

SOLE TRADER

ACCOUNTING CONCEPTS

WORKSHEET 1

Owner's equity

Capital contribution	The amount of money that the owner deposits in the bank account of the business to start the business. From the business's point of view, the business owes the owner this money, as he will get it back one day when the business closes.
Drawings	The money and goods the owner takes for himself from the business
Owner's equity	<p>The owner's share in the business – the owner's worth. Owner's equity represents:</p> <ul style="list-style-type: none"> - capital - drawings - profit or loss (difference between income and expenses) <p>Income increases owner's equity and expenses decrease owner's equity.</p> <p style="text-align: center;">Owner's equity = Assets - Liabilities</p>

Cash in the business

Receipts	<p>All money received by the business and deposited in the business's bank account. Examples: rent income, capital contribution, cash sales</p>
Payments	<p>All money paid out by the business. Amounts drawn by cheque from the business's bank account. Example: telephone, salaries, furniture, vehicles</p>

Income / Expenses

Income	It is the value received or receivable (still to be received) for the financial year.
Expenditure	It is the value paid or payable (still to be paid) for the financial year.

The difference between income and expenses = profit / loss

Profit / Loss

Profit	When the income of the business is more than its expenses
Loss	When the expenses of the business is more than the income

Profit = income - expenses

Loss = expenses - income

ACTIVITY 1

Answer the following questions. Do not look up the answers!

1.	What 3 concepts make up the Owner's Worth?
2.	When the owner takes something from the business for his own use, what is it called?
3.	The amount the owner uses to start the business is called?
4.	What is the word that describes money received?
5.	What is a payment?
6.	When the income of a business is more than its expenses, it is called a?
7.	What is a loss?
8.	An amount that has been paid or is still to be paid in a financial year is called an?

ASSETS			
<p>Everything the business owns (possessions) Assets are divided into Current Assets and Non-Current Assets</p>			
NON-CURRENT ASSETS		CURRENT ASSETS	
Items with a long life that the business bought with no intention to sell it – that will stay in the business for more than 12 months		Cash or possessions that can be converted into cash within 12 months.	
Land and buildings	Premises bought for running the business	Bank	Cash deposited in the cheque account
Vehicles	Vehicles bought for use by the business	Cash float	Money kept in the cash register to give change to customers
Equipment	All items needed to run the business – cash register, furniture, computers	Petty cash	Cash kept aside to pay out small amounts, like stamps, pens, milk
Fixed deposit / investment	Surplus funds can be invested in a bank for a specific term (more than 12 months) at a specific interest rate. The funds are available at the end of the term of investment	Trading stock	Goods bought to resell them at a higher price
		Debtors	People who buy goods on credit and pay later – they owe the business money

LIABILITIES			
<p>It is money owed to someone else Liabilities are divided into Current liabilities and Non-Current liabilities</p>			
NON-CURRENT LIABILITIES		CURRENT LIABILITIES	
Debts that will be paid off over more than 12 months.		Debt that can be paid off within 12 months.	
Mortgage loan	A bank loan for purchasing land and buildings – over a period of 20 – 30 years.	Bank overdraft	The business withdraws more money from the bank account than what it had in the account – the business now owes the bank money
Loans (long-term)	Money that the business loans from a bank for more than 12 months. The business pays interest on the outstanding balance of the loan.	Creditors	The people from whom the owner buys goods on credit – the business receives the goods now and pays later. The business owes the creditors money.
		Short-term loans	It is the portion of the long-term loan that will be repaid within the next 12 months.

ASSETS, LIABILITIES, EXPENSES, INCOME

De bit bal an ce	A ssets (What the business <u>OWNS</u>)	L iabilities (What the business <u>OWES</u>)	Credit balance
	E xpenses (Money paid out for the day-to-day running of the business)	I ncome (Money which the business receives in the day-to-day running of the business)	

ACTIVITY 2

List the following under Assets, Liabilities, Expenses, Income and Owner's Equity
 (Use the correct names for the accounts)

Debtors Interest paid Sales Equipment Salaries Trading stock Packing material Discount received Cost of sales	Rent paid Stationery Advertising Rent received Wages Interest received Discount allowed Drawings Current income	Capital Petty cash Vehicles Telephone Repairs Water and electricity Loan from bank Bank (debit balance) Commission received	Rates and taxes Fixed deposit Cash float Profit Buildings Creditors Bank (overdraft) Mortgage bond Consumables
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