National Park has decided to use her unusual skill in a new business.

Transactions for October 2012:

1. Sam sold her collection of exotic snakes to generate enough personal savings to start a business. She received R25 000 in total and invested this in her new business, Sam King Snake Catcher CC. She issued herself Receipt 1.

   Sam bought a delivery bike (with a basket for the caught snakes). Paid C. Heat Motors R8000 with cheque 001.

   Also on the first Sam bought the necessary snake catching equipment from wild pets and places.co.za, sent them cheque 002 for R500

2. Paid the Cape Argus R150 with cheque 003, for the following advert:

   **SNAKE CATCHER: do you have problems with Pesky puff adders or boisterous boomslang?? CALL SAM KING NOW: 083 444 SNAKE Cheap – R300 per snake !!!!!!!**

3. Retrieved a perky puff adder from the field of a local school, Gave them a discount of 10 %, and issued them with receipt 2.

4. Bought Snake Serum, used to catch snakes, from Pets r Us, paid R80 with cheque no. 004

5. Removed a nest of cobras, two adult snakes and three babies, charged the client full price for the adults and ½ price for each of the baby snakes. Receipt 3.

6. Placed a second advert with the Cape Times, adding Rat Catching to our services, paid R200 with cheque 005.


7. Sam took R800 for her own use, she wrote out cheque 007 for herself.

   Received R600 for the removal of two snakes from a client in Newlands. Receipt 4.
### Cash Receipts Journal of Sam King Snake Catcher CC for October 2012

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### Cash Payments Journal of Sam King Snake Catcher CC for October 2012

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Exercise four:
Chris Andrews needs your help! He opened Chris’s Carpentry & Home Repairs at the beginning of December 2012 and recorded his transactions on his calendar. However, he is unsure how to record the transactions in the Cash Journals of the business.

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<td></td>
<td></td>
<td></td>
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<td></td>
<td>Chris put in money to start his business, R25 000 Receipt 001</td>
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<tr>
<td></td>
<td>Bought equipment, R2 500 - builders warehouse. Cheque 001</td>
<td>Paid for pre-printed stationery, R1 200, JG Printers</td>
<td>Repairs to a client’s house, charged R5 600.</td>
<td></td>
<td>Bought material for repairing a roof from builders warehouse, R4 800. Paid wages R1 500</td>
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<td>14</td>
<td>15</td>
<td>16</td>
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<tr>
<td></td>
<td></td>
<td>Received R6 300 for fixing a client’s roof.</td>
<td>Filled bakkie with petrol, R450 from Sunrise motors.</td>
<td>Purchased paint from Cedar Paint &amp; Hardware, R1 075</td>
<td>Paid wages, R1 850</td>
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<tr>
<td></td>
<td>Completed paint job - received payment of R8 600</td>
<td></td>
<td>Paid two weeks’ wages R8 600.</td>
<td>Took bakkie to Fixit Garage for a service, R895.</td>
<td>Received telephone bill, R820 - paid by cheque. Spent R1 500 on presents for family.</td>
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<tr>
<td></td>
<td>Christmas Day</td>
<td>Day of Goodwill</td>
<td>Purchased material by cheque from Pennypinchers, R3 200</td>
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<td>Received R2 150 for a job completed. Salary - Chris Andrews, R9 500</td>
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### Cash Receipts Journal of Chris’s Carpentry & Home Repairs for December 2012

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**Total:**
- Current Income: 42 650
- Sundry Accounts: 17 650
- Capital: 25 000

### Cash Payments Journal of Chris’s Carpentry & Home Repairs for December 2012

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**Total:**
- Materials: 31 890
- Wages: 6 950
- Sundry Accounts: 8 575
- Salaries: 16 365