

Good day girls,

I hope that you have been able to complete the previous work confidently and successfully! Remember, do NOT stress about it, we will make time to do it together.

Today I am going to continue with the next part of Accounting, the Statement of Net worth.

As defined in the previous documents, the Net Worth of a person or a business is calculated by subtracting the liabilities from the assets.

NET WORTH=ASSETS MINUS LIABILITIES

What we will be doing here is finding out how much a person or business is worth at any particular time. It is incorrect to say that someone that has assets (house, car, building, equipment) to the value of R2 000 000 is worth R2 000 000, because this same person may have liabilities (money that is owed) to the value of R800 000.

So in actual fact this person is only worth, or has a net worth, of R1200 000.

$$R2000\ 000 - R800\ 000 = R1200\ 000$$

The word “net” indicates after deductions, in other words, the net worth is after deducting the liabilities from the assets.

Another example of the use of the word “net” is when we speak of someone’s net salary.

Net salary is the amount that is actually paid to an employee after deductions, such as Medical Aid, tax etc.

So someone’s gross salary could be R20 000, but after deducting Medical Aid of R2 000 and tax of R3 000, their net salary would be R15 000.

But for now we will only be calculating the net worth of a business or person and therefore will be focusing on assets and liabilities.

We are now going to do an example together, and I will show you what the format of this statement is.



Assets-buildings, vehicles etc



Example:

The following items were found in the books of Mr B. Mahlangu, who is the owner of a business trading in computer equipment and software:

Use the information to draw up a Statement of Net Worth for Mr Mahlangu for March 2020

Mr Mahlangu has the following assets:

- Computers to the value of R45 000
- Printers and photocopiers to the value of R67 000
- A building to the value of R1 100 000
- A vehicle with the book value of R75 500

Mr Mahlangu has the following liabilities:

- Money owed to the bank that he borrowed to start his business: R355 000
- Money owed to suppliers for stock: R89 00

Mr B. Mahlangu
Statement of Net Worth-March 2020

Assets	R
Computers	45 000
Printers and photocopiers	67 000
Building	1 100 000
Vehicle	75 500
Total assets	1 287 500
Liabilities	
Money owed to the bank	355 000
Money owed to suppliers	89 000
Total liabilities	444 000

Net worth = Assets – Liabilities

$$R1\ 287\ 550 - 444\ 000 = R843\ 500$$

Mr Mahlangu's net worth is therefore equal to R843 500

I think you will agree that this statement is simpler than the Statement of Income and Expenditure!

I am now going to give you a few more exercises to practise this statement. The only thing different is that the assets and liabilities have not been separated for you and you have to first read through the question and mark with your pencil either A or L next to each item before you draw up the statement. Keep in mind that the word "owed" will refer to liabilities. Your own money, whether in your wallet or in the bank is always an asset!

1. Use the information provided below to draw up the Statement of Net Worth of JP Traders for April 2017

Value of delivery vehicles used in the business, R55 000

Money owed to suppliers for stock purchased, R3 270

Property in Sunnyside, R850 000

Money in the business' savings account, R12 000

Owner's wife's Edgars account, R7 250

Loan from ABSA Bank, R200 000

Equipment used in packaging of goods, R4 600

2. Mr Sibanda owns and runs a business called Super Clean CC.

Use the information below to draw up the Statement of Net Worth of the business:

Value of carpet shampoo machines: R68 000

Value of computers and printers in the office: R36 000

Money borrowed from Mr Sibanda's father-in-law to repair the building: R10 200

Building to the value of R550 000

Money owed to creditors for stock bought on credit: R 5 600

Cash in the bank: R120 000

Took a loan from ABSA Bank to cover repairs to company vehicle: R12 000

Well done!!!



Answers to the exercises will follow next week!