

SCHOOL OF ACCOUNTING SCIENCES
DEPARTMENT OF FINANCIAL ACCOUNTING
ACCOUNTING COURSE FAC1502

TUTORIAL LETTER 201 FOR FAC1502

SOLUTION ASSIGNMENT 01/1/2011

(FIRST SEMESTER)

Dear Student

Enclosed you will find the solution to assignment 01/1/2011.

It is in your own interest to work through the assignment in conjunction with the solution and your answer.

Refer to paragraph 7 of tutorial letter 101/3/2011 for more information regarding the examination. The examination paper is a two-hour paper and consists of "long type" questions.

TELEPHONE NUMBERS

Please replace the telephone numbers listed in paragraph 3.1 of Tutorial Letter 101/3/2011 with the following number:

◆ **The telephone number assigned to FAC1502 is 012 429 4245.**

Mr P Mariasane
Ms KA Nkome
Ms A du Plessis
Mr D von Well
Prof D Scott
Ms JHJ Coetzee (Secretary)

PLEASE NOTE

We are available for telephone enquiries from 08:00 to 16:00 on weekdays.

ANNEXURE A: TERMINOLOGY

**ANNEXURE B: SOLUTION ASSIGNMENT 01/1/2011
(FIRST SEMESTER)**

ANNEXURE A: TERMINOLOGY

Please note the following changes in accounting terminology over the past two years:

Old terminology	New terminology
Bad debts Provision for bad debts Discount allowed Discount received Discount allowed cancelled Discount received cancelled	Credit losses Allowance for credit losses Settlement discount granted Settlement discount received Settlement discount granted forfeited Settlement discount received forfeited
Statement of financial position Non-current liabilities Interest-bearing borrowings Current liabilities Short-term borrowings Current portion of long-term loan	Non-current liabilities Long-term borrowings Current liabilities Short-term borrowings Current portion of long-term borrowings
<p>The four categories of financial instruments, are: (see Textbook: p. 290-292)</p> <ol style="list-style-type: none"> 1. A financial asset (or liability) at fair value through profit or loss 2. Held-to-maturity investment 3. Loans and receivables 4. Available-for-sale financial assets 	

ANNEXURE B: SOLUTION ASSIGNMENT 01/1/2011
(FIRST SEMESTER)

1. Excluded from the marking.

Due to this question being unclear, it has been excluded from the marking process.

2. Option 4

The statement should have read: The going-concern principle deals with the fact that it is expected that the entity will still remain for a long period.

3. Option 1

The statement of financial position shows the financial position of an entity at a specific date.

4. Option 1

Debtors control account in the general ledger.

Comment:

The total of the sales returns column in the sales return journal is debited to the sales returns account and the total of the debtors control column is credited to the debtors control account in the general ledger.

5. Excluded from the marking process due to the question not indicating that the calculation should be rounded to the nearest Rand, but the correct answer is Option 1 when the calculation is rounded to the nearest Rand.

General ledger accounts

Drawings debited, purchases credited
(R200 x 100/133 = R150)

$$\begin{array}{r} \underline{A = L + E} \\ -150 \\ +150 \end{array}$$

Comment:

Options 2, 3 and 4 are incorrect.

Option 2: As the periodic inventory system is in use, no direct entries are made against the inventory account.

The analysis under the elements of the accounting equation are wrong. Drawings by the owner will be debited at cost to a drawings account.

Option 3: The same reasoning as in 2 above can be followed.

Option 4: The drawings by the owner have nothing to do with debtors. Furthermore the amount should be recorded at cost. The analysis under the elements of the accounting equation is also wrong.

6. Option 3

	Assets		=	Equity		+	Liabilities	
	Debtors	Cash		Capital	Profit		Loans	Creditors
3	+ 500	- 2 500		-	+ 500		- 1 000	- 1 500

Comment:

Cash was reduced with:	R
2/1/4 Loan (Instalment)	1 000
30/1/4 Creditor (Pompdienst)	<u>1 500</u>
	<u>2 500</u>

7. Excluded from the marking.

Due to this question being unclear, it has been excluded from the marking process.

8. Option 1

The total of the settlement discount received column in the cash payments journal was debited to the "settlement discount granted account" in the general ledger.

Comment:

Option 1: The debit total on the trial balance will exceed the credit total by double the amount of the discount. The entry should have went to the credit side of the settlement discount received account.

Option 2: The trial balance will balance, but the balance of the creditors control account will not correspond with the total of the list of creditors balances.

Option 3: This statement is correct.

Option 4: The trial balance will balance, and the balance of the debtors control account will agree with the total of the debtors list, but the monthly statement will differ from the account in the books of the debtor.

9. Option 3 R800

Comment:

The cash discount is irrelevant as the 30 day period has been exceeded. The amount of the trade discount is deducted on the invoice and the accounting entry is made from the net amount.

Purchase price	R
	1 000
<u>Less: Trade discount (20% x R1 000)</u>	<u>200</u>
Net amount	<u>800</u>

10. Option 3

The analysis columns in subsidiary journals (books of prime entry) are mainly to limit the number of postings to the general ledger as far as possible.

Comment:

Only the totals of the analysis columns in the subsidiary journals are posted to the general ledger. The advantage of this is that the concerned general ledger account e.g. purchases/inventory, sales etc. is not overloaded with the individual entries, but only the totals of purchases/inventory, sales etc. is shown.

11. Option 4 R3 600

Comment:

Rent received					
2009 March 1	Income received in advance	R 300	2010 Feb 28	Bank (total receipts for the year)	R 3 300
2010 Feb 28	Profit or loss	3 600	Feb 28	Accrued income	600
		<u>3 900</u>			<u>3 900</u>

It is clear that the building was rented for 12 months at R300 per month. The income accrued for the whole period must be brought into account, irrespective of whether the income has as yet been received in cash or not.

12. Option 4

	<u>Equity</u> (Cost)	<u>Asset</u>	<u>Liability</u>
	R	R	R
4.	6 000	500	-

Comment:

Prepaid expenses are treated as current assets.

Rental paid	R 6 500
Rental for the whole year ended 28/2/2011 (12 x R500)	<u>6 000</u>
Rental prepaid	<u>500</u>

13. Option 3 R2 580

Comment:

Cost of sales = Opening inventory + purchases – closing inventory
 = R0 + R6 000 – R4 000
 = R2 000

Rental R500
 Electricity R80

Total costs = R2 000 + R500 + R80
 = R2 580

14. Option 1 R35 000

Trading account for the year ended 31 December 2010

Opening inventory	R 10 000	Sales	R 50 000
Purchases	20 000	Closing inventory	15 000
Gross profit	35 000		
	<u>65 000</u>		<u>65 000</u>

15. Option 2 R912 (favourable)

Comment:

Supplementary cash payments journal for February 2011 (without analysis columns)

Cheque No	Date	Details	R
	28	Bank charges	20
		Salaries and wages (R120 - R102)	18
			<u>38</u>

Bank account (in general ledger)

Date	Details	Fol	R	Date	Details	Fol	R
Feb 28	Balance	b/d	1 050	Feb 28	Sundry payments	CPJ	38
				28	Balance	c/d	1 012
			<u>1 050</u>				<u>1 050</u>
Mar 1	Balance	b/d	1 012				

Bank reconciliation statement as at 28 February 2011

	Dr	Cr
	R	R
Balance per bank statement *		912
Cheque incorrectly debited by the bank		150
Cheques not yet presented to the bank	250	
Deposit not yet recorded by the bank		200
Balance per bank account in ledger	1 012	
	1 262	1 262

* Balancing figure

Alternative method

Bank reconciliation statement as at 28 February 2011

Favourable balance as per bank account in the ledger	R 1 012
<u>Add:</u> Cheques not yet presented to the bank	250
	1 262
<u>Less:</u> Cheque incorrectly debited by the bank	150
	1 112
<u>Less:</u> Deposit not yet credited/entered by the bank	200
Favourable balance as per bank statement	912

16. Option 1 R370 favourable

Comment:

Journal adjustments

	R	R
Interest	10	
Bank cost	20	
Rent received		250
Bank	220	
	<u>250</u>	<u>250</u>

Bank account

2010		R	2010		R
30 Apr	Balance	200	Apr 30	Balance	420
	Journal adjustments	220			
		<u>420</u>			<u>420</u>
May 1	Balance	420			

Bank reconciliation statement as at 30 April 2010

	Dr R	Cr R
Balance per bank statement *		370
Deposit not yet recorded by the bank		215
Cheque 1009 not yet presented to the bank	100	
Deposit incorrectly entered by the bank	150	
Cheque 895763 incorrectly debited by the bank		85
Balance according to the bank account in the ledger	420	
	670	670

* Balancing figure

17. Option 2 R36 750

Calculation:

Debtors control							
2010			R	2010			R
Mar 1	Balance	b/d	30 500	Mar 31	Bank	CRJ	24 000
31	Credit sales R(40 000 - 1 000 - 9 000)	SJ	30 000		Settlement discount granted	CRJ	750
	Creditors control account	J	1 000		Balance	c/d	36 750
			61 500				61 500
Apr 1	Balance	b/d	36 750				

Comment:

Settlement discount granted is shown separately because of the way the information was given. If, however, the information given indicated that it was column totals of the cash receipts journal the discount would not have been shown separately as it would have been included in the debtors column.

18. Excluded from the marking.

Due to this question being unclear, it has been excluded from the marking process.

19. Option 1 R16 793

Comment:

Debtors control

Jun 30	Preliminary balance	b/d	R 16 694	Jun 30	Balance	c/d	R 16 793
	Interest received		54				
	Interest received		45				
			16 793				16 793
Jul 1	Balance	b/d	16 793				

The only balance given was that of the debtors control account. After taking item (b) into account (item (a) only concerns the individual account of debtor R Sales), the balance of the control account is R16 793. Therefore the balance of the list of debtors will also be R16 793 as the balances must be the same after the reconciliation.

20. Option 1 R23 200

Comment:

Debtors control

2011			R	2011			R
Feb 1	Balance	b/d	20 100	Feb 28	Bank R(19 500 - 400)		19 100
	Sales		21 200		Balance	c/d	23 200
	Bank (R/D cheque)		690				
	Bank: repayments		310				
			42 300				42 300
Mar 1	Balance	b/d	23 200				