 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY**

**NOTES AND ACTIVITIES**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | | **GRADE** | | 10 | **DATE** |  | | | |
| **TOPIC** | PROFIT AND LOSS ACCOUNT AND INCOME STATEMENT | | | | | | **Term** | 2 | **Week** | 9 |
| **TIME ALLOCATION** | | 1 Week | | |  |  | | --- | --- | | **TIPS TO KEEP HEALTHY** | | |  |  | | 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. | |  |  | | 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people. | |  |  | | 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. | |  |  | | 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | |  |  | | 5. | **STAY AT HOME.** | | | | | | | |
| **INSTRUCTIONS** | See requirements per activity | | |
| **RESOURCES** | **USE YOUR TEXTBOOK(S) & PREVIOUS ACTIVITIES** | | | | | | | | | |

**Income statement and Profit and loss account**

An income statement or profit and loss account is one of the financial statements of a company and shows the company's revenues and expenses during a particular period. It indicates how the revenues are transformed into the net income or net profit.

**Sales:** The amount in the sales column is calculated by subtracting debtor’s allowances from the sales amount form the pre-adjustment trial balance.

**Gross profit:** Sales minus Cost of sales

**Gross operating income:** Gross profit add the other operating incomes.

**Operating profit:** Gross operating income minus operating expenses.

**Profit before interest expense:** Operating profit plus interest income

**Net profit for the year:** Profit before interest expense minus interest expense

Activity 1

**Required**:

Prepare Trading Account and Profit and Loss account for the year ended 31 December 2019.

**Information:**

Pre-Adjustment trial balance on the 31 December 2019

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FOLIO** | **Debit** | **Credit** |
| Capital |  |  | 2 345 600 |
| Drawings |  | 549 156 |  |
| Land and building |  | 560 000 |  |
| Vehicle at cost |  | 140 000 |  |
| Accumulated depreciation on vehicle |  |  | 80 000 |
| Equipment |  | 230 000 |  |
| Accumulated depreciation on equipment |  |  | 86 000 |
| Trading stock |  | 70 000 |  |
| Fixed deposit: Bank of Africa 6% p.a. |  | 250 000 |  |
| Debtors control |  | 45 000 |  |
| Creditors control |  |  | 37 000 |
| Bank |  | 87 000 |  |
| Petty cash |  | 38 000 |  |
| **Nominal account section** |  |  |  |
| Sales |  |  | 720 000 |
| Debtors allowances |  | 13 800 |  |
| Cost of sales |  | 400 000 |  |
| Rent income |  |  | 13 910 |
| Interest on fixed deposit |  |  | 13 750 |
| Salaries and wages |  | 164 000 |  |
| Employers contribution |  | 10 800 |  |
| Advertising |  | 4 200 |  |
| Insurance |  | 8 800 |  |
| Telephone |  | 7 800 |  |
| Stationary |  | 2 998 |  |
| Water and electricity |  | 6 220 |  |
| Bad debts |  | 3 200 |  |

**Additional information and adjustments**

1. The tenant paid rent until 30 November 2019. The rent was increased by R80 from 1 December 2019.

2. One employee is omitted in the salaries journal for December 2019

* Net salary R9 200
* Deductions R2 400
* Employers contributions R 350
* Gross salary ?

3. Insurance amount includes a premium of R2 400 paid for the period 1 August 2019 to 31 July 2020.

4. The stock taking on 31 December 2019 shows the followings

* Trading stock R64 700
* Stationary R 107

5. The water and electricity account 0f R412 for December 2019 is still payable.

6. Debtor C Peter is overseas for an unlimited period and cannot be traced. Write off his debt of R890 as irrecoverable.

7. Interest on fixed deposit for December 2019 was not recorded.

8. Depreciation must be taken into account as follows:

* On equipment at 15% p.a. on diminishing balance method
* On vehicle at 10% p.a. on cost price method.

Activity 1- Worksheet

DR TRADING ACCOUNT F1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Cost of sales |  |  |  |  | Sales |  |  |
|  |  | Profit and loss a/c |  |  |  |  |  |  |  |
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DR PROFIT AND LOSS ACCOUNT F2 CR

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Activity 2

**Activity 2- Prepaid expense & Income Received In Advance**

Pre-Adjustment trial balance on 28 February 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FO** | **Debit** | **Credit** |
| Capital |  |  | 200 840 |
| Drawings |  | 10 520 |  |
| Vehicle on cost |  | 410 000 |  |
| Equipment on cost |  | 207 000 |  |
| Accumulated depreciation on equipment |  |  | 133 000 |
| Accumulated depreciation on vehicle |  |  | 160 000 |
| Trading stock |  | 55 690 |  |
| Debtors control |  | 38 690 |  |
| Creditors control |  |  |  |
| Fixed deposit: 6% p.a. |  | 60 000 |  |
| **Nominal account section** |  |  |  |
| Sales |  |  | 1 267 000 |
| Cost of sales |  | 579 000 |  |
| Debtors allowances |  | 15 800 |  |
| Bad debts |  | 5 900 |  |
| Interest on fixed deposit |  |  | 12 000 |
| Rent income |  |  | 52 000 |
| Advertising |  | 5 200 |  |
| Insurance |  | 8 700 |  |
| Salaries and wages |  | 247 000 |  |
| Water and electricity |  | 27 400 |  |
| Commission income |  |  | 18 000 |
| Telephone |  | 38 000 |  |
| Sundry expenses |  | 13 000 |  |
| Consumable stores on hand |  | 6 400 |  |
| Bank charges |  | 4 050 |  |

1. M. Marshall a debtor who owes R900 was declared insolvent on 28 February 2020. His estate paid 45 of the rand, the balance must be written off.

2. Rent for March has already been received.

3. On 1 January 2020 an amount of R960 was paid for the placement of weekly advertisement for a three months period

4. The monthly insurance premium of R750 has been paid one month in advance

5. An employee was under-paid for February 2020 in error, the difference of R2 500 will be paid in March 2020.

6. The interest on fixed deposit has been received three months in advance R2 400.

Internal auditor found that bank charges R500 has been incorrectly debited in the sundry expenses account.

Consumable stores unused at the end of the financial year are valued at R1 000

6. Provide depreciation on Vehicle at 20% p.a. on the diminishing balance method and on Equipment on 10% on straight line method.

7. A physical count of stock on 28 February 2020 revealed an amount of R55 000

Activity 2- Worksheet

DR TRADING ACCOUNT F1 CR

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |
|  |  | Cost of sales |  |  |  |  | Sales |  |  |
|  |  | Profit and loss a/c |  |  |  |  |  |  |  |
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DR PROFIT AND LOSS ACCOUNT F2 CR

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Activity 3

**Required**:

Prepare income statement and notes to the income statement for the year ended 28 February 2020.

**Information:**

**Pre-Adjustment Trial Balance on 28 February 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FOLIO** | **Debit** | **Credit** |
| Capital |  |  | 310 000 |
| Drawings |  | 145 000 |  |
| Vehicle |  | 150 000 |  |
| Equipment |  | 80 000 |  |
| Accumulated depreciation on vehicle |  |  | 30 000 |
| Accumulated depreciation on equipment |  |  | 12 000 |
| Trading stock |  | 245 000 |  |
| Fixed deposit: 12% p.a. |  | 45 000 |  |
| Mortgage loan: 15% p.a. |  |  | 80 000 |
| Debtors control |  | 39 800 |  |
| Creditors control |  | 12 000 |  |
| Bank |  |  |  |
| Cash float |  |  |  |
| **Nominal account section** |  |  |  |
| Sales |  |  | 2 400 000 |
| Debtors allowances |  | 100 000 |  |
| Cost of sales |  | 1 350 000 |  |
| Rent income |  |  | 7 700 |
| Commission income |  |  | 42 000 |
| Motor vehicle expense |  | 7 200 |  |
| Interest on fixed deposit |  |  | 4 050 |
| Salaries and wages |  | 65 000 |  |
| Advertising |  | 2 310 |  |
| Insurance |  | 9 400 |  |
| Stationery |  | 5 600 |  |
| Consumable stores on hand |  | 22 000 |  |
| Bad debts |  | 520 |  |
| Interest on loan |  | 9 000 |  |
| Water and electricity |  | 3 000 |  |

**Additional information and adjustments**

1. The tenant paid the rent for March and April 2020 in advance in February as he was going on holiday.

2. Commission income for February 2020 of R4 000 was not yet recorded.

3. R1500 is still owing in respect of motor vehicle expense.

4. The investment (fixed deposit) was made on 1 March 2019. Interest for the last quarter has not been received.

5. The salaries for March 2020 was paid to an employee in advance as she was going on leave.

6. An advert was placed in the local newspaper during February 2020. The advert cost R560 this amount has not yet been paid.

7. Insurance included an amount of R1200 in respect of the period 1 September 2019 to 31 August 2020.

8. Stationary costing R520 ordered for the next financial year was paid and recorded during February 2019.

9. Physical stock taking was done on the 28 February 2020 and revealed stock of R235 000 was on hand and the consumable stores of R1 090.

10. Write off the long overdue account of a debtor Z. Blade R380 as irrecoverable.

11. The water and electricity account for February 2020 has not yet been paid, R 750.

12. On the 28 February, the end of the financial year, provision for depreciation must be made as follows:

* Vehicle at 20% p.a. on cost price method.
* Equipment at 15% p.a. on diminishing balance method.

13. According to the loan statement, the total interest payable on the loan amounts to R12 000 for the year ended 28 February 2020. Make the necessary adjustment entry for the interest.

Activity 3-Worksheet

Income statement of

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales (2 400 000 |  |  |
| Cost of sales |  | ( |
| **Gross profit** |  |  |
| Add other incomes |  |  |
| Rent income ( |  |  |
| Commission income (42 000 |  |  |
| **Gross income** |  |  |
| **Less operating expenses** |  |  |
| Motor vehicle expense (7 200 |  |  |
| Salaries and wages (65 000 |  |  |
| Advertising (2 310 |  |  |
| Insurance (9 400 |  |  |
| Stationery (5 600 |  |  |
| Consumable stores on hand (22 000 |  |  |
| Bad debts (520 |  |  |
| Water and electricity (3 000 |  |  |
| Depreciation ( |  |  |
| Trading stock deficit (245 000 |  |  |
| **Operating profit/Loss** |  |  |
| Interest income (4 050 |  |  |
| **Operating profit before interest expense** |  |  |
| Interest expense (9 000 |  |  |
| Net profit for the year |  |  |

Activity 4

**Required**:

Prepare income statement and notes to the income statement for the year ended 28 February 2020.

**Information:**

Pre-Adjustment trial balance on the 28 February 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet account section** | **FOLIO** | **Debit** | **Credit** |
| Capital |  |  | 660 000 |
| Drawings |  | 88 700 |  |
| Equipment at cost |  | 78 000 |  |
| Accumulated depreciation on equipment |  |  | 36 000 |
| Land and building at cost |  | 767 800 |  |
| Vehicle at cost |  | 300 000 |  |
| Accumulated depreciation on vehicle |  |  | 140 000 |
| Trading stock |  | 120 000 |  |
| Mortgage loan: AB Bank 18% p.a |  |  | 50 000 |
| Fixed deposit: Louis bank 6% p.a. |  | 76 000 |  |
| Debtors control |  | 194 000 |  |
| Creditors control |  |  | 87 000 |
| Bank |  |  |  |
| Petty cash |  |  |  |
| **Nominal account section** |  |  |  |
| Sales |  |  | 1 876 000 |
| Debtors allowances |  | 18 000 |  |
| Cost of sales |  | 980 000 |  |
| Rent income |  |  | 30 720 |
| Fee income |  | 7 900 |  |
| Telephone |  | 4 950 |  |
| Interest on fixed deposit |  |  | 4 000 |
| Repairs |  | 4 000 |  |
| Advertising |  | 2 379 |  |
| Rates |  | 17 800 |  |
| Insurance |  | 15 400 |  |
| Bad debts |  | 1 500 |  |
| Interest on loan |  | 8 000 |  |
| Water and electricity |  | 13 827 |  |
| Parking material |  | 4 550 |  |

**Additional information and adjustments**

1. Rent has been received for ten months only. Rent has been increased by R720 as from 1 December 2019.

2. Fee income of R2 800 is still outstanding for repairs done to computers.

3. Telephone account for February 2020 of R680 has not yet been paid.

4. An account of repairs R800 is still outstanding

5. An advertising amount includes a 3 months contract of R1 500 which will expire on the 31 March 2020.

6. Rates amount includes an amount of R 3 200 in respect of the next financial year.

7. A new insurance policy of R900 was taken out on the 1 February 2020 for 3 months, that is R300 pre month. The amount was paid, make necessary entry for the 2 months prepaid.

8. A debtor declared insolvent. His estate paid a dividend of 40 cents in the rand. Received R616 from his estate. The balance must be written off.

9. An amount of R1700 was paid in advance in respect of water and electricity for the next financial year.

10. Trading stock on the 28 February 2020 was revealed as R126 000 and packing material amounted to

R1 330 as per stock taking.

11. Provide the outstanding interest on loan.

12. Provide for depreciation as follows:

* On equipment at 10% p.a. NOTE new equipment costing R8 000 was purchased on 1 September 2019. This has been properly recorded.
* On vehicle at 20% p.a. on the carrying value method (diminishing balance method).

13. Provide the outstanding interest on fixed deposit.

Activity 4-Worksheet

Income statement of

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Sales (1 876 000 |  |  |
| Cost of sales |  |  |
| **Gross profit** |  |  |
| Add other incomes |  |  |
| Rent income (30 720 |  |  |
| Fee income (7900 |  |  |
| Trading stock surplus (120 0000 |  |  |
| Bad debts recovered |  |  |
| **Gross income** |  |  |
| **Less operating expenses** |  |  |
| Telephone 4 950( |  |  |
| Repairs (4 00 |  |  |
| Advertising (2 379 |  |  |
| Rates (17 800 |  |  |
| Insurance (15 400 |  |  |
| Bad debts (1 500 |  |  |
| Water and electricity (13 827 |  |  |
| Packing material (4 550 |  |  |
| Depreciation ( |  |  |
|  |  |  |
| **Operating profit/Loss** |  |  |
| Interest income (4 000 |  |  |
| **Operating profit before interest expense** |  |  |
| Interest expense (8 000 |  |  |
| Net profit for the year |  |  |