

Tutorial Letter 501/3/2018

Financial Accounting Principles for Law Practitioners

FAC1503

Semesters 1 & 2

Department of Financial Accounting

IMPORTANT INFORMATION

Please register on myUnisa, activate your myLife e-mail addresses and make sure that you have regular access to the myUnisa module website, FAC1503-2018-S1/S2, as well as your group website.

Note: This is an online module and therefore it is available on myUnisa. However, in order to support you in your learning process, you will also receive some study material in printed format.

BARCODE

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1. Word of welcome

Before proceeding with a discussion of the objective of FAC1503, we, as the lecturers for this module, would like to extend a sincere welcome to you as a student in this challenging module. This module requires a great deal of dedication and practice if you intend to pass, especially if you do not have a significant related academic background.

We trust that you will experience this module as challenging, but we must caution you that you will have to put in a great deal of time to prepare thoroughly for the examination. There are many reasons why students find it difficult to pass FAC1503, or to obtain the mark they are aiming for. One of the major reasons why students are unsuccessful is that they do not allow themselves enough time to cover the tutorial matter thoroughly and revise the exercises and examples. FAC1503 is a practical module, and therefore requires as much practice as possible. However, without a sound theoretical background it is likely that you will experience problems with the practical sections, and therefore requires as much practice as possible. It is not possible to study FAC1503 through rote learning. It is therefore extremely important that you obtain a sound understanding of the theory before you attempt to apply it when doing the examples and exercises. Students often skip these critical theoretical discussions, and opt to prepare for the examination by memorising the feedback to the given examples and activities. This approach will be unsuccessful as the theory relates to an infinite number of possible practical scenarios, which cannot all be studied. By approaching FAC1503 in a positive, proactive manner, you will improve your chances of success. We trust that you not only find the module interesting, but that you will also gain knowledge and skills which will be beneficial when you practice your profession.

2. Module objective

The objective of this module is to provide law students with a working, theoretical and practical knowledge of the general principles of financial accounting, a basic knowledge and understanding of transactions essential to complete adequate accounting records encountered in transactional practice as well as a thorough knowledge of the concept of trust money, including the applicable legislation, rules and accounting treatment of trust money.

3. Why accounting?

Section 74(1) of the Attorneys Act, Act 53 of 1979 stipulates that council of the law society may make rules, which is binding on its individual members.

The current rules for the attorneys' profession came into operation on 1 March 2016. Part V of the rules contains the accounting rules, namely rules 35.1 to 38.4. These rules will be discussed in the individual study units to which it relates.

Rule 35.5 requires that a law firm prepares financial statements of the firm and explain the transactions and financial position of the firm. Knowledge of accounting is also necessary for law students to understand the businesses and transactions encountered in litigation but will not form part of this module.

4. Tutorial letter 101 and the prescribed book.

Before you start studying, please read Tutorial letter 101. It contains valuable guidelines on how to go about studying this module, as well as suggested time specifications pertaining to each learning unit to ensure that you cover the total syllabus in good time. It also provides you with the contact and communication details of your lecturers for the FAC1503 module. There is no prescribed book for this module.

5. How to study

You are advised to use a workbook designated for use with this module only, in which you take down notes and enter responses to learning activities. If you heed this advice, the workbook will prove to be a valuable resource when you prepare for the examinations.

This study guide contains a variety of learning activities. You should first study the theory and then work through the examples. Make sure that you understand the feedback before you attempt to do the comprehensive learning activities on your own, without referring to the study material. You should then mark your answer against the answer provided in the study guide. Where your answer differs from that given in the study guide, ask yourself exactly where you went wrong. If more than 10% of your answer is incorrect, study the section again and attempt the exercise again, without referring to the study guide or your previous attempt. Accounting is a practical subject; the more you practise, the better you will become. This will enable you to absorb the knowledge content of the topic, to practise your understanding and to direct your thoughts. This is essential because as you encounter these study activities and actually perform them, you will become directly involved in controlling the extent and the quality of your learning experience. In a nutshell, how much and how well you learn, will depend on the extent of your progress through the study activities, and the quality of your effort.

6. Learning outcomes and self-assessment

Learning outcomes are presented at the start of each study unit in the study guide. At the end of each learning unit you must evaluate your knowledge of the learning content of each learning unit and monitor your progress. The learning outcomes are presented in the form of questions to which you must answer either “yes” or “no”. If you have answered “yes” to all the questions you may proceed to the next learning unit. If you have any “no” answers, you must study that particular section of the work again. Since a clear understanding of certain aspects in a learning unit may be essential for your further understanding of the module, you are advised not to move on to the next learning unit until you have resolved all your problems in the preceding one.

7. Interpretation of terminology

Outcomes are communicated and assessment criteria phrased in terms of what you should be able to do. This involves the use of action words, describing what you must *do* in the learning activity.

A clear understanding of the meaning of certain words is required and for the purpose of this module the following interpretations are given:

WORD	INTERPRETATION
Adjust	To adapt to new conditions/environment; to put in order; add, change
Apply	Use in a practical manner; use as relevant or suitable
Calculate	Ascertain by mathematical procedure/exact reckoning
Clarify	Make clear the meaning of; explain the intention of; show by reasoning/evidence
Compare	Examine in order to observe resemblances, relationships and differences
Complete	Finish/add what is required; show the necessary detail
Define	State precisely the meaning/scope/total character of; make clear (especially the outline of); give a concise description of the distinguishing features of
Describe	Give clearly the distinguishing details or essential characteristics of
Discuss	Examine by argument, debate, hold conversation about
Explain	Set out in detail (interpret); the meaning of something; make something understandable
List	Record/itemise names or things belonging to a class
Mention/name/state	Specify by name; cite names, characteristics, items, elements of facts
Prepare	Make ready/complete for a particular purpose; to put together using parts; compose, construct. Also meaning to compile or complete what is required on the basis of prior knowledge
Reconcile	To compare and adjust; to identify differences and adjust
Record	Put in writing; set down for reference or retention
Show	To make compatible or consistent with each other

THE NATURE AND FUNCTION OF ACCOUNTING

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LEARNING UNIT 1: The nature and function of accounting

Learning outcomes

After studying this learning unit, you should be able to:

- discuss the nature of accounting
- name the different users of financial information and their needs
- explain the difference between financial and management accounting
- describe what internal control is
- discuss the built-in control measures in a law practice
- discuss the internal control systems applicable to a law practice
- explain the acronyms IFRS, IASB, FRSC and SAICA, and demonstrate understanding of what they entail
- describe the objectives of creating accounting standards
- describe what the concept “Conceptual Framework” entails
- name the financial frameworks that is regarded as acceptable in terms of the Rules of the Attorneys’ Profession
- explain the underlying assumptions when preparing financial statements per the Conceptual Framework
- discuss the qualitative characteristics of financial statements per the Conceptual Framework
- discuss each of the following terms per IAS 1:
 - fair presentation
 - going concern
 - accrual basis of accounting
 - materiality and aggregation
 - fundamental qualitative characteristics
 - offsetting other qualitative characteristics
 - frequency of reporting

Key concepts

- Conceptual Framework
- Underlying assumption
- Qualitative characteristics
- Components of financial statements
- Internal controls
- Built-in control measures
- Internal control procedures

1.1 What is accounting?

1.1.1 Definition

Accounting is a process consisting of the following three activities:

- The first activity involves identifying those events that are evidence of economic activity (transactions) relevant to the particular business or entity.

- The second relates to the recording of the monetary value of the economic events (transactions) in order to provide a permanent history of the financial activities of the business. Recording involves keeping a chronological diary of measured events in an orderly and systematic fashion. This basically means that economic events are also classified and summarised.
- The third activity encompasses the communication of the recorded information to interested users. The information is communicated through the preparation and distribution of accounting reports, the most common of which are known as financial statements.

1.2 The nature of accounting

Accounting is a specialised means of communication which is used to convey a specialised message about the finances of an entity. If the recipient of this specialised message (the user of financial information) does not understand it, the information which is conveyed will have no value.

Accounting uses words and figures to convey financial information to the users of such information. As you progress with your study of accounting you will become familiar with the meaning of these words and figures, which are also known as the concepts, principles and procedures of accounting. This knowledge will ultimately result in an understanding of the message contained in financial statements.

Each and every person involved in an entity uses financial information to a greater or lesser extent. Each of us also needs to know something about accounting to manage our personal financial affairs. Financial resources are limited, or “scarce”, and if we are to spend them we must plan properly. A knowledge of accounting is thus also useful in this area.

Accounting is therefore a “language” which is used to convey financial information to interested parties (users of the information).

1.3 Forms of ownership and users of financial statements

The four main forms of ownership is:

- sole traders,
- partnerships,
- close corporations
- companies

Financial information is required by many users, who analyse the information for various decision-making purposes. The following are the most common users:

- Investors
- Creditors
- Employees
- Government
- Management

1.4 The fields of accounting

Users of financial information can be divided into the following two categories:

- Internal users, such as management or employees
- External users, such as investors, creditors or government

Two fields of accounting have developed as a result of the two categories of users of the information. Financial accounting is concerned with the provision of financial information to mainly external parties, while management accounting is concerned with the provision of financial information to people within the entity.

1.4.1 Financial accounting

This field of accounting is concerned with the recording of transactions and the preparation of the financial statements for the entity as a whole. Financial accounting is governed by International Financial Reporting Standards (IFRS), which consists of external standards which must be adhered to. These standards ensure the comparability of financial statements between entities.

1.4.2 Management accounting

Management accounting provides financial information for specific purposes. Managers use this information in their decision-making, which leads to the attainment of the objectives of the entity. Without this financial information, it would be difficult for management to manage the business effectively.

In this module, we will be concentrating on financial accounting.

1.5 Internal controls

Rules 35.13.7.1 to 35.13.7.1.4 for the Attorneys' Profession (also referred to hereafter as the Rule/s) require that internal controls are implemented to ensure compliance with the rules and to ensure that trust funds are safeguarded.

Internal control is a measure which is incorporated in the accounting system of an enterprise to ensure that the financial information provided by such system is complete, accurate and reliable. Internal control further ensures that the assets of the enterprise are protected against loss or fraud, that management policy is implemented and that all parts of the system function properly. The success of any accounting system depends on a good system of internal control. An attorney's practice is particularly dependent on such a system for its continued existence.

1.5.1 Built-in control measures

Built-in control measures include:

- numbered source documents
- dates on source documents
- control accounts in respect of clients (also debtors or trade receivables) and trust creditors (also known as trust payables)
- separate bank accounts (business and trust bank accounts)

- the keeping of petty cash according to the [imprest](#) system
- the accurate analysis of all income and expenses
- a monthly trial balance which insures that all accounts are properly balanced
- the reconciliation of bank accounts with bank statements
- the reconciliation of business creditors (also known as trade payables) with creditor statements
- a non-current asset register

1.5.2 Internal control systems/procedures

Internal control systems must be designed to suit the type of enterprise concerned for example a sole proprietor, a partnership or a personal liability company.

Internal control procedures are:

- efficient banking of all cash received
- all payments must be made by cheque or EFT (electronic fund transfers)
- proper authorisation for all transactions
- proper demarcation of authorisation (e.g. persons who write out cheques must not have any signing rights)
- the separation of duties (e.g. the person who issues receipts may not record them in the relevant cash receipts journals)
- an internal checking system (e.g. at least two staff members to check important transactions; rotation of staff etc.)
- the keeping of registers for receipt books, invoice/debit note books, credit note books and cheque books
- the keeping of unused receipt books, invoice/debit note books, credit note books and cheque books in a safe
- the review of receipts against deposits
- the initialling of changes and receipts
- cash to be banked regularly
- only authorised signatories allowed to sign cheques
- no cash or bearer cheques to be issued

1.6 Financial frameworks

Rule 35.5 requires that a law firm prepares financial statements of the firm which reflect fairly the state of affairs and business of the firm and explain the transactions and financial position of the firm. The financial statements must also comply with an acceptable financial framework as applied in South Africa.

The financial frameworks that are acceptable in terms of the Rules, are:

- the International Financial Reporting Standards (known as “IFRS”), and
- the International Financial Reporting Standards for Small and Medium Enterprises (known as “IFRS for SME’s”)

These frameworks are issued from time to time by the International Reporting Standards Board.

1.6.1 The conceptual financial framework

If all of us were to develop his or her own language and grammatical rules, communication would break down. For this reason we have generally applicable language and **grammar rules**. Accounting, as a specialised medium of communication (refer 1.2 above), has precisely the same problem. If each business were to prepare financial statements and reports according to its own **accounting rules** and its own interpretation of accounting theory and principles, there would be chaos in the world of economics and business.

The conceptual financial framework is a group of interrelated objectives and theoretical principles that serve as a frame of reference for financial accounting and more specifically for general purpose financial reporting.

All general purpose financial statements must have the same objectives and must be based on the same fundamental theoretical principles. The objective of general purpose reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. These decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Potential and existing investors are interested in the returns they expect, while creditors and other lenders are interested in principal repayments and interest payments they expect.

The objective of creating standardised **accounting rules**, called **accounting standards**, for particular issues (e.g. for the treatment of taxation in financial statements, etc.) is to limit the variety of available accounting practices and the elimination of undesirable alternatives. The accounting standards are not always rigid rules. Some standards allow more than one desirable alternative.

1.6.1.1 Accounting standards and statements

In South Africa, the [Financial Reporting Standards Council](#) (FRSC) plays an important role in the development of IFRS. The standardised accounting rules of the International financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) are the documented generally accepted accounting standards and practices as approved by the FRSC in South Africa and are issued by the [South African Institute of Chartered Accountants](#) (SAICA). The objective of creating accounting standards for particular issues (e.g. for the treatment of interest paid in financial statements), is to limit the variety of available accounting practices, but without striving for strict uniformity or creating a set of rigid rules for all circumstances. The ultimate aim of accounting standards is to encourage widespread use of particular standards in financial reporting and to eliminate undesirable alternatives.

1.6.1.2 Accounting policies

Transactions of a repetitive nature frequently occur, and the requirement of consistency means that an entity has to establish an accounting policy which determines how such transactions will be treated. Accounting policy is thus a set of decisions about how the entity will treat the same type of transactions in order to ensure consistent performance.

In the case of transactions which can be dealt with in various ways, it is necessary that the entity disclose the accounting policy it adopted in its financial statements. For example, an entity has to indicate what basis it has used to deal with the depreciation of property, plant and equipment.

1.6.2 The conceptual financial framework and financial statements

1.6.2.1 The objective of the conceptual framework

The objective of the conceptual framework is to provide information that is useful to potential and existing investors, lenders and other creditors.

1.6.2.2 Fundamental theoretical principles that all general financial statements must be based on in terms of International Accounting Standards (IAS)

(a) Underlying assumptions

In accordance with the conceptual framework for financial reporting and the framework for the preparation and presentation of financial statements issued during 1989 and 2010 by the International Accounting Standards Board (IASB), the financial statements of a business must be compiled with the assumptions that the business is a going concern and the financial statements are compiled on the accrual basis.

(i) Going concern

A business is a going concern when it will trade in the future, rather than being a once-off venture or a business which is likely to cease trading imminently and have its assets sold off. The elements of the financial statements, i.e. assets, liabilities, owners' equity, income and expenses will thus be included in the financial statements at their original cost less depreciation/impairment and not at liquidation values.

(ii) Accrual basis

The effect of transactions and events on a business's resources must be included in the periods in which those transactions and events occurred and not when the cash flow thereof took place. Income and expenses which relate to each other must be included in the same financial period, even if they occurred in different periods. This is referred to as the "matching of costs with revenue".

(b) Fundamental qualitative characteristics

The information in the financial statements must be useful to the users of the statements. To be useful the information should be **relevant** and **faithfully** presented.

(iii) Relevance

Only relevant information need to be disclosed separately in the financial statements. The relevance of the information is based on the **nature** and **materiality** of the information.

- **Materiality**

Only information which is significant enough should be separately disclosed. Minor items must be included in the financial statements but need not be separately disclosed.

- **Nature**

In certain instances, the nature of the information alone is sufficient to determine its relevance, for example, where information, irrespective of its materiality, can affect the decisions of the user.

(iv) Faithful representation

Financial information must represent transactions and other events faithfully. The following characteristics will ensure faithful representation:

- **Completeness**

All the information that a user needs in order to be able to understand the economic events and transactions, should be included in the financial statements.

- **Neutrality**

Reliable information should be neutral (without bias) in that it should not present information in a manner that will achieve a predetermined result.

- **Free from error**

Faithful representation of information does not imply that the information is absolutely accurate. It does however imply that the description of the event or transaction is free from error and that the process followed to provide the reported information was also without errors.

(c) Other qualitative characteristics**(i) Comparability**

Information in the financial statements of a business must be disclosed in accordance with the accounting standards issued by the International Financial Standards Council (IFSC) in South Africa. This will ensure that the accounting treatment and disclosure of similar events and transactions by different businesses will be the same over time and in the same period.

(ii) Verifiability

The information and disclosure in the financial statements must be such that different knowledgeable and independent observers can reach consensus that it is a faithful representation.

(iii) Timeliness

Information in financial statements must be available and on time for users to influence their decisions.

(iv) Understandability

Classifying, characterising and presenting information clearly and concisely will make the financial statements understandable.

(d) The cost versus the benefit on financial reporting

The cost of providing financial reporting must be justified by the benefits of reporting that information.

1.6.3 Financial statements

In terms of IFRS, a complete set of financial statements of an entity should comprise:

- a statement of financial position (which reflects all assets, liabilities and equity of an entity at a particular date)

- a statement of profit or loss and other comprehensive income (which reflects financial performance of the entity, indicating a net profit or loss for a specific period)
- a statement of changes in equity (which reflects the movement in:
 - (a) the capital and current accounts of the partners in a partnership; or
 - (b) the shareholding and retained profits or losses of a company for a specific period
- a statement of cash flows (which reflects the actual cash movements in and out of the entity for a specific period)
- notes to the financial statements (which reflect the accounting policy of the entity and expand on the line items in the statement of financial position and the statement of profit or loss and other comprehensive income)

1.7 Learning activities and feedback

We end this learning unit with a few revision questions. It is in your own interest to try to answer these questions by referring to the material in the learning unit.

LEARNING ACTIVITY 1

- (1) Discuss the nature of accounting.
- (2) Name the four main forms of ownership.
- (3) Name the different users of financial information.
- (4) Differentiate between financial accounting and management accounting.

FEEDBACK 1

- (1) Refer to section 1.2.
- (2) Refer to section 1.3.
- (3) Refer to section 1.3.
- (4) Refer to section 1.4.

LEARNING ACTIVITY 2

- (1) Define the concept of accounting policy.
- (2) What is meant by disclosure of accounting policy?
- (3) Describe the concept of IFRS.
- (4) Name the different statements that must be included in a set of financial statements.
- (5) Discuss the purpose of internal controls.

FEEDBACK 2

- (1) Refer to section 1.6.1.2
- (2) Refer to section 1.6.1.2
- (3) Refer to section 1.6.1.1
- (4) Refer to section 1.6.3
- (5) Refer to section 1.5

1.8 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> • Discuss the nature of accounting. • Name the different users of financial information and their needs. • Explain the difference between financial and management accounting. • Describe what internal control is. • Discuss the built-in control measures in a law practice. • Discuss the internal control systems applicable to a law practice. • Explain the acronyms IFRS, IASB, FRSC and SAICA, and demonstrate understanding of what they entail. • Describe the objectives of creating accounting standards. • Describe what the concept “Conceptual Framework” entails. • Name the financial frameworks that are regarded as acceptable in terms of the Rules of the Attorneys’ Profession. • Explain the underlying assumptions when preparing financial statements per the Conceptual Framework. • Discuss the qualitative characteristics of financial statements per the Conceptual Framework. • Discuss each of the following terms per IAS 1: <ul style="list-style-type: none"> - fair presentation, - going concern, - accrual basis of accounting, - materiality and aggregation, - fundamental qualitative characteristics, - offsetting other qualitative characteristics, and - frequency of reporting. 		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

ELEMENTS OF FINANCIAL STATEMENTS AND THE BASICS OF ACCOUNTING

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LEARNING UNIT 2: Elements of financial statements and the basics of accounting

Learning outcomes

After studying this learning unit, you should be able to:

- discuss the elements of financial statements as explained in the Conceptual Framework
- indicate which elements pertain to the statement of financial position and which to the statement of profit or loss and other comprehensive income
- explain the principle of debits and credits
- demonstrate knowledge of and apply the double entry rule
- demonstrate knowledge of and apply the rule of cross reference
- demonstrate what the effect of the different types of transactions is on the accounting equation
- explain when a ledger account is debited or credited

Key concepts

- financial position
- financial performance
- assets
- liabilities
- owners' equity
- income
- expenses
- basic accounting equation
- double entry system
- debit
- credit
- cross reference

2.1 Introduction

Before we can discuss the basics of accounting we need to know what the statement of financial position and the statements of profit or loss and other comprehensive income consist of.

In terms of the conceptual framework, the information that must be used in the preparation of financial statements is grouped into elements according to their economic characteristics, which make up the financial statements. These elements are grouped under two headings, namely, the elements that pertain to the **financial position** in the statement of financial position and the elements that pertain to the **financial performance** in the statement of profit or loss and other comprehensive income.

2.1.1 The statement of financial position

The statement of financial position provides information about the following:

- The economic resources available to the entity to generate future cash.
- The financial structure of the entity with emphasis on own and borrowed capital, which may also be used to predict future borrowing needs.

- The liquidity position of the entity. Liquidity is an entity's potential ability to pay its short term debts. In other words, it is the availability of cash and other items, which can easily be converted into cash to pay short term debt. This information may also be used to predict the availability of cash, after the settling of debts for the same period.
- The solvency of the entity's position. Solvency refers to the extent to which an entity's assets exceed its liabilities. It may also be used to predict the availability of cash over longer periods to meet debts as they fall due.
- The elements that are directly related to the financial position are assets, liabilities and equity.

2.1.1.1 Assets

Assets are defined as all those resources in an entity that is controlled by the entity and represent cash or a potential inflow of cash (economic benefits), provided that they are **not** consumed/(used up) by the entity within one year.

This definition identifies all cash accounts as assets. In other words, your bank account, savings account, petty cash account and cash float account will be classified under assets.

The definition also states that there are items which represent a potential inflow of cash and that these items are also considered to be assets of the entity. Take the concept of trade receivables (also called debtors or client accounts) for example. Debtors are individuals/firms which owe money to the entity. This means that we expect the money they owe the entity to flow into the entity in future (a potential inflow of cash) when the debtors pay their accounts.

All items that an entity has control over or can be resold, will be regarded as assets. These include inventory, vehicles, property, equipment, furniture, etc. Please remember that stationery and other consumables are not regarded as assets. Although these items can be sold for cash, they are consumed within one year and are therefore seen as expenses.

2.1.1.2 Liabilities

Liabilities are debts. If you have a liability in financial terms, it means that you owe money to someone or to some entity. Whereas assets represent a potential **inflow** of cash, liabilities represent a potential **outflow** of cash from the entity.

Examples of liabilities are mortgages, loans from owners, loans from banks and other external parties, accounts payable (creditors) and bank overdrafts.

2.1.1.3 Owners' equity

Equity is the remaining interest in the assets of the entity after deducting all its liabilities. Equity represents the interest of the owners in the net assets of an entity, which means the part of the assets against which there is no claim from other parties.

There are two methods by which the owner's equity in an entity can be calculated. The first method is to make use of the **basic accounting equation**. If you have the total value of the assets of the entity, as well as the total value of the liabilities of the entity, then you can calculate the owner's equity by subtracting the liabilities from the assets. The figure you arrive at should indicate how much money the owner(s) may withdraw from the entity if the business activities were to be terminated on that day.

Equity differs from liabilities in that liabilities are obligations which must be settled out of the assets of the entity, whilst equity is not an obligation which has to be settled. Equity is not a claim against assets; it is what is left over after all liabilities are deducted from assets. This can be expressed in terms of the basic accounting equation given below:

$$\begin{array}{rclcl} \text{Equity} & = & \text{Assets} & - & \text{Liabilities; or} \\ \text{Assets} & = & \text{Equity} & + & \text{Liabilities} \end{array}$$

Refer to 2.3 for a discussion of the accounting equation and illustrated examples.

The second method that can be applied to calculate the value of the owner's equity in the entity is to do the following calculation:

- In the case of a sole proprietor or a partnership:
Capital contributions by the owner/partners, **plus** profits (past and current) of the entity, **minus** drawings by the owner/partners.
- In the case of a company:
Issued share capital, **plus** accumulated reserves, **plus** retained earnings (accumulated profits **minus** accumulated losses).

2.1.2 The statement of profit or loss and other comprehensive income

Profit is used as a measure of performance or as the basis for other measures such as return on investments or earnings per share. The elements that are directly related to the financial performance are income and expenses. Profit is calculated by subtracting the expenses from the income of an entity.

2.1.2.1 Income

Income is an increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity other than those relating to the contributions from the owners of the entity. If we can use the sale of goods as an example, the inflow of assets will be the money banked in the bank account and the increase in profit will increase equity. Income consists of revenue and gains. Revenue arises in the ordinary activities of an entity, such as sales, fees, interest, dividends and rental income. Gains may or may not arise from ordinary business activities of the entity. An example of a gain which arises from the ordinary activities, is profit on the sale of depreciable non-current assets such as machinery. An example of a gain which does not arise from the ordinary business activities is profit on the sale of office buildings and profit on the sale of non-current assets.

2.1.2.2 Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities that result in decreases in equity, other than those relating to a distribution to the owners of the entity. Expenses consist of losses as well as those expenses that arise in the course of the ordinary activities of the entity. Examples of expenses are advertisements, purchases of trading stock, salaries and wages, stationery, depreciation and losses on the sale of non-current assets.

2.2 The double entry system

All transactions entered into by an entity must be accounted for in a ledger. The process of recording a transaction/s in a ledger will be discussed in learning unit 6. In short, a ledger is a book containing a set of individual accounts in which transactions of the same kind are grouped together. In this learning unit, we will be discussing the ledger which contains all the assets, liabilities, owners' equity, income and expense accounts.

All accounts are drawn in a T-form with the **left** side called the **debit** side and the **right** side called the **credit** side. An example follows:

Dr	Account name	Cr

2.2.1 The double entry rules

The rules of [double-entry](#) were introduced in 1494 by [Luca Pacioli](#).

The golden rule

The double-entry principle stipulates that for every debit (left) entry there should be a corresponding credit (right) entry for the same amount. This means that you should record each transaction in at least TWO accounts.

In order to be consistent, all entities must apply the following rules:

- All asset and expense accounts must be increased on the left (debit) side of the account and decreased on the right (credit) side of the account.
- All liability and income accounts must be increased on the right (credit) side of the account and decreased on the left (debit) side of the account.

The rules will be applied as follows:

ASSETS & EXPENSES	
Dr	Cr
+ (increase)	- (decrease)

LIABILITIES & INCOME	
Dr	Cr
+ (decrease)	- (increase)

Please note that it will not be beneficial for you to try and **understand** these rules, you **must study** them.

The rules are illustrated in the following examples

EXAMPLE 2.1

Assume a business buys equipment for R2 000 per cheque. How would the bookkeeper record this transaction?

FEEDBACK 2.1

The bookkeeper must show that R2 000 in cash has left the business. The cheque account is involved. Since cash is an asset, the principles pertaining to assets will be used. The cash balances have decreased, and assets decrease on the **credit** side. Thus, the bank account will be **credited**. In return for the cash payment, the business has received equipment. Equipment is an asset as well. The same rule applies here. Since the equipment has come into the business, we will say assets have also increased. Assets increase on the debit side of the account. Thus, the equipment account must be **debited**. The rules of double-entry state that all debits should equal all credits. In this case, we have debited the equipment account and credited the bank account. The double-entry rule has been applied successfully.

Dr	BANK ACCOUNT	Cr
		- R2 000

Dr	EQUIPMENT	Cr
+ R2 000		

EXAMPLE 2.2

Assume a business receives a loan of R10 000 from the bank. How would the bookkeeper record this transaction?

FEEDBACK 2.2

The bookkeeper must show that R10 000 in cash has flowed into the business. The cheque account is involved. Since cash is an asset, the principles pertaining to assets will be used. The cash balances have increased, and assets increase on the **debit** side. Thus, the bank account will be **debited**. But at the same time, the business has incurred a debt (a liability). The bank loan is a liability, and we know that the rule that applies to liabilities states that liabilities increase on the **credit side**. Since our loan debts have increased, we will credit the bank loan account. The rules of double-entry state that all debits should equal all credits. In this case, we have debited the bank account and credited the loan account. The double-entry rule has been applied successfully.

Dr	BANK ACCOUNT	Cr
+ R10 000		

Dr	BANK LOAN	Cr
		+ R10 000

EXAMPLE 2.3

Assume a business pays the telephone account of R550. How would the bookkeeper record this transaction?

FEEDBACK 2.3

In this case, we find that the business has spent money on something that cannot be turned into cash again (unlike the equipment in example 1.1). The bookkeeper must show that the cash has decreased (credit bank) and that an expense was incurred (telephone expense). Since our expenses have increased, we should debit the telephone account. Remember: expenses increase on the **debit** side. Once again we have debited an account and credited another. The double-entry will be made as follows:

Dr	BANK ACCOUNT	Cr
		- R550

Dr	TELEPHONE EXPENSES	Cr
+ R550		

EXAMPLE 2.4

Assume a business receives R3 500 cash for services rendered. How would the bookkeeper record this transaction?

FEEDBACK 2.4

In this case, we find that the business has received money. The balance of the bank account will therefore increase and must be debited. What did we receive the money for? Services. This means that we will credit the **services rendered account**. This is an income account, and all income accounts increase on the credit side. Once again we have debited an account and credited another. The double-entry will be made as follows:

Dr	BANK ACCOUNT	Cr
+ R3 500		

Dr	SERVICES RENDERED	Cr
		+ R3 500

LEARNING ACTIVITY 2.1

Paddy's Servicing opened its doors on 1 January 2017. The following transactions took place during the first month of business.

Date Transactions

1	The owner makes a capital contribution of R20 000 in the form of a cheque.
4	Received R1 000 in cash for services rendered.
9	Purchased equipment per cheque, R2 400.
11	Paid wages per cash cheque, R500.
17	Received R1 500 cash for services rendered.
23	Purchased stationery per cheque, R200.
27	Received R800 cash for services rendered.
31	Paid the water and electricity account, R2 500.

REQUIRED:

Enter the following transactions in the general ledger of Paddy's Servicing.

FEEDBACK: LEARNING ACTIVITY 2.1

Dr	BANK ACCOUNT		Cr
	R		R
Jan 1	+ 20 000	Jan 9	- 2 400
4	+ 1 000		- 500
17	+1 500		- 200
27	+ 800		- 2 500

Dr	CAPITAL		Cr
	R		R
		Jan 1	+ 20 000

Dr	SERVICES RENDERED		Cr
	R		R
		Jan 4	+ 1 000
		15	+ 1 500
		27	+ 800

Dr	EQUIPMENT		Cr
	R		R
Jan 9	+ 2 400		

Dr	WAGES		Cr
	R		R
Jan 11	+ 500		

Dr	STATIONERY		Cr
	R		R
Jan 23	+ 200		

Dr	WATER AND ELECTRICITY		Cr
	R		R
Jan 31	+ 2 500		

LEARNING ACTIVITY 2.2

Lee-Roy Services opened its doors on 1 February 2017. The following transactions took place during the first month of business.

Date	Transactions
2	The owner makes a capital contribution of R50 000 in the form of a cheque.
7	Received R4 000 in cash for services rendered.
9	Obtain a loan from ABC Bank and receive R4 100.
14	Paid the telephone account per cash cheque, R850.
18	Received R5 000 cash for services rendered.
24	Purchased stationery per cheque, R600.
28	Received R900 cash for services rendered.
28	Withdrawal of R1 250 by the owner for his own use.

REQUIRED:

Enter for following transactions in the general ledger of Lee-Roy Services.

FEEDBACK: LEARNING ACTIVITY 2.2

Dr	BANK ACCOUNT		Cr
	R		R
Feb 2	+ 50 000	Feb14	- 850
7	+ 4 000	24	- 600
9	+ 4 100	28	- 1 250
18	+5 000		
28	+ 900		

Dr	CAPITAL		Cr
	R		R
		Feb 2	+ 50 000

Dr	SERVICES RENDERED		Cr
	R		R
		Feb 7	+ 4 000
		18	+ 5 000
		28	+ 900

Dr	LOAN ABC BANK		Cr
	R		R
		Feb 9	+ 4 100

Dr	TELEPHONE		Cr
	R		R
Feb 14	+ 850		

Dr	STATIONERY		Cr
	R		R
Feb 24	+ 600		

Dr	DRAWINGS		Cr
	R		R
Feb 28	+ 1 250		

2.2.2 The rule of cross-referencing

Consider the bank account in the proposed solution given in exercise 1.2 once again:

Dr	BANK ACCOUNT		Cr
	R		R
Feb 2	50 000	Feb14	850
7	4 000	24	600
9	4 100	28	1 250
18	5 000		
28	900		

Now, assume that an authorised person walks into the business and requests to have a look at this bank account. This person will be able to see, for instance, that the business received R50 000 in cash on 2 February. He would also be able to see a cash payment for R600 on 24 February, etc. But, would he know *what* the money was for, or *where* it came from, just by looking at the account above? No, he would need some additional references to make this clear. This is where the rule of cross-referencing must be applied. The rule is quite simple: in every account, a **reference** must be given to the contra-account(s) involved in the applicable transaction.

A more complete version of the solution to exercise 1.2, including the new rule of cross-referencing, is listed below:

Dr		BANK ACCOUNT		Cr	
		R		R	
Feb 2	Capital	50 000	14	Telephone	850
7	Services rendered	4 000	24	Stationery	600
9	Loan ABC Bank	4 100	28	Water and electricity	1 250
18	Services rendered	5 000			
28	Services rendered	900			

Dr		CAPITAL		Cr	
		R		R	
			Feb 2	Bank	50 000

Dr		SERVICES RENDERED		Cr	
		R		R	
			Feb 7	Bank	4 000
			18	Bank	5 000
			28	Bank	900

Dr		LOAN ABC BANK		Cr	
		R		R	
			Feb 9	Bank	4 100

Dr		TELEPHONE		Cr	
		R		R	
Feb 14	Bank	850			

Dr		STATIONERY		Cr	
		R		R	
Feb 24	Bank	600			

Dr		DRAWINGS		Cr	
		R		R	
Feb 28	Bank	1 250			

LEARNING ACTIVITY 2.3

Laduma Products opened its doors on 1 May 2017. The following transactions took place during the first month of business:

Date	Transactions
2	The owner, Mr Laduma made a capital contribution to the business, being R5 000 cash and equipment with a fair market value of R2 000.
5	Purchased trading inventory (commonly known as stock) per cheque, R1 500.
9	Sold inventory for cash, R2 500.
12	Purchase trading inventory on credit, R600.
19	Paid monthly insurance in advance, R1 000.
23	Sold inventory on credit, R7 000.
27	Purchased equipment per cheque, R3 000.
29	Paid wages per cash cheque, R800.
31	Paid the water and electricity account, R1 100.

REQUIRED:

Do the necessary entries in the general ledger accounts of Laduma Products, along with the cross-references.

FEEDBACK: LEARNING ACTIVITY 2.3

Dr		BANK ACCOUNT		Cr	
		R			R
Apr 2	Capital	5 000	Apr 5	Purchases	1 500
9	Sales/(Revenue)	2 500	19	Pre-paid insurance	1 000
			27	Equipment	3 000
			29	Wages	800
			31	Water and electricity	1 100

Dr	CAPITAL			Cr
	R			R
		Apr 2	Bank	5 000
		2	Equipment	2 000

Dr		EQUIPMENT			Cr
		R			R
Apr 2	Bank	2 000			
27	Bank	3 000			

Dr	PREPAID INSURANCE			Cr
		R		R
Apr 19	Bank	1 000		

Dr	TRADE RECEIVABLES/(DEBTORS)			Cr
		R		R
Apr 19	Sales	7 000		

Dr	TRADE PAYABLES/(CREDITORS)			Cr
		R		R
			Apr 12	Purchases 600

Dr	SALES/(REVENUE)			Cr
		R		R
			Apr 9	Bank 2 500
			23	Trade receivables 7 000

Dr	PURCHASES			Cr
		R		R
Apr 5	Bank	1 500		
12	Trade payables	600		

Dr	WAGES			Cr
		R		R
29	Bank	800		

Dr	WATER AND ELECTRICITY			Cr
		R		R
Apr 31	Bank	1 100		

LEARNING ACTIVITY 2.4

Lerato Services opened its doors on 1 April 2017. The following transactions took place during the first month of business:

Date	Transactions
3	The owner, Mrs Lerato made a capital contribution to the business, being R50 000 cash and stationery with a fair market value of R1 000.
6	Paid the wages per cash cheque, R700.
10	Received cash for services rendered, R12 500.
13	Purchase consumables per cheque, R1 200.
20	Paid the monthly insurance in advance, R2 000.

Date	Transactions
24	Received R17 000 cash for services rendered.
28	Purchased equipment per cheque, R4 800.
30	Paid wages per cash cheque, R900.
31	Paid the telephone account, R1 540.

REQUIRED:

- A. Do the necessary entries in the ledger accounts, along with the cross-references.
- B. Show the effect of each transaction under the accounting equation.

FEEDBACK: LEARNING ACTIVITY 2.4

Dr		BANK ACCOUNT		Cr	
		R		R	
Apr 2	Capital	50 000	Apr 6	Wages	700
10	Services rendered	12 500	13	Consumables	1 200
24	Services rendered	17 000	20	Insurance	2 000
			28	Equipment	4 800
			30	Wages	900
			31	Telephone	1 540

Dr		CAPITAL		Cr	
		R		R	
			Apr 3	Bank	50 000
				Stationery	1 000

Dr		EQUIPMENT		Cr	
		R		R	
Apr 28	Bank	4 800			

Dr		SERVICES RENDERED		Cr	
		R		R	
			Apr 10	Bank	12 500
			24	Bank	17 000

Dr		STATIONERY		Cr	
		R		R	
Apr 3	Bank	1 000			

Dr		WAGES		Cr
		R		R
Apr 6	Bank	700		
30	Bank	900		

Dr		CONSUMABLES		Cr
		R		R
Apr 13	Bank	1 200		

Dr		INSURANCE		Cr
		R		R
Apr 20	Bank	2 000		

Dr		TELEPHONE		Cr
		R		R
Apr 31	Bank	1 540		

2.3 The basic accounting equation

The financial position of an entity is indicated by this equation. By using the equation any unknown elements of the statement of financial position can be calculated. In the accounting records, all the figures must “balance”. This is what makes the recording process so effective. All transactions must balance in the form of an equation. This equation is termed the **basic accounting equation**.

The equation is as follows:

<p>OWNERS EQUITY = ASSETS – LIABILITIES;</p> <p>OR</p> <p>ASSETS = OWNERS EQUITY + LIABILITIES</p>

LEARNING ACTIVITY 2.5

Using the information in exercise 2.3 to indicate the effect of the transactions under the accounting equation:

FEEDBACK: LEARNING ACTIVITY 2.5

DAY	ASSETS R	=	OWNERS EQUITY R	+	LIABILITIES R
2	+2 000 +5 000		+2 000 +5 000		0
5	-1 000		-1 000		0
9	+2 500		+2 500		0
12	-600		-600		0
19	-1 000		-1 000		0
23	+7 000		+7 000		0
27	-3 000 +3 000		0		0
29	-800		-800		0
31	-1 100		-1 100		0

LEARNING ACTIVITY 2.6

Using the information in exercise 2.4, indicate the effect of the transactions under the accounting equation:

FEEDBACK: LEARNING ACTIVITY 2.6

DAY	ASSETS R	=	OWNERS EQUITY R	+	LIABILITIES R
3	+50 000		+51 000 -1 000		0 0
6	-700		-700		0
10	+12 500		+12 500		0
13	-1 200		-1 200		0
20	-2 000		-2 000		0
24	+17 000		+17 000		0
28	+4 800 -4 800		0		0
30	-900		-900		0
31	-1 540		-1 540		0

A SUMMARY TO REMEMBER:

OWNERS' EQUITY		=	ASSETS	+	LIABILITIES
Expenses	Income		Non-current assets		Non-current liabilities
Drawings	Capital		Land and buildings		Mortgage bond
			Vehicles		Long-term loan
Wages	Services rendered		Equipment		
Salaries	Commission received				
Insurance	Interest received				
Interest paid	Sales				
Stationery	Fees		Current assets		Current liabilities
Consumables			Debtors/Clients		Business creditors
Water and lights			Cash on hand		Bank overdraft
Advertising			Bank		Short-term loan
Repairs					
Fuel					
Telephone					
Audit fees					

2.4 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> Discuss the elements of financial statements as explained in the Conceptual Framework. Indicate which elements pertain to the statement of financial position and which to the statement of profit or loss and other comprehensive income. Explain the principle of debits and credits. Demonstrate knowledge of and apply the double entry rule. Demonstrate knowledge of and apply the rule of cross referencing. Demonstrate what the effect of the different types of transactions is on the accounting equation. Explain when a ledger account is debited or credited. 		

If you answered "yes" to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was "no" to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

LEARNING UNIT

3

VALUE ADDED TAX (VAT)

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LEARNING UNIT 3: Value added tax (VAT)

Learning outcomes

After studying this learning unit, you should be able to:

- demonstrate an understanding of the principles and application of VAT
- list and explain relevant VAT terminology
- calculate the amount of VAT applicable
- record all VAT transactions

Key concepts

- Value Added Tax (VAT)
- Vat vendor
- Enterprise
- Output VAT
- Input VAT
- Standard rated supply
- Zero-rated supply
- Exempt supply

3.1 Introduction

This learning unit aims to provide a brief and basic outline of some of the more founding principles of VAT as well as the calculation of the VAT owed by the vendor to the South African Revenue Service (SARS) or the VAT owed by SARS to the vendor and the accounting treatment thereof.

3.2 What is VAT?

VAT is a tax added to the cost of a product or service and is levied for purposes of generating revenue for government. VAT is often referred to as a tax on consumption of goods or services, and is levied at 14% on the supply by a vendor of goods or services in the course or furtherance of any enterprise carried on by a vendor.

3.3 What is a VAT vendor and who must register as a VAT vendor?

Please note: A “person” in this learning unit refers to sole proprietors, partnerships, close corporations, public companies, state-owned companies, personal liability companies and private companies.

A VAT vendor is defined in the Value Added Tax Act (referred to as the Act) as any person who is or is required to be registered under the Act.

The Act requires any person to register as a vendor for VAT purposes in South Africa if the person carries on an “enterprise” in South Africa, and the total value of taxable supplies made by that person exceeds or is likely to exceed the registration threshold of R1 million for a twelve month period. Such persons are liable for compulsory registration as a vendor.

Persons who do not meet the R1 million registration threshold which comply with certain requirements relating to ownership, can register for turnover tax. The rate of turnover tax applies on a sliding scale from 0% to 7% based on actual turnover (receipts).

3.4 Enterprise

Before a person can register as a VAT vendor, the person has to carry on an '**enterprise**' as defined in the Act. An enterprise is defined as any activity carried on continuously or regularly in the Republic or partly in the Republic, in the course or furtherance of which goods and services are supplied to any other person for a consideration, whether or not for profit. The definition contains certain specific inclusions and exclusions, the most notable exclusions being services rendered by an employee to an employer; the private or recreational pursuit of hobbies and VAT exempt activities (discussed below).

3.5 Output VAT and Input VAT

Output VAT in relation to a vendor, is defined as the tax charged in respect of the supply of goods and services **by** the vendor. The tax charged is collected from the recipient of such goods and services by the vendor and is required to be paid over to SARS, even though the customer may not yet have paid for the goods or services.

Input VAT is defined as the VAT incurred on the supply of goods or service **to** the vendor. Also included in the definition of input VAT is the deemed input VAT deduction on the acquisition of second-hand goods. Input VAT is only deductible to the extent that it is uncured for the purpose of consumption, use or supply, in the course of making taxable supplies (e.g. Fees). An input VAT deduction may be claimed for a period of 5 years from the date of receipt of the tax invoice.

Nett: VAT payable or refundable The difference between the amount of output VAT attributable to a tax period, and the deductible input VAT not previously claimed by a vendor, represents the VAT payable to or refundable by SARS. To the extent that the output VAT exceeds the allowable input VAT deductions, a VAT payment will be due to SARS. Where a vendor's permissible input VAT deductions exceed the amount of output VAT for a tax period, a VAT refund may be claimed from SARS. A vendor is required to retain a valid tax invoice as proof of any input tax deductions which are made. These tax invoices as well as other records of transactions must be retained for a period of at least 5 years.

3.6 Different categories of supplies

For VAT purposes all supplies are treated as either being a **standard rated** supply, a **zero-rated** supply or an **exempt** supply. Supplies (goods or services) that are standard rated or zero-rated are considered to be 'taxable supplies' as defined.

Standard rated supplies are supplies that are subject to VAT at the prescribed rate of 14%. The supply of goods and services are generally subject to VAT at the standard rate, unless such supply is specifically zero-rated or exempt in terms of the Act. Vendors making standard rated supplies are required to levy output VAT at the prescribed rate of 14% on the value of the supply which must then be paid over to SARS. Such vendor may claim its input VAT deductions on goods or services acquired in the course of making such taxable supplies.

A zero-rated supply is a taxable supply on which VAT is levied at the rate of 0%. Therefore no output tax will be payable to SARS in respect of zero-rated supplies. Section 11 of the VAT Act sets out specific instances of supplies of goods and services that may be zero-rated. Vendors making zero-rated supplies are entitled to claim their input VAT deductions on goods or services acquired in the course of making such zero-rated supplies.

An exempt supply is **not** a taxable supply. An exempt supply is the supply of goods or services upon which neither VAT at the standard rate or zero-rate is chargeable. Supplies which constitute exempt supplies are specifically provided for in section 12 of the VAT Act. Vendors may not claim an input tax deduction in respect of goods or services acquired in the course or furtherance of making exempt supplies. A person that makes only exempt supplies cannot register as a vendor as such person will not be seen to be carrying on an 'enterprise' as defined.

No VAT can be claimed or charged on zero-rated supplies.

The main differences between zero-rated and exempt supplies are:

- Suppliers of zero-rated goods/services may be registered for VAT, but vendors of exempt supplies may not.
- The supplier of a zero-rated item may claim input VAT on the inputs made to render the particular zero-rated supply. No input VAT may, however, be claimed on the inputs to exempt supplies.

The following supplies are **zero-rated** supplies in a legal practice:

- Services to welfare organisations
- The sale of an enterprise (or part thereof) as a going concern
- Fuel

The following supplies are **exempt** from VAT:

- Sheriff (messenger of the court-) tariffs
- Interest received on clients' overdue balances
- Interest paid
- Residential accommodation
- Educational services

No Input VAT may be claimed on the following items:

- Entertainment expenses
- Membership fees in respect of membership of any club of a sport participating, social or recreational nature
- Goods and services not utilised for taxable supplies
- Salaries and wages
- Goods and services purchased from a non-vendor (i.e. a person or entity who is not registered for VAT with the exception of a notional input VAT such as second-hand goods
- Passenger vehicles

Expenses paid out of the trust money of clients, and expenses paid on behalf of clients by a legal practice, are **not** services rendered to the legal practice but to the client. The practise can therefore not claim input VAT on the payments. The individual clients can claim the input VAT.

Examples of such payments are:

- Advocate fees
- Rates and taxes on conveyancing transactions
- Occupational rent, etc.

3.7 Responsibilities as a VAT vendor

Persons registering as vendors should bear in mind the duties associated with being a vendor. These include, *inter alia*, the collection or levying of VAT on taxable transactions, the issuing of tax invoices, record retention for a period of 5 years and the submission of VAT returns and payments of the VAT liability. VAT is due and payable on the 25th day of the month following a one, two or six month period assigned to the vendor by SARS.

3.8 The accounting treatment of VAT

Every registered VAT vendor that renders a service or sells products to other entities, is obliged to charge VAT on these supplies, except in cases where the supply is deemed to be zero-rated or exempt of VAT.

The process will be explained by means of the following example:

EXAMPLE 3.1

You charge Mrs Nkosi fees to the amount of R10 000 (**excluding** VAT) for her divorce and a R250 collection fee (excluding VAT) for collecting R2 500 from her husband.

Assume further, that you have paid R1 710 (including VAT) for office supplies during the same period. Assume that all these supplies were accompanied by valid tax invoices.

The standard VAT is 14%.

REQUIRED:

Calculate the VAT payable to SARS.

FEEDBACK 3.1

Output VAT:

Services rendered: R10 250
(R10 000 + R250)
VAT (R10 250 x 14%) = R1 435

Input VAT:

Office supplies: R1 710 (VAT incl)
VAT (R1 710 x $\frac{14}{114}$) = R210

VAT payable to SARS (R1 435 – R210) = R1 225

EXAMPLE 3.2

Complete the following table, and assume that the invoice basis for administering VAT applies and that all supplies are done via a valid tax invoice, where applicable.

EXPENSES / PAYMENTS	INCOME / RECEIPTS	Can input VAT be claimed back?	COMMENTS	Should output VAT be charged and paid over?	COMMENTS
Example: Vehicle purchased for business use		YES	As long as the vehicle is not a passenger vehicle		
	Example: Cash received for services rendered			YES	Standard supply @ 14%
Stationery purchased on credit		YES	Standard supply		
Drawings of cash by one of the partners					
Drawings of stationery by one of the partners					
	Services rendered on credit				
Purchase fuel for the delivery vehicle					

FEEDBACK 3.2

Drawings of cash by one of the partners				NO	Cash withdrawn has already been taxed
Drawings of stationery by one of the partners				YES	Input VAT was claimed on the stationery
	Services rendered on credit			YES	Standard supply on invoice basis
Purchase fuel for the delivery vehicle		NO	Zero – rated supply		

3.9 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> • Demonstrate an understanding of the principles and application of VAT. • List and explain relevant VAT terminology. • Calculate the amount of VAT applicable. • Record all VAT transactions. 		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

RECORDING OF SOURCE DOCUMENTS IN THE BOOKS OF FIRST ENTRY

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LEARNING UNIT 4: Recording of source documents in the books of first entry

Learning outcomes

After studying this learning unit, you should be able to:

- demonstrate an understanding of the accounting process
- distinguish between books of first entry and ledgers
- distinguish between cash and non-cash transactions
- identify trust and business transactions
- demonstrate an understanding of the differences between trust and business money
- determine which journal should be used for each transaction
- explain the principle of trust and business cash journals
- distinguish between the cash receipts journal and cash payments journal
- distinguish between the trust and business cash journals (bank accounts)
- explain the principle of a petty cash book
- record petty cash transactions and balance the petty cash book
- list the various journals and describe their separate functions
 - fees journal
 - advocates journal
 - sheriffs journal
 - general journal
- explain when a journal is used
- prepare the different journal entries
- demonstrate an understanding of the entries that are made when receiving and paying accounts on behalf of clients in respect of:
 - counsel fees
 - tracing agent fees
 - witness fees
 - advocate fees, and
 - sheriff fees

Key concepts

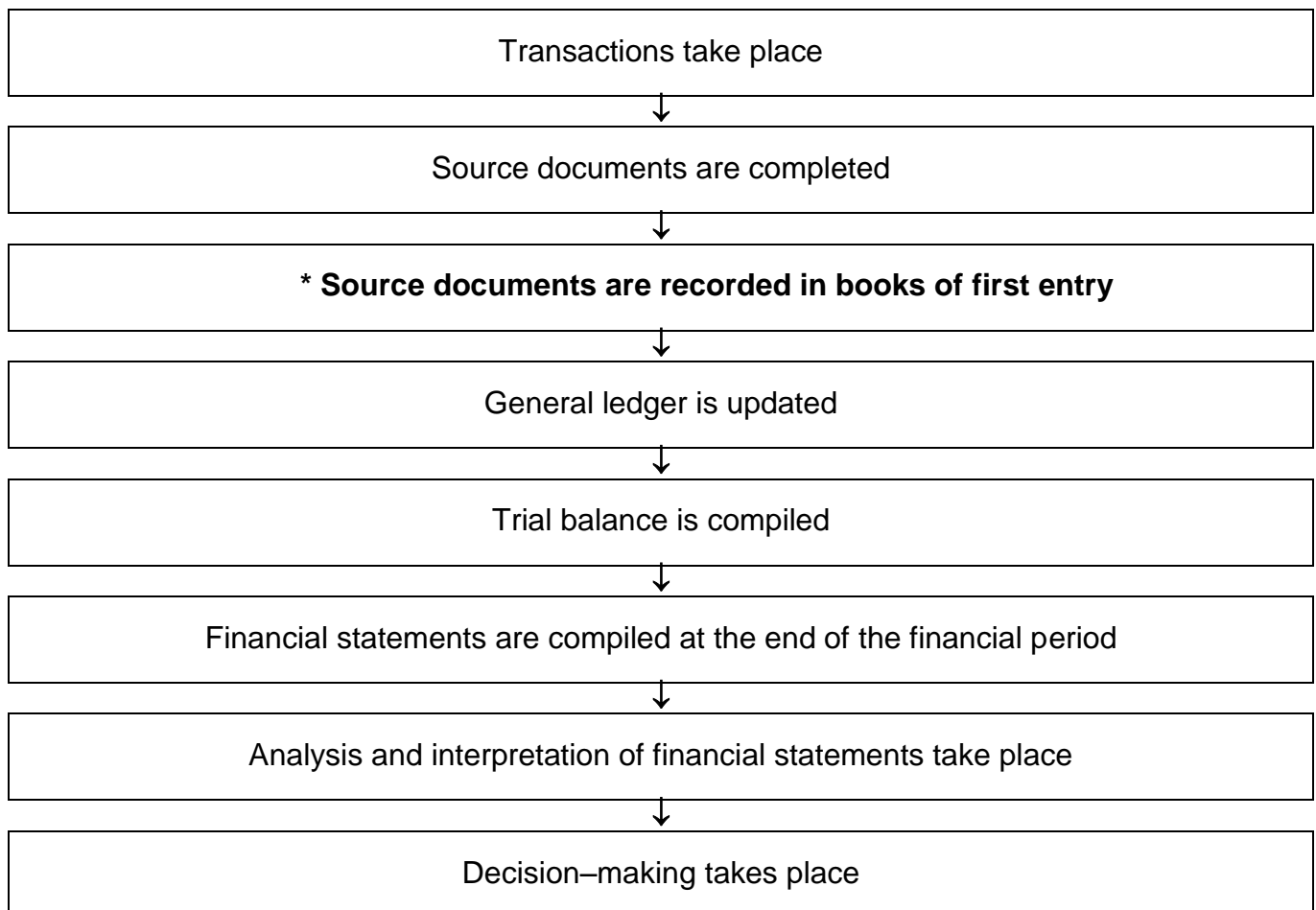
- Books of first entry
- Cash journals
- Petty cash book/journal
- Fees journal
- Advocates journal
- Sheriffs journal
- General journal
- Ledgers
- Trust transactions
- Business transactions
- Payments on behalf of clients
- Trust money

4.1 Introduction

The accountant which is employed by a law practice should be aware that there are different stages in the process of record keeping. There needs to be a set of detailed records in which all the necessary information pertaining to every processed **transaction** should be recorded. These detailed records are known as the subsidiary journals. There is also a need for a set of accounts with **summarised** balances which is known as ledgers. At the end of a financial period, statements of performance and position need to be compiled. The statements that are known as financial statements are the most summarised records of the firm.

An accountant should at all times be aware at which stage of this cycle the recording process is.

The accounting cycle is summarised as follows:



This learning unit focusses on the books of first entry, as indicated in bold print above.

4.2 Purpose of books of first entry

Although all transactions can be reflected by means of a double-entry in a T-format, it would be beneficial for any attorney's firm to first analyse each transaction in a journal or book of first entry.

For every transaction, a source document needs to be completed. When the firm receives cash, a receipt is issued and when services are rendered on credit (customer pays later), an invoice or debit note is issued, etc.

The purpose of the journals is to make a detailed, chronological analysis of transactions as depicted by the source documents. Different journals are used for different types of transactions, for example:

- The business cash receipts journal and the business cash payments journal are used to record flows of cash into and out of the business bank account.
- The petty cash journal is used to record flows of cash into and out of the business petty cash.
- The trust cash receipts journal and trust cash payments journal are used to record flows of cash into and out of the trust bank account.
- The fees journal is used to record cash and credit services rendered to clients.
- The general journal is used to record those transactions that cannot be recorded in any of the aforementioned journals.

4.3 Transactions encountered in an attorney's practice

The main difference between the accounting records of an attorney's practice and those of other professional enterprises is the way in which trust money is handled and recorded. Each transaction must be identified as either a business transaction or a trust transaction. The following transactions may be encountered in an attorney's practice:

4.3.1 Cash received from clients which must be held in trust, or which must be dealt with according to the client's expressed instructions.

An example of these transactions is as follows:

A client offers to purchase a piece of land subject to the granting of a loan from a financial institution of at least 80% of the purchase price. The client entrusts all his/her affairs to the attorney and hands the attorney a cheque to cover the deposit and other possible expenses. The cheque for the deposit and other possible expenses must be banked in the **trust** bank account.

The attorney is now responsible for the safekeeping of such money until the transaction is concluded or the offer lapses. Furthermore, the attorney has to act in accordance with the client's instructions.

One of the following transactions may then take place:

- The deposit has to be refunded to the client as the offer lapsed;
- The deposit and related expenses must be transferred to another attorney for the registration of transfer and the registration of a mortgage; or
- The registration of transfer, as well as the registration of the approved mortgage, must take place. The related expenses are charged and transferred from the trust bank account to the business bank account and the necessary payments made to the seller. Surplus funds are paid to the client.

4.3.2 Cash received from clients as payment of attorney's fees and for expenses incurred on their behalf

Fees are charged to the client for services rendered and in some instances expenses are incurred on behalf of a client. These are paid from the attorney's **business** bank account. The expenses must subsequently be recovered from the client. The client's account is then debited with these amounts (fees and expenses) and a monthly statement is issued to the client for settlement of the account.

Refer to 4.4.3(b) for a more detailed discussion.

4.3.3 Payment of general office expenses, and personal withdrawals

Every attorney's practice has expenses which have to be paid. Examples are expenses in respect of office rental, stationery, etc. These expenses are paid from the business bank account and must under no circumstances be paid from the trust bank account. If an attorney draws a cheque for personal use, it must be drawn from the business bank account and **never** from the trust bank account.

4.3.4 Levying of fees for services rendered

An attorney's income is derived from fees levied for services rendered. It is therefore essential to have an effective system for levying such fees, so as to ensure that all services rendered are invoiced.

4.3.5 Transfer of money from the trust bank account to the business bank account

Usually, money which is received from clients is deposited in the trust bank account. When fees are levied, a transfer has to be made from the particular client's trust creditor account to his/her client/debtor account, on the explicit understanding that no transfer may be affected for an amount in excess of the **credit** balance on the relevant trust creditor's account. This means that a trust account may **never** have a debit balance.

4.3.6 Transactions with correspondents

Attorneys often appoint other attorneys to do certain work on their behalf and this can result in both business and trust transactions. These transactions are referred to as transactions with correspondents. The attorney's practice issuing instructions is called the instructing attorney whereas the attorney's practice receiving orders is referred to as the instructed attorney. Accounting for correspondents is discussed in Learning Unit 9.

4.4 Books of first entry – introduction

4.4.1 Cash records

In terms of section 78(1) of the Attorneys Act 53 of 1979, section 86(2) of the Legal Practice Act 28 of 2014 and rule 35.7 of the Rules of the Attorneys' Profession, every practising attorney must open and keep two separate bank accounts with a banking institution in the Republic, namely

- a business bank account; and

- a trust bank account. The business bank account is used for receipts and payments relating to ordinary business transactions. In some instances, payments can be made from the business bank account on behalf of clients. These payments are not recommended and must be limited. An attorney should not make payments on behalf of a client from the business bank account, based on a promise from the client that the amount will be returned.

The trust bank account is used for receipts of trust money entrusted by clients to the attorney and payment of trust money to third parties as mandated by the client. The bank statement must contain a reference to the fact that it is an account opened and maintained in terms of section 78(1) or section 86(2) of the above mentioned acts.

The trust bank account and trust creditors will be discussed in section 4.6.

One of the following methods may be used to keep cash records:

- Business and trust money is recorded separately by keeping:
 - a cash receipts and cash payments journal for **business transactions**; and
 - a cash receipts and cash payments journal for **trust transactions**.
- A combined cash book with a bank column for business transactions and another bank column for trust transactions.
- Two separate cash books are kept – one for business money and one for trust money.

The first method is applied in this guide.

4.4.2 Cash receipts

Please note: “Cash” receipts include both physical cash, cheques and electronic fund transfers (EFT) received.

The following steps must be taken to record cash receipts.

Step 1 - Initial procedures

For internal control purposes, two employees have to open the mail and record it in a postal register. After sorting the mail according to the attorney’s preference, it must be handed over to the secretary of the attorney who has to acknowledge receipt thereof in the postal register. The secretary must then file all relevant correspondence in the specific clients’ files. After taking into account the instructions of the attorney, the cash received must be handed over to the cashier who has to acknowledge receipt thereof. The receipt numbers and amounts must be recorded in the postal register opposite the clients’ names.

Step 2 - Initial procedures for the receipt of electronic fund transfers (EFT)

The staff member responsible for the bank reconciliation must draw bank statements on a daily or weekly basis to see if there were any EFT deposits in the bank account. A copy of the bank statement must be filed in the client’s file and handed over to the attorney for his instructions

Step 3 - Identifying cash receipts

All cash and EFT receipts must be clearly identified by the attorney, and he/she must indicate, according to the clients' files, whether it is **business** or **trust** money.

Upon receipt of the cash, a receipt, pre-numbered and in triplicate, must be issued. This receipt must clearly indicate:

- the date;
- from whom the money was received;
- the amount in words and in figures;
- the purpose for which the money was received;
- the accounts affected; and
- the name of the issuer of the receipt.

The trust receipt books and the business receipt books should be separate.

The receipts must be dealt with as follows:

- The original must be given to the person from whom the cash was received;
- The first copy must be filed in the client's file; and
- The permanent copy must remain in the receipt book, from where the entry is made in the cash receipts journal.

Step 4 - Recording of the cash receipts in the book of first entry

- Cash receipts must be listed individually and in number sequence in the business cash receipts journal and the trust cash receipts journal respectively.

Step 5 - Deposit the cash in the bank accounts

An attorney's practice must have two separate bank accounts and therefore must also have two separate bank deposit books.

Cash receipts must be deposited in the bank account not later than the day of receipt or the following day. The bank columns in the business cash receipts journal and the trust cash receipts journal must be added separately and the totals must agree with the relevant deposit slips.

4.4.3 Cash payments

All payments in a business entity are normally made by cheque, except in the case where small amounts such as postage stamps or cleaning materials are purchased via the petty cash.

An attorney's practice has two cheque books, namely one for business payments and one for payments from the trust bank account. An attorney must, therefore, determine beforehand whether the payment should be made from the business or trust bank account.

- **Identifying cash payments**

General business expenses

General business expenses are all money paid out by the attorney for his own account and include for example office rent, insurance, telephone expenses, membership fees, salaries and wages and other expenses incurred as a result of the day-to-day business activities of the attorney's practice.

Expenses incurred in respect of the clients of the attorney's practice

Expenses incurred in respect of the clients of the attorney's practice can be paid either from the business bank account or the trust bank account depending on whether the client has money available in his/her trust account. If money was deposited in the trust bank account which was not specifically earmarked for another purpose, the expenses must be paid from the trust bank account. If money was not deposited, the payment must be made from the business bank account. An account statement must be prepared and sent to the client/(debtor).

If the payment was made from the trust bank account, the relevant trust creditor account must be debited. The payment of the expenses from the business bank account on behalf of the client is debited to the relevant client/(debtor) account. Examples of such payments are travelling expenses incurred in the investigation of a case, advocate fees, Sheriff fees and tracing fees. Note that the clients of an attorney's practice are debtors and thus included in the current assets in the accounting records. If a service provider (e.g. advocate, sheriff, etc.) is used on a regular basis, the law firm can record the services rendered in the advocate's journal and the sheriff's journal. Refer to section 4.5.6.

The treatment of trust creditors who previously deposited amounts for expenses to be paid out of the trust bank account is discussed in Learning Unit 6.

As in the case of cash receipts, the attorney determines (by means of the client's file) from which bank account (business or trust) the payment must be made.

4.5 Books of first entry – business

4.5.1 Business cash receipts journal

All cash flows into the business bank account are recorded in the **business** cash receipts journal.

In an attorney's practice, the business cash receipts journal should contain only a few entries. Normally, the business cash receipts journal should be compiled from the business receipt books.

Because deposits can be made in the business bank account for a number of reasons, the business cash receipts journal may contain various analysis columns.

4.5.2 Business cash payments journal

All cash flows out of the business bank account is recorded in the **business** cash payments journal.

In an attorney's practice there are various day-to-day expenses pertaining to general office administration, for example, office rent, stationery expenses, salaries, etc. that need to be paid.

The business cash payments journal must be written up numerically from the business cheque counterfoils and from the entries obtained from the business bank statement such as bank charges and electronic fund transfers.

In addition to these business expenses, an attorney can pay expenses on behalf of a client that must be recovered from such client as discussed previously. For this reason, the attorney must ensure that the cheque counterfoils are properly completed.

Because cheques are issued for various purposes, the business cash payments journal may have several analysis columns.

From these journals, the bank reconciliation is prepared and posting is done to the different ledger accounts as discussed in learning units 5 and 6.

A very important rule is that no **trust** receipts or payments should be recorded in the **business** cash book.

Example of the details of each column of the cash receipts journal:

BUSINESS CASH RECEIPTS JOURNAL

Date	Doc no.	Details	Fol.	Sundries R	Clients R	Bank R
Date of transaction	Receipt number	Name of client from whom cash is received <u>or</u> on whose behalf cash is received, or sundry account to be credited	Client ledger account number	Amount to be credited if cash is received other than from a client	Amount to be credited when cash is received from clients	Amount banked

Example of the details of each column of the cash payments journal

BUSINESS CASH PAYMENTS JOURNAL

Date	Doc no.	Details	Fol.	Sundries R	Clients R	Bank R
Date of transaction	Cheque number	Name of client to whom payment is made or on whose behalf payment is made <u>or</u> of sundry account to be debited	Client ledger number	Used when there is no column for the specific account to be debited	Amount to be debited when money is paid to clients	Amount withdrawn from bank

EXAMPLE 4.1

The following information relates to the attorney's practice of S Schoeman. The practice is registered as a VAT vendor. VAT at 14% is included where applicable.

Business bank transactions during March 20.1:

Date	Details
1	S Schoeman deposits R10 000 into the business bank account as capital. Receipt no. 21 is issued.
4	Pay office rent for March 20.1 to G Gene by cheque no 031, R2 280. Levy fees for services rendered to L Loud and receive payment of R18 240 in cash. Receipt no. 22 is issued.
7	Cheque no 032 is cancelled. Issue cheque no 033 for petty cash, R1 600.

Date	Details
9	Pay R912 for advertisements per cheque no 034.
12	Pay R1 140 per cheque no 035 for membership fees to the Law Society.
14	Issue receipt no 23 to M Duke in settlement of his account, R969.
19	Pay short-term insurance for the period 1 April 20.1 to 30 June 20.1 per cheque no 036, R6 840.
24	Pay the following expenses: Cheque no 037 Water and electricity, R1 026. Cheque no 038 Telephone, R684. Cheque no 039 Salaries, R4 788.

REQUIRED:

Prepare the business cash receipts journal and the business cash payments journal of S Schoeman for March 20.1

FEEDBACK: EXAMPLE 4.1:**BUSINESS CASH RECEIPTS JOURNAL OF S SCHOEMAN FOR MARCH 20.1**

Date	Doc.	Details	Fol	Sundries R	Output VAT R	Clients R	Bank R
1	21	Capital		10 000			10 000
4	22	L Loud			*	18 240	18 240
14	23	M Duke			*	969	969
				10 000		19 209	29 209

* Fees are first recorded in the fees journal where the Output VAT is recorded separately. (Refer to 4.4.5)

BUSINESS CASH PAYMENTS JOURNAL OF S SCHOEMAN FOR MARCH 20.1

Date	Doc.	Details	Fol	Sundries R	Input VAT R	Bank R
4	031	Office rent		2 000	280	2 280
7	032	Cancelled				
	033	Petty cash		1 600		1 600
9	034	Advertisements		800	112	912
12	035	Law Society Membership		1 000	140	1 140
19	036	Insurance		6 000	840	6 840
24	037	Water & electricity		900	126	1 026
	038	Telephone		600	84	684
	039	Salaries		4 788		4 788
				17 688	1 582	19 270

EXAMPLE 4.2:

The following information relates to the attorney's practice of H Duma. The practice is registered as a VAT vendor. VAT at 14% is included where applicable.

Business bank transactions during May 20.2:

Date	Details
1	H Duma contributes R20 000 in cash as a capital contribution. Receipt no. 41 is issued.
5	Receive a cheque from P Sober in settlement of her account, R798. Receipt no. 42 is issued.
8	Pay office rent for May 20.2 to D Dune by cheque no. 110, R1 596
10	Levy fees for services rendered to F Mthemba for R2 394 and receive the full amount due. Receipt no. 43 is issued.
16	Pay the annual membership fee to the Law Society per cheque no. 111, R1 482.
20	Issue cheque no. 112 for petty cash, R800.
23	Pay the telephone account per cheque no. 113, R513.
25	Pay salaries per cheque no. 114, R3 762.
27	Receive a cheque from F Ho as payment on his account, R1 000. Receipt no. 44 is issued.

REQUIRED:

Prepare the cash receipts journal and the cash payments journal of H Duma for May 20.2. Make use of the same analyses columns as used in example 4.1.

FEEDBACK: EXAMPLE 4.2**BUSINESS CASH RECEIPTS JOURNAL OF H DUMA FOR MAY 20.2**

Date	Doc no.	Details	Fol	Sundries R	Output VAT R	Clients R	Bank R
	41	Capital		20 000			20 000
5	42	P Sober				798	798
10	43	F Mthemba				2 394	2 394
29	44	F Ho				1 000	1 000
				20 000		4 192	24 192

BUSINESS CASH PAYMENTS JOURNAL OF H DUMA FOR MAY 20.2

Date	Doc no.	Details	Fol	Sundries R	VAT R	Bank R
8	110	Office rent		1 400	196	1 596
16	111	Law Society Membership		1 300	182	1 482
20	112	Petty cash		1 100		1 100
23	113	Telephone		450	63	513
25	114	Salaries		3 762		3 762
				8 012	441	8 453

4.5.3 Petty cash journal

Sometimes certain cash payments do not justify the issue of a cheque. In such instances, we can pay for items from petty cash. “Petty” means “small”, and this is exactly what the petty cash system was designed for - to pay for small expenses. Examples of typical petty cash expenses are postage, milk, tea, coffee and stationery.

Usually, a business would make use of an [imprest system](#), whereby a standard amount should be made available at the beginning of each month of trading. Assume for example, that our business started the month of January with a R1 000 imprest amount in the petty cash box. During January petty cash expenses amounted to R800. How much money needs to be drawn to make up the petty cash imprest amount for February?

Answer R800. (Replace the amount that was spent, to arrive at R1 000).

All petty cash expenses should be recorded in the **petty cash journal**.

EXAMPLE 4.3

The following information relates to the attorney's practice of S Schoeman. The practice is registered as a VAT vendor. VAT at 14% is included where applicable. The petty cash account showed a debit balance of R150 on 1 March 20.1

The following petty cash transactions during March 20.1:

Date	Item purchased / payment made	Amount (incl. VAT)	Voucher no.
2	Pens & Pencils	R68,40	20
5	Stamps	R22,80	21
11	Milk and sugar	R11,91	22
24	Registration of letter to G Greeff	R14,25	23
31	Restore the imprest amount	?	

REQUIRED:

Prepare the petty cash journal of S Schoeman for March 20.1

FEEDBACK: EXAMPLE 4.3:

PETTY CASH JOURNAL OF S SCHOEMAN FOR MARCH 20.1

Date	Doc no.	Receipts	Fol	Total R	Date	Doc no.	Payments	Fol	Total R	Stationery R	Postage R	VAT R	Entertainment R	Clients R
1		Balance	b/d	150,00	2	20	Pens & pencils		68,40	60,00		8,40		
					5	21	Stamps		22,80		20,00	2,80		
					11	22	Milk & sugar		11,91				11,91	
31		Bank (restore imprest)		117,36	24	23	Registration of letter (Greeff)		14,25					14,25
									117,36	60,00	20,00	11,20	11,91	14,25
					31		Balance	c/d	150,00					
				267,36					267,36					
Apr 1		Balance	b/d	150,00										

EXAMPLE 4.4

The following information relates to the attorney's practice of H Duma. The practice is registered as a VAT vendor. VAT at 14% is included where applicable.

The petty cash account showed a debit balance of R200 on 1 May 20.2.

Petty cash transactions during May 20.2:

Date	Item purchased / payment made	Amount (incl. VAT)	Voucher no.
4	Stamps	R32,40	86
8	Printing paper	R88,50	87
11	Milk and sugar	R17,10	88
25	Registration of letter to B Bukes	R10,65	89
31	Restore the imprest amount	?	

REQUIRED:

Prepare the petty cash journal for H Duma for May 20.2

FEEDBACK: EXAMPLE 4.4:

PETTY CASH JOURNAL OF H DUMA FOR MAY 20.2

Date	Doc no.	Receipts	Fol	Total R	Date	Doc no.	Payments	Fol	Total R	Stationery R	Postage R	VAT R	Entertainment R	Clients R
1		Balance	b/d	200,00	4	86	Stamps		32,40		28,42	3,98		
31		Bank (restore imprest)		148,65	8	87	Printing paper		88,50	77,63		10,87		
					11	88	Milk & sugar		17,10				17,10	
					25	89	Registration of letter (Bukes)		10,65					10,65
									148,65	77,63	28,42	14,85	17,10	10,65
					31		Balance	c/d	200,00					
				348,65					348,65					
Jun 1		Balance	b/d	200,00										

4.5.4 Fees journal

The fees journal is probably the most important journal in an attorney's practice because fees charged to each client on whose behalf services are rendered is recorded here.

An example of the entries in the fees journal is as follows:

FEES JOURNAL OF XYZ ATTORNEYS FOR JANUARY 20.5FJ23

Date	Details	Fol	Dr R	Cr R
2	LC Berring	D4	36,00	
12	Drawing up of will			
	NG Gross	D15	41,00	
22	Consulting and drawing up of rental contract			
	D Kean	D9	17,00	
	Completion of income tax return			
31	Credit fees account	N1		94,00
31	Debit clients control account	B4	94,00	

In the clients ledger, the individual accounts of clients will be debited, whilst in the general ledger, the clients control account will be debited and the fees earned account will be credited with the total amount.

The following source documents are relevant:

(a) Fees register

All attorneys' fees, together with the relevant details, are recorded in the fees register from the clients' files.

(b) Debit notes or invoices

Pre-numbered debit notes or invoices are then issued in [triplicate](#) or [quadruplicate](#).

(c) Client files

The debit notes or invoices are recorded in the fees journal from clients' files. The files, therefore, serve as a source document for recording purposes.

4.5.5 General journal

Certain transactions take place that cannot be recorded in any one of the journals discussed so far. We will then make use of a **general journal** to record these transactions.

Examples of transactions that will be recorded in the general journal in this module are:

- Purchase of items on credit
- Credit losses (also known as bad debts) written off
- Correction of errors
- Drawings of items other than cash by the owner(s) of the business e.g. office computer taken for private use
- Interest charges to clients' accounts which are in arrears
- Interest received from investments.

Amounts are posted separately to the various accounts in the general, clients and trust creditors ledgers.

A journal entry signed by an authorised person and a journal voucher in the client files serve as source documents for the recording of transactions. For example support of a credit loss (a bad debt written off), correspondence from an attorney may be attached (e.g. a correspondent).

EXAMPLE 4.7

The following transactions relate to the accounting records of S Nkosazana for March 20.1. The business is registered as a VAT vendor. VAT at 14% is included where applicable.

Date	Details	Amount (Incl. VAT)
1	Purchase stationery on credit from ABC Stores	R684
5	Account of a client P. Koekemoer written off as irrecoverable	R2 337
8	S Nkosazana takes a business computer for private use	R3 990
27	Charge interest to a client A. Gouws's overdue account @ 15% p.a. for 6 months. The client owes us R6 000.	?

REQUIRED:

Prepare the general ledger of S Nkosazana for March 20.1

FEEDBACK: EXAMPLE 4.7**GENERAL JOURNAL OF S NKOSAZANA FOR MARCH 20.1**

Date	Details	Fol	Debit R	Credit R
1	Stationary	N10	600	
	VAT control (Input VAT)	B8	84	
	Trade creditors control (ABC stores – TC1)	B11		684
	(Stationery purchased on credit)			
5	Credit losses (Bad debts)	N11	2 050	
	VAT control (Input VAT)	B8	287	
	Client control (P. Koekemoer – TD 1)	B5		2 337
	(Account written off as irrecoverable)			
8	Drawings	B2	3 990	
	VAT control (Output VAT)	B8		490
	Equipment	B4		3 500
	Business computer taken by Mr S Nkosazana for private use			
27	Client control (A. Gouws – TD 2)	B5	450	
	Interest received	N1		450
	Interest charged on overdue account (R6 000 x 15% x 6/12)			

EXAMPLE 4.8

The following transactions relate to the accounting records of H Duma for May 20.2. The business is registered as a VAT vendor. VAT is included at 14% where applicable.

Date	Details	Amount (Incl. VAT)
10	H Duma takes stationery for own use	R912
20	Purchase a computer on credit from PC Electronics	R9 690
31	Provide for depreciation on vehicles	R10 000
31	Telephone account for May 20.2 only payable on 7 June 20.2	R3 420

REQUIRED:

Prepare the general journal of H. Duma for May 20.2

FEEDBACK: EXAMPLE 4.8**GENERAL JOURNAL OF H DUMA FOR MAY 20.2**

Date	Details	Fol	Debit R	Credit R
10	Drawings	B2	912	
	VAT control (Output VAT)	B8		112
	Stationery	N10		800
	Stationery taken by the owner for personal use			
20	Computer hardware	B7	8 500	
	VAT control (Input VAT)	B8	1 190	
	Creditors control (PC Electronics – TC 8)	B11		9 690
	(Computer purchased on credit)			
31	Depreciation – motor vehicles	N6	10 000	
	Accumulated depreciation – motor vehicles	B6		10 000
	(Provision for depreciation)			
31	Telephone	N11	3 000	
	VAT control (Input VAT)	B8	420	
	Payments for telephone in arrears	B12		3 420
	(Telephone account for May 20.2 payable on 7 June 20.2)			

4.5.6 Sheriffs' and advocates' journals

The purpose of the sheriffs' and advocates' journals is to record all items regarding claims for services rendered by advocates and sheriffs. The sheriffs' and advocates' journals are completed from statements received from the sheriffs and advocates for services rendered to the clients of the law firm.

The entries in the journal are as follows:

SHERIFFS' JOURNAL – JANUARY 20.5

Date	Details	Fol	Dr R	Cr R
30	Client A	L1	13	
	Client B	L2	16	
	Sheriff Z	L3		29
31	Debit clients control account	L4	29	

The result of this is that the individual accounts of clients A and B will be debited in the clients ledger with the money claimed by the sheriff. The total debits will be posted to the debit side of the clients control account in the general ledger. The account, "Sheriff Z", is credited as the Sheriff is regarded as a creditor of the law firm.

The same procedure is applicable in respect of advocates' accounts.

These creditors are not trust creditors, because the liability of the firm of attorneys originated as a result of **services rendered by the different parties** and not as a result of trust money received by the firm. However, where trust money is held for the specific purpose of paying sheriffs' or advocates' fees, a trust payment may be made.

These journals are not essential since the general journal can be used for the same purpose. However, in a simplified system, it is useful to keep the sheriffs' and advocates' journals separate.

Periodic statements received from sheriffs serve as important source documents.

4.5.7 Transfer journal

The transfer journal is another journal which may be incorporated in the general journal. The transfer journal will be discussed in Learning Unit 7.

4.5.8 Learning activities and feedback

LEARNING ACTIVITY 1

Name the two bank accounts which an attorney must open in order to comply with section 78(1) of the Attorneys Act 53 of 1979.

FEEDBACK: LEARNING ACTIVITY 1

A business bank account and a trust bank account.

LEARNING ACTIVITY 2

List the source documents that an attorney uses to complete the cash receipts journal, and explain the control measures that are employed in respect of these source documents.

FEEDBACK: LEARNING ACTIVITY 2

Receipts and bank statements

Receipts must be pre-numbered and issued in triplicate, with

- the person who made the payment receiving the original;
- the first copy being filed in the client's file; and
- the permanent copy remaining in the receipt book, from where the entry is made in the cash receipts journal.

LEARNING ACTIVITY 3

When business money is received, a pre-numbered receipt is issued. List the details that should be indicated on this receipt.

FEEDBACK: LEARNING ACTIVITY 3

The following details should be clearly indicated on the receipt:

- the date
- from whom the money was received
- the amount in words and in figures
- the purpose of the receipt (nature)
- the account concerned
- the issuer of the receipt

LEARNING ACTIVITY 4

State if payments on behalf of clients can also be made from other cash sources. If so, name the book of first entry in which you would record such payments.

FEEDBACK: LEARNING ACTIVITY 4

Yes. Such payments are recorded in the petty cash journal.

LEARNING ACTIVITY 5

With what should the balance of the petty cash book tally?

FEEDBACK: LEARNING ACTIVITY 5

The balance of the petty cash book should tally with the physical cash in the petty cash box.

LEARNING ACTIVITY 6

From which bank account is petty cash funded?

FEEDBACK: LEARNING ACTIVITY 6

The business bank account.

LEARNING ACTIVITY 7

List the source documents applicable to fees levied, and name the book of first entry in which these are recorded.

FEEDBACK: LEARNING ACTIVITY 7

The fees register, debit notes and client files. Fees charged are recorded in the fees journal.

LEARNING ACTIVITY 8

List two examples of entries made in the general journal.

FEEDBACK: LEARNING ACTIVITY 8

Credit losses (bad debts written off).
The charging of interest on clients' accounts which are in arrears.

LEARNING ACTIVITY 9

Name the source document from which the sheriffs' journal is completed.

FEEDBACK: LEARNING ACTIVITY 9

Statements received from the sheriffs.

LEARNING ACTIVITY 10

Name the source document from which the advocates' journal is completed.

FEEDBACK: LEARNING ACTIVITY 10

Statements received from advocates.

4.6 The recording of trust money in an attorney's practice

4.6.1 Introduction

Trust money, as the name indicates, is money entrusted to an attorney, to be held in trust by the attorney and to be dealt with according to the client's instructions. Money received by an attorney in respect of a matter for which the final fee cannot be accurately calculated until the date of receipt of the deposit, for example, a property transaction, forms part of trust moneys according to section 78(1) of the Attorneys Act 53 of 1979 and section 86(2) of the Legal Practice Act 28 of 2014. The attorney must ensure that this position of trust is not abused; hence the reason for all the rules and regulations relating to the handling of trust money.

Trust money remains the property of the client or another party until the instruction is executed or the fees in that regard debited to the client. As long as it is in the attorney's possession the attorney must safeguard such money to the best of his or her ability. Trust monies do not form part of the assets of the practitioner and may therefore not be claimed by a creditor of the practitioner.

Regarding the handling of trust money in an attorney's practice, judge Kuper gave the following warning in *Incorporated Law Society Tvl v K* 1959 2 SA 386 (T):

"In future no attorney ... should be heard to say that, because of an arrangement that he would be doing a particular type of work and therefore was not concerned with the manner in which books of account were kept, or the trust account, he should not be blamed. He will not be heard in that regard."

Too much work is, therefore, no excuse not to have proper control over the trust account.

Trust money may, inter alia, comprise -

- deposits by clients with regard to services still to be rendered, as well as related expenses
- money paid in by a third party (the buyer) in respect of purchase transactions
- money to be refunded to a nominated person
- transfer of money from the business bank account to the trust bank account

Trust payments are made by cheque or electronic fund transfers where -

- expenses are paid for a specific purpose (e.g. advocates)
- money is paid to third parties according to the client's instructions (e.g. the seller of property)
- payment to the instructed attorney in respect of correspondent transactions
- transfer of money from the trust bank account to the business bank account in respect of the amount owing to the attorney. The amount owing to the attorney must be a legitimate debit entry made in the client's account in the clients ledger after services have been rendered.

4.6.2 Books of first entry - trust

In terms of section 78 of the Attorneys Act, section 86 of the Legal Practice Act and the Rules, a legal practitioner must keep a separate trust bank account at a banking institution in the Republic, and in this account must deposit the money held or received by the attorney on behalf of any person. The Acts and Rules stipulate that the name of the trust bank account must specifically indicate that it is an account in terms of the Acts and Rules.

4.6.2.1 Trust cash receipts journal

On receipt of trust money, an attorney must issue a proper receipt to the client.

Such receipt must be bound in numerical sequence and must indicate:

- (a) the date
- (b) from whom the money was received
- (c) the amount in words and in figures
- (d) the purpose for which the money was received
- (e) the account(s) affected
- (f) the name of the issuer of the receipt

The trust cash receipts journal must be completed from the duplicate receipts in the trust receipt book, in numerical order.

Receipts are the main source documents in respect of all money received. A receipt must contain full particulars, especially, as regards the trust creditor account to be credited. It is not always the person who pays the amount (e.g. in the case of a property transaction) whose account must be credited. Where a property transaction is involved and the seller is your client, a third party will deposit the purchase price.

The bank statement is also a source document from which receipts (e.g. interest on the trust bank account) can be entered in the business cash receipts journal. As discussed under 4.4.2 – Step 3 - EFT receipts.

Sometimes an attorney's practice receives money for purposes other than trust, for example from a client (with no funds in trust) who settles his or her account. This money may be deposited directly in the business bank account.

The following is an example of the columns usually encountered in the trust cash receipts journal (TCRJ):

Trust cash receipts journal of G Payne – February 20.5 TCRJ

Date	Receipt no	Details	Fol	Sundries R	Trust creditors R	Bank R
4	308	John Walter			150	150
	309	Jeff Moloi			50	50

The trust creditors' ledger is completed from the **individual** entries in the trust cash receipts journal and the trust creditors' control account (pertaining to receipts) is completed in the general ledger from the **total** of the trust cash receipts journal.

4.6.2.2 Trust cash payments journal

When a trust cheque is issued, the cheque counterfoil must be completed in full and must indicate the following:

- the date
- to whom the cheque was issued
- the account affected
- the reason for payment; and
- the amount

A trust cheque may only be issued after the following considerations were taken into account:

- The trust cheque is issued in favour of the client or his beneficiary
- The supportive documentation is available
- The trust cheque is issued regarding a specific trust matter

The trust cash payments journal is completed from the following source documents:

- the cheque counterfoils in numerical sequence
- the bank statements (for Electronic Fund Transfers (EFT))

It must once again be emphasised that a separate cheque book must be used for trust money. This cheque book must never be used for business purposes.

Cheques from trust creditors which have been included in previous deposits in the trust bank account are debited on the trust bank statement when returned by the bank unpaid (R/D - returned to drawer). Such unpaid cheques are entered in the trust cash payments journal and are analysed in the trust creditors' column.

Before a trust cheque may be issued, it must be ascertained whether the client concerned has sufficient funds in his or her trust account. When a trust cheque is issued and the client in question has insufficient funds, his or her trust account will show a debit balance, which is not permissible in terms of the Attorneys Act 53 of 1979, as this means that another client's trust money is used to finance that particular client's debit account. If a client requests an attorney to pay an amount from trust money on his or her behalf, the attorney must never rely on a promise by the client that money will be deposited at a later stage.

The following column normally pertains in the trust cash payments journal (TCPJ):

Trust cash payments journal of G Payne – February 20.5 TCPJ

Date	Cheque no	Details	Fol	Sundries R	Trust creditors R	Transfer to business R	Bank R
8	5001	B Cross – municipal rates	C6		45		45
	5002	B Cross/A Elk – transfer duty	C6		2 380		2 380

The column, "Transfer to business", relates to transfers of trust money from trust creditors to business clients (debtors). These rules are also applicable to electronic transfers.

4.6.2.3 Bank charges and interest received on the trust bank account

As you already know, bank charges are debited to a firm's bank statement. An attorney's practice always has two accounts with the bank, that is, a business bank account and a trust bank account. Bank charges in respect of a trust bank account can be dealt with in three ways:

- by debiting the **trust** bank statement with the bank charges in respect of the trust bank account; or
- by debiting the **business** bank statement with the bank charges in respect of the trust bank account; or

- a separate bank account can be opened. Interest earned on the trust bank account is then deposited into this account. All bank charges will be paid from this account.

If the trust bank statement is debited with bank charges, the firm must transfer money from the business bank account to the trust bank account to cover these bank charges and thus prevent a deficit on the trust bank account. This is called the buffer system.

If the business and trust accounts are kept at the same bank, the attorney's practice can also instruct its bankers not to debit the trust bank account with bank charges, but to debit its business bank account with such charges. This method of dealing with bank charges ensures that there is no deficit on the trust bank account as a result of bank charges being debited to the latter account without the necessary transfer of funds being made. Keep in mind that trust money is held in trust on behalf of clients and may never be used for any other purpose. This method is thus preferred.

At the end of a financial year, the attorney's practice requests its bank to certify the amount of bank charges in respect of the trust bank account which has been debited to its business bank statement. This certificate enables the auditors to vouch for the bank charges incurred in respect of the trust bank account. All money held in trust by an attorney earns interest. Unless otherwise stipulated by a client (e.g. in the case of an offer to purchase, where the interest accrues to the purchaser), this interest is paid over to the Practitioners Fidelity Fund or its nominee. Such interest is applied to cover bank charges on the trust bank account, the insurance of trust creditors against fraudulent use of their money, and audit fees relating to the trust accounts. The auditors issue an audit report (to the Law Society of the province concerned) regarding bank charges, interest earned and trust funds. The Law Society then refunds the bank charges and a portion of the audit fees to the firm.

In this module, we shall always assume that bank charges in respect of the trust bank account are debited to the business bank statement.

4.6.2.4 Other journals

It is possible, but not preferable, to debit fees through the fees journal to a trust creditor's account, provided that the latter reflects a credit balance. We recommend however that fees rather be debited to the client's account.

The general journal may be used for adjustments between trust creditors.

Assume that A Lesufi deposits R300 on 1 January 20.3 towards the costs of handling his divorce and that receipt 6218 is issued to him. The account of W Lesufi is, however, erroneously credited with R300. The error will be corrected in the general journal as follows:

Date	Details	Fol.	Dr R	Cr R
20.3 Jan 1	W Lesufi (trust creditor) A Lesufi (trust creditor) Adjustment of incorrect posting – refer receipt 6318	L6 L16	300	300

EXAMPLE 4.1

Trust transactions

The example deals with the recording of trust transactions in the books of first entry of an attorney's practice. The following information for July 20.1 relates to Julius, Anthony and Partners, an attorney's practice:

1. Trial balance at 30 June 20.1

	Debit R	Credit R
Capital (fixed): Julius		30 000
Anthony		20 000
Equipment	28 000	
Law library	15 000	
Business bank	5 550	
Trust bank	4 827	
Trust creditors control:		4 827
B Bowers and S Scott		2 465
H Fitzgerald		1 500
S Steinman		862
Clients control:	1 075	
H Fitzgerald	325	
M Modise	750	
Sheriff		25
Stationery on hand	400	
	54 852	54 852

2. Transactions that took place during July 20.1

Date	Transaction
1	Paid the net amount of R2 465, collected from J Jason, to the instructing attorneys B Bowers and S Scott.
2	Paid the water and electricity account of Julius Anthony and Partners, R664.
4	Received R7 650 from B Oakes in respect of the registration of a bond. It is expected that the registration will take place in August 20.1.
6	Paid Advocate R Davenport R1 100 with a trust cheque (Advocate R Davenport is to act as the defence counsel for H Fitzgerald in a forthcoming court case).
9	Debited fees of R2 450 in respect of P Peacock's divorce case, to his account.
10	A cheque for R862, received from S Steinman in June 20.1, in respect of the registration of a bond, was returned by the bank marked R/D.
13	Received R3 450 from S Sweetpea, a client, who requested Mr Anthony to act as his defence counsel in a forthcoming court case.
14	Paid the Sheriff R25 for the delivery of a summons to N du Berry.
16	Charges interest of R10 on the arrear account of M Modise.
21	Paid Snappi Stationers R464 for stationery supplied.

Date	Transaction
28	Paid the office rent for July, R3 600. Paid the telephone account received from Telkom SA Limited, R295.
31	Issued a debit note of R245 to N Nkosi in respect of fees for drawing up his will.

REQUIRED:

Prepare the following in the accounting records of Julius, Anthony and Partners for July 20.1:

1. The subsidiary journals, properly totalled:

- 1.1 Trust cash receipts journal
- 1.2 Trust cash payments journal
- 1.3 Business cash payments journal
- 1.4 Fees journal
- 1.5 General journal

FEEDBACK: EXAMPLE 4.1**1. SUBSIDIARY JOURNALS****JULIUS, ANTHONY AND PARTNERS****1.1 Trust cash receipts journal – July 20.1****TCRJ7**

Date	Details	Fol	Trust creditors R	Bank R
4	B Oakes (trust creditor)	TCL4	7 650	7 650
13	S Sweetpea (trust creditor)	TCL5	3 450	3 450
31	Credit trust creditors control account	GL15	11 100	
31	Debit trust bank account	GL6		11 100

1.2 Trust cash payments journal – July 20.1**TCPJ7**

Date	Details	Fol	Trust creditors R	Bank R
1	B Bowers & S Scott (trust creditor)	TCL1	2 465	2 465
6	H Fitzgerald (trust creditor) (Advocate Davenport)	TCL2	1 100	1 100
10	S Steinman (trust creditor) (R/D cheque)	TCL3	862	862
31	Debit trust creditors control account	GL15	4 427	
31	Credit trust bank account	GL6		4 427

1.3 Business cash payments journal – July 20.1**BCPJ7**

Date	Details	Fol	Sundries R	Bank R
2	Water and electricity	GL8	664	664
14	Sheriff fee (client)	GL5	25	25
21	Stationery	GL9	464	464
28	Office rent	GL10	3 600	3 600
	Telephone	GL11	295	295
			5 048	
31	Credit business bank account	GL7		5 048

1.4 Fees journal – July 20.1**FJ7**

Date	Details	Fol	Trust creditors R	Bank R
9	P Peacock (client) (fees i.r.o. divorce)	CL3	2 450	
31	N Nkosi (client) (setting of will)	CL1	245	
31	Debit clients control account	GL14	2 695	
31	Credit fees account	GL12		2 695

1.5 General journal – July 20.1**GJ7**

Date	Details	Fol	Dr R	Cr R
16	M Modise (client) Interest earned	CL4 GL13	10	10
31	Debit clients control account	GL14	10	

4.7 Learning activities and feedback**LEARNING ACTIVITY 1**

Define the term “trust money” and give three examples of such money.

FEEDBACK: LEARNING ACTIVITY 1

Trust money is money entrusted to an attorney, to be held in trust by him or her and to be dealt with according to the instructions of the client, for example:

- deposits of clients for services still to be rendered, as well as for expenses incurred in this regard
- money deposited by a third party (e.g. the purchaser) in respect of a purchase transaction
- money which has been deposited and must be paid over to another party

LEARNING ACTIVITY 2

Why does trust money not form part of the assets of an attorney's practice?

FEEDBACK: LEARNING ACTIVITY 2

Trust money does not form part of the assets of an attorney's practice because it belongs to a third party.

LEARNING ACTIVITY 3

Explain what section 78 of the Attorneys Act 53 of 1979 and section 86 of the Legal Practice Act 28 of 2014 require of a legal practitioner as regards the handling of trust money.

FEEDBACK: LEARNING ACTIVITY 3

A legal practitioner is obliged to keep a separate trust bank account with a banking institution in the Republic and must deposit any money held or received on behalf of any person in this account.

LEARNING ACTIVITY 4

Interest earned on trust money is applied to cover certain expenses of an attorney. Name these expenses.

FEEDBACK: LEARNING ACTIVITY 4

Bank charges on the trust bank account.
Insurance of trust creditors against fraudulent use of their money.
Audit fees relating to trust accounts.

LEARNING ACTIVITY 5

Explain three requirements that must be complied with before money may be transferred from the trust creditors account of a client to his or her account in the clients ledger.

FEEDBACK: LEARNING ACTIVITY 5

No amount exceeding the debit balance on the client's account may be transferred from his or her trust account.

No amount exceeding the credit balance on the client's trust account may be transferred.

The client must be aware of such a transfer and must have no objection to it.

LEARNING ACTIVITY 6

Name the three subsidiary journals involved in a transfer from a trust creditors account to an account in the clients ledger.

FEEDBACK: LEARNING ACTIVITY 6

The transfer journal
The trust cash payments journal
The business cash receipts journal

LEARNING ACTIVITY 7

Name the journals from which postings to the trust creditors ledger are made.

FEEDBACK: LEARNING ACTIVITY 7

The trust cash receipts journal
The trust cash payments journal
The transfer journal
The general journal

LEARNING ACTIVITY 8

Name the two accounts of which the balances must tally in respect of trust money.

FEEDBACK: LEARNING ACTIVITY 8

The trust creditors control account
The trust bank account

4.8 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> • Demonstrate an understanding of the accounting process. • Distinguish between books of first entry and ledgers. • Distinguish between cash and non-cash transactions. • Identify trust and business transactions. • Demonstrate an understanding of the differences between trust and business money. • Determine which journal should be used for each transaction. • Explain the principle of trust and business cash journals. • Distinguish between the cash receipts journal and cash payments journal. • Distinguish between the trust and business cash journals (bank accounts) • Explain the principle of a petty cash book. • Record petty cash transactions and balance the petty cash book. • List the various journals and describe their separate functions: <ul style="list-style-type: none"> - fees journal. - advocates journal - sheriffs journal - general journal • Explain when a journal is used. • Prepare the different journal entries. • Demonstrate an understanding of the entries that are made when receiving and paying accounts on behalf of clients in respect of: <ul style="list-style-type: none"> - counsel fees - tracing agent fees - witness fees - advocate fees, and - sheriff fees 		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

BANK RECONCILIATION

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LEARNING UNIT 5: Bank reconciliation

Learning outcomes

After studying this learning unit, you should be able to:

- explain the purpose of a bank reconciliation
- list the various reconciling items
- prepare a bank reconciliation statement

Key concepts

- cheque
- electronic fund transfer
- deposit
- dishonoured cheque
- bank statement

5.1 Introduction

The rules for the Attorneys' Profession require that the accounting records of a legal practice (including the bank reconciliation statement) be updated and balanced on a monthly basis.

A business which has a cheque account, can arrange with the bank to issue a bank statement at regular intervals, usually monthly.

The bank statement shows, among other things, the opening balance for the period, bank transactions made during the period and the closing balance for the period.

Since bank transactions made by the business are also recorded in its cash journals, the balance shown in the bank statement **SHOULD** agree with the balance in the bank account as per the general ledger of the business. But that is rarely the case.

Some of the reasons why the two balances do not agree are as follows:

- **Outstanding cheques:** these are cheques issued by the business during the statement period, which have not yet been debited in the bank statement.
- **Outstanding electronic fund transfers:** there are electronic fund transfers (EFT) made by the business to creditors and third parties during the period, which have not yet been debited in the bank statement.
- **Outstanding deposits:** these are deposits banked in the bank account by the business during the statement period but which have not yet been credited in the bank statement.
- **Direct deposits:** these are deposits made by clients and third parties directly into the bank account of the business, which have not yet been included in the cash receipts journal. The deposits include both cheque deposits and electronic fund transfers.
- **Direct electronic fund transfers and debit orders:** these are payments/transfers to service providers (e.g. insurance companies) directly by the bank; which have not yet been included in the cash payments journal.

- **Bank charges:** these comprise of service fees, cost of cheque books, commissions, ledger fees etc. Because of the nature of these charges, they can only be recorded in the cash payments journal when the bank statement is received.
- **Interest charged on overdraft:** this is the cost of overdrawing the bank account. The bank statement will reflect a debit balance. Again, the bank interest can only be recorded in the cash payments journal when the bank statement is received.
- **Dishonoured cheques:** these are cheques received from customers but which were not paid by their respective banks because they (the customers) do not have sufficient funds in their bank accounts.
- **Errors made by the business or the bank:** these can be errors made when entering the incorrect amounts in the cash journals or bank statement e.g. R255 instead of R225 or R546 instead of R456.

The reasons listed above can be classified under the following categories:

1. Entries in the cash journals, but not in the bank statement.
 - Outstanding cheques
 - Outstanding deposits
 - Outstanding electronic fund transfers

These items must be entered in the bank reconciliation statement.

2. Items in the bank statement, but not in the cash journals
 - Direct deposits
 - Bank charges
 - Direct electronic fund transfers and debit orders
 - Dishonoured cheques (cheques sent back, marked R/D)
 - Interest on overdraft

These items must be entered in the cash journals

3. Items which can affect either the bank statement or the cash journals.
 - Errors made by the business or the bank

Errors made by the bank must be corrected in the bank reconciliation statement and errors made by the business must be corrected in the cash journals.

Keep in mind that deposits are shown as debit entries in the bank account in the general ledger but as credit entries in the bank statement. Payments are shown as credit entries in the bank account in the general ledger but as debit entries in the bank statement.

A favourable balance is therefore shown as a debit in the bank account in the general ledger and a credit in the bank statement and an unfavourable balance as a credit in the bank account in the general ledger and a debit in the bank statement.

5.2 Steps in the bank reconciliation process

The bank reconciliation statement can be prepared by following the steps listed below:

Step 1

Compare the debit column of the bank statement with the cash payments journal in the accounting records. Tick off items which appear in both the bank statement and the cash journal.

Step 2

Compare the credit column of the bank statement with the cash receipts journal in the accounting records. Tick off items which appear in both the bank statement and the cash receipts journal.

Step 3

Update the cash receipts journal and the cash payments journal with the items in the bank statement which are not in the cash journals. This will be the items listed under point 2 in section 5.1 above. Errors made in the cash journals must also be corrected in the cash journals.

Step 4

Use the totals obtained from the updated cash journals to prepare an adjusted bank account in the general ledger. (Refer to section 6.2 in learning unit 6 on how to balance a ledger account.)

Step 5

Prepare a bank reconciliation statement, taking the outstanding cheques, outstanding deposits and outstanding electronic fund transfers listed under point 1 in section 5.1 above, into account. Correct any errors made by the bank, in the bank reconciliation statement. To simplify the preparation of the bank reconciliation statement, always start with the closing balance as per the bank statement. The final balance on the bank reconciliation statement should agree with the closing balance as per the **adjusted** bank account.

5.3 First bank reconciliation of the business

EXAMPLE 5.1

The following accounting records of A Mann for the month ended 30 September 20.1 are given below:

Bank Statement of A Mann for September 20.1 46 Kaska Street, Pretoria

Date	Particulars	Debits R	Credits R	Balance R
01.09.20.1	Deposit (Owner's capital)			2 400
01.09.20.1	Deposit		500	2 900
07.09.20.1	Cheque 110	420		2 480
09.09.20.1	Deposit		1 240	3 720
13.09.20.1	Cheque 111	64		3 656
19.09.20.1	Cheque 112	104		3 552
	Deposit		160	3 712
21.09.20.1	Cheque 113	1 288		2 424
22.09.20.1	Service fee	1		2 423
23.09.20.1	Deposit reversed - Cheque unpaid	160		2 263
26.09.20.1	Deposit		1 680	3 943
27.09.20.1	Cheque 114	600		3 343
28.09.20.1	Cheque 115	48		3 295
30.09.20.1	Cheque book	10		3 285
	Service fee	5		3 280
	Debit order- insurance	300		2 980
	Direct deposit – A Tlape		200	3 180

Cash receipts journal (bank column only) for September 20.1

Date	Particulars	Amount R
01.09.20.1	A Mann (Owner's contribution)	2 400
05.09.20.1	Cash sales	500
09.09.20.1	Sundry debtors	1 240
20.09.20.1	Cash sales	160
26.09.20.1	Sundry debtors	1 680
28.09.20.1	Cash sales	480
	Total	6 460

Cash payments journal (bank column only) for September 20.1

Date	Particulars	Amount R
06.09.20.1	Cheque 110 - T Yoti	420
12.09.20.1	Cheque 111 - PNA	64
18.09.20.1	Cheque 112 - Municipality	104
20.09.20.1	Cheque 113 - Town Furnishers	1 288
26.09.20.1	Cheque 114 - Monate Ltd.	600
28.09.20.1	Cheque 115 - Green stores	48
	Cheque 116 - Tak CC	212
29.09.20.1	Cheque 117 - Rolke Engineers	400
	Total	3 136

REQUIRED:

- a) Complete the cash receipts journal and the cash payments journal of A Mann for September 20.1 from the information given above.
- b) Compile the bank reconciliation statement of A Mann at 30 September 20.1.

FEEDBACK EXAMPLE 5.1

When a business entity starts its operations for the first time, the bank reconciliation is relatively simple. The only accounting records needed to do the reconciliation are the cash receipts journal, the cash payments journal and the bank statement. Both the bank account in the general ledger and the bank statement will not have opening balances.

Step 1

Compare the debit column of the bank statement with the cash payments journal. Tick off items which appear in both the bank statement (debit column) and cash payments journal. Outstanding items will be the service fee (R6), unpaid (dishonoured) cheque (R160), cheque book (R10), debit order (R300), cheque to Tak CC (R212) and the cheque to Rolke Engineers (R400).

Step 2

Compare the credit column of the bank statement with the cash receipts journal. Tick off items which appear in both the bank statement (credit column) and the cash receipts journal. Outstanding items will be the direct deposit (R200) and the cash sales (R480) deposited on 28 September 20.1.

Step 3

Update the cash receipts journal and the cash payments journal with items in the bank statement which are not in the cash journals.

Cash receipts journal (abridged)

Particulars	Amount R
Original total	6 460
Direct deposit – A Thlape	200
Total	R6 660

Cash payments journal (abridged)

Particulars	Amount R
Original total	3 136
Service fee	16
Unpaid cheque	160
Debit order	300
Total	3 612

Step 4

Use the totals obtained from the updated cash receipts journal and cash payments journal to prepare an adjusted bank account.

Dr	Adjusted Bank Account		Cr
Total Receipts	R 6 660	Total Payments	R 3 612
		Balance c/d	3 048
	6 660		6 660
Balance b/d	3 048		

Step 5**Bank reconciliation statement of A Mann as at 30 September 20.1**

	Dr R	Cr R
Credit balance as per bank statement		3 180
Credit outstanding deposit: 28 September 20.1		480
Debit outstanding cheques: No 116 No 117	212 400	
Debit balance as per bank account	3 048	
	3 660	3 660

Note: If the **bank statement** had a debit (overdrawn) balance, it would have been shown in the debit column of the bank reconciliation statement.

EXAMPLE 5.2

In this example steps 1 and 2 have already been done.

The bank account in the accounting records of Think Tank Stores showed an overdrawn balance of R103,60 on 31 October 20.1. On the same date, the business bank statement showed a favourable balance of R140,20. A comparison of the bank statement with the cash journals revealed the following differences:

- a) A deposit of R75,60 on 31 October 20.1 was not credited in the bank statement.
- b) The following cheque and electronic fund transfer have not yet been presented for payment by 31 October 20.1:
 - cheque no 789 for R143,10
 - EFT no 007 for R226,90
- c) A cheque for R36,10 which was received from a customer was returned by the bank, unpaid.
- d) The bank made the following charges:
 - interest on overdrawn account of R3,20
 - service fees of R11,30.
- e) Original totals:
 - cash receipts journal, R913,08
 - cash payments journal, R1 016,68

REQUIRED:

- a) Complete the cash journals of Think Tank Stores for October 20.1 from the information given above.
- b) Compile the bank reconciliation statement of Think Tank Stores at 31 October 20.1.

FEEDBACK: EXAMPLE 5.2**Cash payments journal for October 20.1**

Particulars	Amount R
Original total	1 016,68
Dishonoured cheque	36,10
Interest on overdraft	3,20
Service fees	11,30
Total	1 067,28

Dr	Adjusted bank account		Cr
Total receipts	R 913,08	Total payments	R 1 067,28
Balance c/d	154,20		
	1 067,28		1 067,28
		Balance b/d	154,20

Bank Reconciliation Statement as at 31 October 20.1

	Dr R	Cr R
Credit balance as per bank statement		140,20
Credit outstanding deposit		75,60
Debit outstanding cheques : Cheque no 789	143,10	
EFT no 001	226,90	
Credit balance as per adjusted bank account		154,20
	370,00	370,00

5.4 Subsequent bank reconciliations

Bank reconciliation where a bank reconciliation statement was prepared in the previous financial period

Where a bank reconciliation statement was prepared in the previous period, the first step will be to ascertain if the cheques, electronic fund transfers and deposits outstanding as per the previous bank reconciliation statement appear in this period's bank statement. The items that appear in this period's bank statement must be ticked off first and those still outstanding from the previous period must be noted and shown in the current period's bank reconciliation statement as outstanding. The 'normal' procedures for bank reconciliation statements will then be followed to prepare the bank reconciliation statement for the current period.

EXAMPLE 5.3

Spaza Traders prepared the following bank reconciliation statement for July 20.1.

Bank Reconciliation Statement for July 20.1

	Dr R	Cr R
Credit balance as per bank statement		974
Credit outstanding deposit		360
Debit outstanding cheques : 44	172	
47	420	
Debit balance as per adjusted bank account	742	
	1 334	1 334

The business received the following bank statement for August 20.1.

Date	Particulars	Debit R	Credit R	Balance R
Aug 1	Balance			974
	Deposit		360	1 334
3	Cheque 44	172		1 162
6	Deposit		1 000	2 162
7	Cheque 48	900		1 262
	Cheque book	8		1 254
	Service fees	12		1 242
	Cheque 49	400		842
12	Deposit		384	1 226
13	Cheque 51	77		1 149
16	Cheque 53	136		1 013
19	Deposit		800	1 813
20	Deposit (direct)		80	1 893
27	Cheque 54	70		1 823
30	Cheque 55	750		1 073
	Debit order	100		973

Cash receipts journal for August 20.1 (Abridged)

Particulars	Amount R
S Sally	1 000
Cash sales	384
A Debtor	800
Cash sales	583
Total	2 767

Cash payments journal for August 20.1 (Abridged)

Particulars	Amount R
Cheque numbers: 48	900
49	400
50	168
51	77
52	71
53	136
54	70
55	750
Total	2 572

REQUIRED:

- Complete the cash journals of Spaza Traders for August 20.1 from the information given above.
- Post the cash journals to the bank account in the general ledger.
- Prepare a bank reconciliation statement for August 20.1.

FEEDBACK: EXAMPLE 5.3**Updated cash receipts journal for August 20.1 (Abridged)**

Particulars	Amount R
Original total	2 767
Direct deposit	80
Total	2 847

Updated cash payments journal for August 20.1 (Abridged)

Particulars	Amount R
Original total	2 572
Cheque book	8
Service fee	12
Debit order	100
Total	2 692

Dr	Adjusted bank account		Cr
Balance b/d	R 742	Payments	R 2 692
Receipts	2 847	Balance c/d	897
	3 589		3 589
Balance b/d	897		

Bank reconciliations statement for August 20.1

	Dr R	Cr R
Credit balance as per bank statement		973
Credit outstanding deposit		583
Debit outstanding cheques: 47	420	
50	168	
52	71	
Debit balance as per bank account	897	
	1 556	1 556

5.5 Learning activities and feedback

LEARNING ACTIVITY 5.1

The following information relates to Cyber and Partners:

1. Bank reconciliation statement on 31 May 20.1

	Debit R	Credit R
Favourable balance as per bank statement		288 000
Outstanding deposit		72 000
Outstanding cheques No. 487	12 000	
No. 493	30 000	
Favourable balance as per bank account	318 000	
	360 000	360 000

2. Cash receipts journal for June 20.1

Date	Rec no.	Receipts	Bank R
8	001	H. Reddy	163 200
12	002	P. Panda	60 000
20	003	S. Sellar	1 200
30	004	N. Niro	192 000
			416 400

3. Cash payments journal for June 20.1

Date	Cheque no.	Payments	Bank R
2	494	Water and lights	41 280
3	495	Equipment	129 600
16	496	Revenue stamps	192
18	497	Water and lights	18 000
29	498	Advertising	6 600
			195 672

4. Business bank statement for June 20.1

Date	Details	Debit R	Credit R	Balance R
1	Balance			288 000
1	Deposit		72 000	360 000
4	Cheque 494	41 280		318 720
8	Cheque 495	129 600		189 120
8	Deposit		163 200	352 320
10	Cheque 493	28 920		323 400
12	Deposit		60 000	383 400
17	Cheque 496	192		383 208
19	Cheque 497	18 000		365 208
20	Deposit		1 200	366 408
23	Interest		5 088	371 496
25	Unpaid cheque 2825	50 400		321 096
27	Cheque 781	24 000		297 096
29	Santam (insurance)	4 800		292 296
30	Bank charges	1 800		290 496

5. Additional information

Cheque 493 for office rent was incorrectly recorded in the cash payments journal as R30 000, instead of R28 920.

Cheque 781, which is a trust cheque, was incorrectly debited to the business bank statement. The unpaid cheque (no. 2825) was initially received from B. Benson.

REQUIRED:

- Enter the additional entries into the cash journals for June 20.1 and post the cash journals to the bank account in the general ledger.
- Draft the bank reconciliation statement as at 30 June 20.1.

FEEDBACK: LEARNING ACTIVITY 5.1

Cash receipts journal for June 20.1

Date	Doc no.	Receipts	Bank R
30		Original total	416 400
30	B/S	Rental expense (correction)	1 080
	B/S	Interest	5 088
			422 568

Cash payments journal for June 20.1

Date	Doc no.	Payments	Bank R
30		Original total	195 672
30	B/S	B. Benson (R/D)	50 400
	D/O	Santam (Insurance)	4 800
		Bank charges	1 800
			252 672

Dr				Adjusted bank account				Cr	
June				R	June			R	
June	1	Balance	b/d	318 000	June	30	Payments		252 672
	30	Receipts		422 568		30	Balance	c/d	487 896
				740 568					740 568
July	1	Balance	b/d	487 896					

Bank reconciliation statement on 30 June 20.1

	Debit R	Credit R
Favourable balance as per bank statement		290 496
Credit bank error (trust cheque)		24 000
Outstanding deposit		192 000
Outstanding cheques No. 487	12 000	
No. 498	6 600	
Favourable balance as per bank account	487 896	
	506 496	506 496

LEARNING ACTIVITY 5.2

The following information relates to Tumi and Partners:

1. Business bank reconciliation statement on 30 April 20.1

	Debit R	Credit R
Favourable balance as per bank statement		144 000
Outstanding deposit		36 000
Outstanding cheques No. 687	6 000	
No. 693	15 000	
Favourable balance as per bank account	159 000	
	180 000	180 000

2. Cash receipts journal for May 20.1

Date	Rec no.	Receipts	Bank R
8	1001	H. Hunter	81 600
12	1002	P. Poser	30 000
20	1003	S. Strife	600
30	1004	N. News	96 000
			208 200

3. Cash payments journal for May 20.1

Date	Cheque no.	Payments	Bank R
2	694	Rent paid	20 640
3	695	Vehicles	64 800
16	696	Stationery	96
18	697	Entertainment	9 000
29	698	Insurance	3 300
			97 836

4. Business bank statement for May 20.1

Date	Details	Debit R	Credit R	Balance R
1	Balance			144 000
1	Deposit		36 000	180 000
4	Cheque 694	20 640		159 360
8	Cheque 695	64 800		94 560
8	Deposit		81 600	176 160
10	Cheque 693	14 460		161 700
12	Deposit		30 000	191 700
17	Cheque 696	96		191 604
19	Cheque 697	9 000		182 604
20	Deposit		600	183 204
23	Interest		2 544	185 748
25	Unpaid cheque 3025	25 200		160 548
27	Cheque 981	12 000		148 548
29	Santam (insurance)	2 400		146 148
30	Bank charges	900		145 248

5. Additional information

Cheque 693 for office rent was incorrectly recorded in the cash payments journal as R15 000, instead of R14 460.

Cheque 981, which is a trust cheque, was incorrectly debited to the business bank account.

The unpaid cheque (no. 3025) was initially received from F. Lime.

REQUIRED:

- Enter the additional entries into the business cash journals for May 20.1 and post the business cash journals to the business bank account in the general ledger.
- Prepare the adjusted business bank account in the general ledger of Tumi and Partners for May 20.1.
- Draft the bank reconciliation statement as at 31 May 20.1.

FEEDBACK: LEARNING ACTIVITY 5.2

Cash receipts journal for May 20.1

Date	Doc no.	Receipts	Bank R
30		Original total	208 200
30	B/S	Rental expense (correction)	540
	B/S	Interest	2 544
			211 284

Cash payments journal for May 20.1

Date	Doc no.	Payments	Bank R
30		Original total	97 836
30	B/S	F. Lime (R/D)	25 200
	D/O	Santam (Insurance)	2 400
		Bank charges	900
			126 336

Dr

Adjusted Bank Account

Cr

May				R	May				R
May	1	Balance	b/d	159 000	May	31	Payments		126 336
	31	Receipts		211 284			Balance	c/d	243 948
				370 284					370 284
Jun	1	Balance	b/d	243 948					

Bank reconciliation statement as at 30 June 20.1

	Debit R	Credit R
Favourable balance as per bank statement		145 248
Credit bank error (trust cheque)		12 000
Outstanding deposit		96 000
Outstanding cheques No. 687	6 000	
No. 698	3 300	
Favourable balance as per bank account	243 948	
	253 248	253 248

5.6 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none">• Explain the purpose of a bank reconciliation.• List the various reconciling items.• Prepare a bank reconciliation statement.		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

LEARNING UNIT**6****LEDGER ACCOUNTS AND TRIAL BALANCE**

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LEARNING UNIT 6: Ledger accounts and trial balance

Learning outcomes

After studying this learning unit, you should be able to:

- explain the reasons for using a ledger
- list the various ledgers
- understand the procedure of posting to the trust and business ledgers
- do the recording of a transaction from books of prime entry to the ledger accounts
- balance a ledger account
- interpret a ledger account
- extract a trial balance
- prepare listings of trust creditors, clients and business creditors

Key concepts

- ledger account
- general ledger
- clients ledger (debtors ledger)
- trust creditors ledger
- business creditors ledger

6.1 Introduction

The Rules for the Attorneys' Profession (The Rules) require that the accounting records of a legal practice be updated and balanced on a monthly basis.

We have seen in learning unit 4 that the details of **each transaction** that takes place in a business should be recorded in a **journal**, also known as a book of first entry. A ledger account is a **summary** of all the transactions that relate to a **specific** item, for example Office Furniture, Fees, Telephone etc. All these individual accounts are kept in a ledger. The general ledger consists of all the accounts of the business in a T – form. At month-end all journals should be totalled, and these **totals** should be posted to **the general ledger**. All the rules of double-entry and cross-reference that you have learnt so far in learning unit 2, will now come into full use and should be applied throughout as we complete the general ledger.

6.2 Balancing a ledger account

All ledger accounts have to be balanced at the end of each month. To calculate the balance of an account, the following steps must be taken:

- Calculate the totals of the debit entries (left side of the account) and credit entries (right side of the account) separately.
- The bigger total must then be used as the total on both sides of the account.
- The difference between the total amount as calculated in the previous step and the smallest total will be the balance of the account.
- This balance must be written on the side of the smallest total. The smallest total plus the balance inserted will then add up to the bigger total. The balance must be dated the last day of the month and referenced “c/d”, the abbreviation for carried down or “c/f” for carried forward.

- The same balance (words and amount) must be written on the opposite side below the total with “b/d” for brought down as reference. This balance must be dated the first day of the following month.

The balancing can be illustrated as follows:

Dr				Business bank account				Cr			
Date	Details	Fol	Amount	Date	Details	Fol	Amount				
20.1 Feb 1	Capital		R 130 000	20.1 Feb 6	Equipment		R 100 000				
28	Client control		28 000	16	Wages		20 000				
28	Bank interest received		2 000	28	Balance	c/d	40 000				
			160 000				160 000				
20.1 Mar 1	Balance	b/d	140 000								

Notes:

	R
Total of debit side	160 000 (130 000 + 28 000 + 2 000)
Total of credit side (before “balance”)	120 000 (100 000 + 20 000)
Difference / Balance	<u>40 000</u>

6.3 Clients ledger, business creditors ledger and trust creditors ledger

Apart from the general ledger, we need to keep a separate clients ledger, business creditors ledger as well as a trust creditors ledger. The clients ledger keeps a record of transactions with each individual client. The business creditors ledger and the trust creditors ledger keep records of transactions with each individual business creditor and trust creditor respectively.

The total of the individual client’s balances in the clients ledger must be equal to the balance of the clients control account in the general ledger.

Likewise the total of the individual business creditors’ balances in the business creditors ledger must be equal to the balance of the business creditors control account in the general ledger.

The Rules require that a list of the individual trust creditors’ balances be compiled on a regular basis of not more than three months. The balance must then be equal to the balances of the trust creditors control account and trust bank account.

6.4 Trial balance

The trial balance is a list of balances. It reflects the balances of the various accounts in the **general** ledger and must be updated on a monthly or a shorter basis. You need to realise that every account will either reflect a debit balance or a credit balance. Due to the fact that double-entries were made with each transaction, the total of the debit balances must be equal to the total of the credit balances in the trial balance.

The Rules require that the trial balance be prepared on a monthly basis.

EXAMPLE 6.1

The following information relates to the attorney's practice of T Truter: The business is registered as a VAT vendor. VAT is included at 14% where applicable:

Transactions during August 20.6:

Date	Details	R
1	Pay office rent for August 20.6 to N Nemeti per cheque no. 527	3 990
	Pay the increase in the deposit for office rent to N Nemeti per cheque 528	4 000
	Levy fees for services rendered to P Lees (C1) and receive payment in cash (Receipt 45 is issued)	19 152
2	Purchase postage stamps from petty cash (voucher A10)	399
	Debit R Rogers (C7) with fees in respect of a third party case	1 254
7	Pay for advertisements of the firm by cheque 529	228
10	Y Mats (T4) instructs T Truter to issue a summons against his wife for divorce, and pays a deposit in this regard (trust receipt 34)	456
11	Purchase milk and sugar from petty cash	57
15	Debit G George (C8) in respect of fees charged for collection from L Moper	741
20	Pay a deposit for purchasing property on behalf of A Britton (T3) – issue trust cheque 40	45 600
	Pay the following from petty cash:	
	Tea and coffee	114
	Pens and pencils	285
23	Receive a cheque from P Lees as a payment on his account	1 254
25	Pay costs regarding the divorce case of Y Mats	456
	Pay registration of a letter to P Lees from petty cash	18
	Pay short-term insurance for August 20.6 per cheque 530	1 710
27	Pay the following:	
	Water and electricity (cheque 531)	969
	Telephone (cheque 532)	1 824
	Salaries and wages (cheque 533)	5 130
28	Charge the overdue account of client A Beno (C3) with interest @ 20% p.a. for 9 months. She owes the firm R4 000	?
29	Purchase stationery on credit from JJ Suppliers	798
	Write the account of J Taylor (C4) off as irrecoverable	1 482
31	Issue cheque 534 to make up the petty cash imprest amount	?

Additional information:

The following trial balance was taken from the records of T Truter on 31 July 20.6:

**T TRUTER
TRIAL BALANCE ON 31 JULY 20.6**

	# Account numbers	Debit R	Credit R
Capital	B1		281 732
Drawings	B2	13 050	
Deposit – Office rent	B3	1 800	
Clients control	B4	55 402	
Trust bank account	B5	75 000	
Trust creditors control	B6		75 000
Business bank account	B7	80 000	
Petty cash	B8	1 000	
Land and buildings	B9	200 000	
Equipment	B10	47 800	
Furniture	B11	14 000	
VAT control	B12		21 140
Postage	N1	500	
Advertisements	N2	2 000	
Entertainment	N3	480	
Water and electricity	N4	13 400	
Telephone	N5	1 560	
Stationery	N6	900	
Credit losses	N7	880	
Fees	N8		183 700
Office rent	N9	24 500	
Insurance	N10	10 500	
Salaries and wages	N11	18 800	
		561 572	561 572

B = Statement of financial position accounts (previously known as balance sheet)
N = Statement of profit or loss and other comprehensive income accounts
(previously known as income statement)

REQUIRED:**PART A**

Record the above transactions in the undermentioned books of first entry for the month of August 20.6.

- Business cash journals
- Trust cash journals
- Fees journal
- Petty cash journal
- General journal

PART B

- Post the completed journals to the general ledger of T Truter.
- Draft a trial balance as at 31 August 20.6.
- Update the clients ledger and trust creditors ledger for August 20.6.
- Compile lists of the individual client accounts and trust creditors accounts.

FEEDBACK: – EXAMPLE 6.1**Business cash receipts journal of T Truter for August 20.6****BCRJ**

Date	Doc no.	Receipts	** Fol	Sundries R	VAT R	Clients control R	Bank R
1	45	P Lees	C1			19 152	19 152
23	46	P Lees	C1			1 254	1 254
						20 406	20 406
31	Credit clients control account in general ledger					B4	
31	Debit business bank account in general ledger						B7
31	** Credit individual client accounts in clients ledger						

Business cash payments journal of T Truter for August 20.6**BCPJ**

Date	Doc no.	Payments	** Fol	Sundries R	VAT R	Bank R
1	527	Office rent	N9	3 500	490	3 990
	528	Deposit: Office rent	B3	4 000		4 000
7	529	Advertisements	N2	200	28	228
25	530	Insurance	N10	1 500	210	1 710
27	531	Water and electricity	N4	850	119	969
	532	Telephone	N5	1 600	224	1 824
	533	Salaries and wages	N11	5 130		5 130
31	534	Petty cash	B8	873		873
				17 653	1 071	18 724
31	Debit VAT control account in general ledger				B12	
31	Credit business bank account in general ledger					B7
31	** Debit individual accounts in general ledger					

Trust cash receipts journal of T Truter for August 20.6**TCRJ**

Date	Doc no.	Receipts	** Fol.	Sundries R	Trust creditors control R	Bank R
10	34	Y Mats - divorce	T4		456	456
					456	456
31		Credit trust creditors control account in general ledger			B6	
31		Debit trust bank account in general ledger				B5
		** Credit individual trust creditors accounts in trust creditors ledger				

Trust cash payments journal of T Truter for August 20.6**TCRJ**

Date	Doc no.	Payments	** Fol.	Sundries R	Trust creditors control R	Bank R
20	40	A Britton – property	T3		45 600	45 600
25	41	Y Mats - divorce	T4		456	456
					46 056	46 056
31		Debit trust creditors control account in general ledger			B6	
31		Credit trust bank account in general ledger				B5
31		** Debit individual trust creditors accounts in trust creditors ledger				

Fees journal of T Truter for August 20.6**FJ**

Date	Details	** Fol.	Clients control R	VAT R	Fees R
1	P Lees - services rendered	C1	19 152	2 352	16 800
2	R Rogers – third party case	C7	1 254	154	1 100
15	D George - collection	C8	741	91	650
			21 147	2 597	18 550
31	Debit clients control account in general ledger		B4		
31	Debit VAT control account in general ledger			B12	
31	Credit fees account in general ledger				N8
31	** Debit individual client accounts in clients ledger				

Petty cash journal of T Truter for August 20.6
PCJ

Date	Doc no.	Receipts	Fol	Total	Date	Doc no.	Payments	Fol	Total	Stationery	Postage	VAT	Entertainment	Clients
31	534	Bank	BCRJ	873	2	A10	Postage stamps		399		350	49		
					11	A11	Milk and sugar		57				57	
					20	A12	Tea and coffee		114				114	
							Pens and pencils		285	250		35		
					25	A13	P Lees	C1**	18					18
				873					873	250	350	84	171	18
31	Credit petty cash account in general ledger								B8					
31	Debit individual accounts in general ledger									N6	N1	B12	N3	B4
31	** Debit individual client accounts in clients ledger													

General journal of T Truter for August 20.6

Day	Details	Fol	Debit R	Credit R
28	A Beno (Clients control)	C3/(B4)	600	
	Interest received	N12		600
	(Account charged with interest – R4 000 x 20% x 9/12)			
29	Stationery	N6	700	
	VAT control (Input VAT)	B12	98	
	JJ Suppliers (Business creditors control)	BC1/(B13)		798
	(Stationery purchased on credit)			
29	Credit losses	N7	1 300	
	VAT control (Input VAT)	B12	182	
	J Taylor (Clients Control)	C4/(B4)		1 482
	(Balance of J Taylor written off as irrecoverable)			

List of trust creditors on 31 July 20.6:

		R
P Simon	T1	2 500
T Joubert	T2	21 000
A Britton	T3	51 500
		<u>75 000</u>

List of clients on 31 July 20.6:

		R
P Lees	C1	14 500
D Dobe	C2	200
A Beno	C3	4 000
J Taylor	C4	1 482
O Poka	C5	11 200
Q Quints	C6	3 700
R Rogers	C7	820
G George	C8	3 650
B Mutuli	C9	5 300
C Zuma	C10	1 000
K Naidoo	C11	7 400
J Moko	C12	1 700
S Snow	C13	450
		55 402

GENERAL LEDGER

Dr			Capital			B1	Cr
			R	20.6 Aug 1	Balance	b/d	R 281 732

Dr			Drawings			B2	Cr
20.6 Aug 1	Balance	b/d	R 13 050				R

Dr			Deposit: Office rent			B3	Cr
20.6 Aug 1	Balance	b/d	R 1 800				R
31	Bank	BCPJ	4 000				
			5 800				

Dr			Clients control			B4	Cr
20.6 Aug 1	Balance	b/d	R 55 402	20.6 Aug 29	Bad debts and VAT	GJ	R 1 482
28	Interest received	GJ	600	31	Bank	CB	20 406
31	Fees and VAT	FJ	21 147		Balance	c/d	55 279
	Petty cash		18				
			77 167				77 167
20.6 Sept 1	Balance	b/d	55 279				

Dr Trust bank account				B5 Cr			
20.6 Aug 1	Balance	b/d	R 75 000	20.6 Aug 31	Payments	TCPJ	R 46 056
31	Receipts	TCRJ	456	31	Balance	c/d	29 400
			75 456				75 456
Sept 1	Balance	b/d	29 400				

Dr Trust creditors control				B6 Cr			
20.6 Aug.1	Trust bank	TCPJ	R 46 056	20.6 Aug.1	Balance	b/d	R 75 000
	Balance		29 400	31	Trust bank	TCRJ	456
			75 456				75 456
				20.6 Aug 1	Balance	b/d	29 400

Dr Business bank account				B7 Cr			
20.6 Aug 1	Balance	b/d	R 80 000	20.6 Aug 31	Payments	BCPJ	R 18 724
31	Receipts	BCRJ	20 406	31	Balance	c/d	81 682
			100 406				100 406
Sept 1	Balance	b/d	81 682				

Dr Petty cash				B8 Cr			
20.6 Aug 1	Balance	b/d	R 1 000	20.6 Aug 31	Payments	PCJ	R 873
31	Receipts	PCJ	873	31	Balance	c/d	1 000
			1 873				1 873
Sept 1	Balance	b/d	1 000				

Dr Land and buildings				B9 Cr			
20.6 Aug 1	Balance	b/d	R 200 000				R

Dr Equipment				B10 Cr			
20.6 Aug 1	Balance	b/d	R 47 800				R

Dr Furniture				B11 Cr			
20.6 Aug 1	Balance	b/d	R 14 000				R

Dr				VAT control		B12	Cr
20.6 Aug 29	Creditors	GJ	R 98	20.6 Aug 1	Balance	b/d	R 21 140
29	Clients control	GJ	182	31	Clients control	FJ	2 597
31	Bank	CPJ	1 071				
31	Petty cash	PCJ	84				
31	Balance	b/d	22 302				
			23 737				23 737
				20.6 Sept 1	Balance	b/d	22 302

Dr				Business creditors control		B13	Cr
			R	20.6 Aug 29	Stationery and VAT	GJ	R 798

Dr				Postage		N1	Cr
20.6 Aug 1	Balance	b/d	R 500				R
31	Petty cash	PCJ	350				
			850				

Dr				Advertisement		N2	Cr
20.6 Aug 1	Balance	b/d	R 2 000				R
7	Bank	CB	200				
			2 200				

Dr				Entertainment		N3	Cr
20.6 Aug 1	Balance	b/d	R 480				R
31	Petty cash	PCJ	171				
			651				

Dr				Water and electricity		N4	Cr
20.6 Aug 1	Balance	b/d	R 13 400				R
27	Bank	TCPJ	850				
			14 250				

Dr		Telephone				N5	Cr
20.6 Aug 1	Balance	b/d	R 1 560				R
27	Bank	TCPJ	1 600				
			<u>3 160</u>				

Dr		Stationery				N6	Cr
20.6 Aug 1	Balance	b/d	R 900				R
29	Creditors	GJ	700				
31	Petty cash	PCJ	250				
			<u>1 850</u>				

Dr		Credit losses				N7	Cr
20.6 Aug 1	Balance	b/d	R 880				R
29	Clients control	GJ	1 300				
			<u>2 180</u>				

Dr		Fees				N8	Cr
			R	20.6 Aug 1	Balance	b/d	R 183 700
				31	Clients control	FJ	18 550
							<u>202 250</u>

Dr		Office rent				N9	Cr
20.6 Aug 1	Balance	b/d	R 24 500				R
	Bank	CPJ	3 500				
			<u>28 000</u>				

Dr		Insurance				N10	Cr
20.6 Aug 1	Balance	b/d	R 10 500				R
25	Bank	CPJ	1 500				
			<u>12 000</u>				

Dr		Salaries and wages				N11	Cr
20.6 Aug 1	Balance	b/d	R 18 800				R
27	Bank	CPJ	5 130				
			23 930				

Dr		Interest received				N12	Cr
			R	20.6 Aug 28	Clients control	GJ	R 600

CLIENTS LEDGER

Dr		P Lees				C1	Cr
20.6 Aug 1	Balance	b/d	R 14 500	20.6 Aug 1	Business cash book	CRJ	R 19 152
	Fees and VAT	FJ	19 152	23	Business cash book	CRJ	1 254
	Petty cash	PCJ	18	31	Balance	c/d	13 264
			33 670				33 670
20.6 Aug 1	Balance	b/d	13 264				

Dr		D Dobe				C2	Cr
20.6 Aug 1	Balance	b/d	R 200				R

Dr		A Beno				C3	Cr
20.6 Aug 1	Balance	b/d	R 4 000				R
28	Interest received		600				
			4 600				

Dr		J Taylor				C4	Cr
20.6 Aug 1	Balance	b/d	R 1 482	20.6 Aug 1	Credit losses	GJ	R 1 482

Dr		O Poka				C5	Cr
20.6 Aug 1	Balance	b/d	R 11 200				R

Dr		Q Quints				C6	Cr
20.6 Aug 1	Balance	b/d	R 3 700				R

Dr		R Rogers				C7	Cr
20.6 Aug 1	Balance	b/d	R 820				R
	2 Fees and VAT	FJ	1 254				
			2 074				

Dr		G George				C8	Cr
20.6 Aug 1	Balance	b/d	R 3 650				R
	15 Fees and VAT		741				
			4 391				

Dr		B Mutuli				C9	Cr
20.6 Aug 1	Balance	b/d	R 5 300				R

Dr		C Zuma				C10	Cr
20.6 Aug 1	Balance	b/d	R 1 000				R

Dr		K Naidoo				C11	Cr
20.6 Aug 1	Balance	b/d	R 7 400				R

Dr		J Moka				C12	Cr
20.6 Aug 1	Balance	b/d	R 1 700				R

Dr		S Snow				C13	Cr
20.6 Aug 1	Balance	b/d	R 450				R

TRUST CREDITORS LEDGER

Dr		P Simon				T1	Cr
			R	20.6 Aug 1	Balance	b/d	R 2 500

Dr		J Joubert				T2	Cr
			R	20.6 Aug 1	Balance	b/d	R 21 000

Dr		A Britton				T3	Cr
20.6 Aug 20	Trust cash book (Deposit on property)	TCPJ	R 45 600	20.6 Aug 1	Balance	b/d	R 51 500
31	Balance	c/d	5 900				
			51 500				51 500
				20.6 Sep 1	Balance	b/d	5 900

Dr		Y Mats				T4	Cr
20.6 Aug 25	Trust cash book (Divorce)	TCPJ	R 456	20.6 Aug 20	Trust cash book (Divorce)	TCRJ	R 456

BUSINESS CREDITORS LEDGER

Dr		JJ Suppliers				BC1	Cr
			R	20.6 Aug 29	Stationery and VAT	GJ	R 798

List of trust creditor's balances:

	R
P Simon	2 500
T Joubert	21 000
A Britton	5 900
Y Mats	-
	29 400

Balance of trust creditors control account	29 400
--	--------

T TRUTER**TRIAL BALANCE ON 31 AUGUST 20.6**

		Debit R	Credit R
Capital	B1		281 732
Drawings	B2	13 050	
Deposit: Office rent	B3	5 800	
Clients control	B4	55 279	
Trust bank account	B5	29 400	
Trust creditors control	B6		29 400
Business bank account	B7	81 682	
Petty cash	B8	1 000	
Land and buildings	B9	200 000	
Equipment	B10	47 800	
Furniture	B11	14 000	
VAT control	B12		22 302
Business creditors account	B13		798
Postage	N1	850	
Advertisements	N2	2 200	
Entertainment	N3	651	
Water and electricity	N4	14 250	
Telephone	N5	3 160	
Stationery	N6	1 850	
Credit losses	N7	2 180	
Fees	N8		202 250
Office rent	N9	28 000	
Insurance	N10	12 000	
Interest received	N11		600
Salaries and wages	N12	23 930	
		537 082	537 082

List of client's balances:

	R
P Lees	13 264
D Dobe	200
A Beno	4 600
J Taylor	-
O Poka	11 200
Q Quints	3 700
R Rogers	2 074
G George	4 391
B Mutuli	5 300
C Zuma	1 000
K Naidoo	7 400
J Moko	1 700
S Snow	450
	55 279
Balance of clients control account	<u><u>55 279</u></u>

6.5 Learning activities and feedback**LEARNING ACTIVITY 6.1**

The following relates to Mecer Attorneys which is not registered as a VAT vendor:

1. Trial balance at 31 January 20.6:

	Fol.	Dr R	Cr R
Capital	B1		256 800
Law library at cost	B2	36 000	
Equipment at cost	B3	32 400	
Motor vehicles at cost	B4	182 400	
Business bank account	B5	4 296	
Trust bank account	B6	2 520	
Clients control	B7	1 704	
Trust creditors control	B8		2 520

2. The following balances on 31 January 20.6 appeared in the:**Clients ledger**

F Franco	R648 Debit
T Tank	R792 Debit (In respect of a court case filed by ABC Venture Capital Ltd.)
M Mostert	R264 Debit

Trust creditors ledger

K Kline R2 520 Credit (In respect of the transfer of property situated on Erf 66, Garsfontein, Extension 6.

3. Transactions entered into by Mecer Attorneys during February 20.6:

Date	Detail
1	Pay office rent for February 20.7, R1 440.
2	Purchase government gazettes amounting to R120 for the library.
2	Receive a cheque for R648 from F Franco in settlement of his account.
5	Debit F Franco with fees in respect of the drafting of a will, R2 376.
8	M Mtuli instructs the attorney's practice to issue a summons against his wife for a divorce. He pays a deposit of R1 620 to cover preliminary costs.
9	Debit T Tank with fees of R75 600 for defence in the court case filed by ABC Venture Capital Ltd and receives payment in cash, for the full amount.
10	Receive a deposit of R3 432 from W Winston for the preparation of contracts regarding the registration of a company.
11	Receive an account from P & C Stationers for stationery purchased on credit, R846.
12	T Tank instructs the attorney's practice to act on his behalf in a third party case and pays a deposit of R720. The attorney's practice pays R60 for a police report from these funds.
17	Pay municipal taxes on behalf of K Kline in respect of the transfer of the property, R1 440.
18	The conveyancing transaction between trust creditor K Kline and the buyer, O Ostio is concluded. The balance on the trust account of K Kline is paid out to him.
20	Debit T Tank with fees in respect of the third party case, R1 728
20	Pay advocate D Donkin in respect of the third party case of T Tank, R3 960.
22	Pay sheriff fees from trust monies for issuing of summons on M Mtuli, R48.
22	Pay registration expenses from trust monies in respect of the company registration for W Winston, R360.
27	F Franco's cheque is returned by the bank, marked "R/D".
28	Sell an old typewriter for R324 on credit to N Nolan.
28	Receive office rent from A Aston for sub-letting a section of the premises.
28	Issue cheques for: Wages, R6 388. Water and electricity, R2 040. Telephone, R636.

Additional information

All payments are made by cheque or electronic fund transfers.

The legal practice does not make use of advocate and sheriff journals as their services are not frequently used.

Mecer Attorneys do not make use of a business creditors control account as the majority of business expenses are cash transactions.

REQUIRED:

Prepare the following in the books of Mecer Attorneys for February 20.6:

1. Books of first entry

- Business cash journals
- Trust cash journals
- Fees journal
- General journal

2. Ledgers

- General ledger
- Clients ledger
- Trust creditors ledger

3. The trial balance of Mecer Attorneys at 28 February 20.6
FEEDBACK: LEARNING ACTIVITY 6.1
1. Books of first entry
Business cash receipts journal of Mecer Attorneys for February 20.6
BCRJ

Date	Receipts	Fol.	Sundries R	Clients R	Bank R
2	F Franco	C1		648	648
9	T Tank	C2		75 600	75 600
28	Rent received	N6	720		720
			720	76 248	76 968
				B7	B5

Business cash payments journal of Mecer Attorneys for February 20.6
BCPJ

Date	Payments	Fol.	Sundries R	Clients R	Bank R
1	Office rent	N6	1 440		1 440
2	Law library	B2	120		120
20	T Tank (advocate)*	C2		3 960	3 960
27	F Franco (R/D)	C1		648	648
28	Wages	N5	6 388		6 388
	Water and electricity	N4	2 040		2 040
	Telephone	N3	636		636
			10 624	4 608	15 232
				B7	B5

*The payment to advocate D Donkin is made from the business bank account as T Tank does not have funds available in the trust bank account.

Trust cash receipts journal of Mecer Attorneys for February 20.6

TCRJ

Date	Receipts	Fol.	Sundries R	Trust Creditors R	Bank R
8	M Mtuli (divorce)	T2		1 620	1 620
10	W Winston (company)	T3		3 432	3 432
12	T Tank	T4		720	720
				5 772	5 772
				B8	B6

Trust cash payments journal of Mecer Attorneys for February 20.6

TCPJ

Date	Payments	Fol.	Sundries R	Trust Creditors R	Bank R
16	T Tank (police report)	T4		60	60
17	K Kline (taxes – Garsfontein property)	T1		1 440	1 440
18	K Kline (Garsfontein property)	T1		1 080	1 080
22	M Mtuli (sheriff)	T2		48	48
	W Winston (company registration)	T3		360	360
				2 988	2 988
				B8	B6

Fees journal of Mecer Attorneys for February 20.6

FJ

Date	Details	Fol.	Clients R	Fees R
5	F Franco- drafting of will	C1	2 376	2 376
9	T Tank- court case	C2	75 600	75 600
20	T Tank- third party case	C3	1 728	1 728
			79 704	79 704
			B7	N1

General journal of Mecer Attorneys for February 20.6

Day	Details	Fol.	Debit R	Credit R
11	Stationery	N2	846	
	P & C Stationers	B9		846
	(Stationery purchased on credit)			

Day	Details	Fol.	Debit R	Credit R
28	N Nolan	B10	324	
	Equipment	B3		324
	(Old typewriter sold on credit)			

2. LEDGERS

General ledger of Mecer Attorneys

Dr		Capital		B1		Cr	
		R	20.6 Feb 1	Balance	b/d	R	256 800

Dr		Law library at cost		B2		Cr	
20.6 Feb 1	Balance	b/d	R 36 000			R	
2	Business bank	BCPJ	120				
			36 120				

Dr		Equipment at cost		B3		Cr	
20.6 Feb 1	Balance	b/d	R 32 400	20.6 Feb 28	N Nolan	GJ	R 324
				28	Balance	c/d	32 076
			32 400				32 400
Mar 1	Balance	b/d	32 076				

Dr		Motor vehicles at cost		B4		Cr	
20.6 Feb 1	Balance	b/d	R 182 400			R	

Dr		Business bank account		B5		Cr	
20.6 Feb 1	Balance	b/d	R 4 296	20.6 Feb 1	Payments	BCPJ	R 15 232
28	Receipts	BCRJ	76 968	28	Balance	c/d	66 032
			81 264				81 264
20.6 Mar 1	Balance	b/d	66 032				

Dr				Trust bank account				B6	Cr
20.6 Feb 1	Balance	b/d	R 2 520	20.6 Feb 28	Payments	TCPJ	R 2 988		
28	Receipts	TCRJ	5 772		Balance	c/d	5 304		
			8 292				8 292		
20.6 Mar 1	Balance	b/d	5 304						

Dr				Clients control				B7	Cr
20.6 Feb 1	Balance	b/d	R 1 704	20.6 Feb 28	Business bank	BCRJ	R 76 248		
28	Fees earned	FJ	79 704		Balance	c/d	9 768		
28	Business bank	BCPJ	4 608						
			86 016				86 016		
20.6 Mar 1	Balance	b/d	9 768						

Dr				Trust creditors control				B8	Cr
20.6 Feb 28	Trust bank	TCPJ	R 2 988	20.6 Feb 1	Trust bank	b/d	R 2 520		
28	Balance	c/d	5 304	28	Trust bank	TCRJ	5 772		
			8 292				8 292		
				20.6 Mar 1	Balance	b/d	5 304		

Dr				P & C Stationers				B9	Cr
			R	20.6 Feb 11	Stationery	GJ	R 846		

Dr				N Nolan				B10	Cr
20.6 Feb 28	Equipment	GJ	R 324				R		

Dr				Fees earned				N1	Cr
			R	20.6 Feb 28	Clients control	FJ	R 79 704		

Dr				Stationery				N2	Cr
20.6 Feb 11	P & C Stationers	GJ	R 846				R		

Dr				Telephone				N3	Cr
20.6 Feb 28	Business bank	BCPJ	R 636				R		

Dr		Water and electricity				N4	Cr
20.6 Feb 28	Business bank	BCPJ	R 2 040				R

Dr		Wages				N5	Cr
20.6 Feb 28	Business bank	BCPJ	R 6 388				R

Dr		Office rent paid				N6	Cr
20.6 Feb 1	Business bank	BCPJ	R 1 440	20.6 Feb 28	Business bank	BCRJ	R 720
				28	Balance	c/d	720
			1 440				1 440
20.6 Mar 1	Balance	b/d	720				

Clients ledger of Mecer Attorneys

Please note:

- If the attorney's firm receives instructions from a client on different matters, each matter should be separately accounted for. (Refer to Mr. T Tank below.)
- If there is trust money in a trust creditor's account which is not specifically earmarked for another matter, the advocate fees, sheriff fees, etc. must be paid out of the **trust** bank account. If there is not sufficient trust money, the payments must be made from the business bank account.

Dr		F Franco				C1	Cr
20.6 Feb 1	Balance	b/d	R 648	20.6 Feb 2	Business bank	BCRJ	R 648
5	Fees earned	FJ	2 376	28	Balance	c/d	3 024
27	Business bank	BCPJ	648				
			3 672				3 672
20.6 Mar 1	Balance	b/d	3 024				

Dr		T Tank (Matter: ABC Venture Capital Ltd)				C2	Cr
20.6 Feb 1	Balance	b/d	R 792	20.6 Feb 9	Business bank	BCRJ	R 75 600
9	Fees earned	FJ	75 600	28	Balance	c/d	792
			76 392				76 392
20.6 Mar 1	Balance	b/d	792				

Dr				T Tank (Matter: Third party case)				C4	Cr
20.6			R	20.6			R		
Feb 20	Fees	FJ	1 728	Feb 28	Balance	c/d	5 688		
	Business bank (Advocate)	BCPJ	3 960						
			5 688				5 688		
20.6									
Mar 1	Balance	b/d	5 688						

Dr				M Mostert				C3	Cr
20.6			R				R		
Feb 1	Balance	b/d	264						

List of client balances at 28 February 20.6

F Franco	R
T Tank (ABC Venture Capital Ltd.)	3 024
T Tank (Third party case)	792
M Mostert	5 688
Total	264
	<u>9 768</u>

Trust creditors ledger of Mecer Attorneys

Dr				K Kline				T1	Cr
20.6			R	20.6			R		
Feb 17	Trust bank (Municipal taxes)			Feb 1	Balance	b/d	2 520		
		TCPJ	1 440						
18	Trust bank (K Kline)	TCPJ	1 080						
			2 520				2 520		

Dr				M Mtuli				T2	Cr
20.6			R	20.6			R		
Feb 22	Trust bank (Sheriff)	TCPJ	48	Feb 8	Trust bank (Divorce)	TCRJ	1 620		
28	Balance	c/d	1 572						
			1 620				1 620		
				20.6					
				Mar 1	Balance	b/d	1 572		

Dr				W Winston				T3	Cr
20.6			R	20.6			R		
Feb 22	Trust bank (Company registration)	TCPJ	360	Feb 10	Trust bank (Company registration)	TCRJ	3 432		
28	Balance	c/d	3 072						
			3 432				3 432		
				20.6					
				Mar 1	Balance	b/d	3 072		

Dr	T Tank (Matter: Third Party Case)				T4	Cr
20.6 Feb 12	Trust bank (Police report)	TCPJ	R 60	20.6 Feb 12	Trust bank (Deposit)	TCRJ R 720
28	Balance	c/d	660			
			720			720
				20.6 Mar 1	Balance	b/d 660

List of trust creditors' balances at 28 February 20.6

	R
K Kline	-
M Mtuli	1 572
W Winston	3 072
T Tank (third party case)	660
Total	<u>5 304</u>

3. TRIAL BALANCE OF MECER ATTORNEYS AT 28 FEBRUARY 20.6

	Fol.	Debit R	Credit R
Balance sheet section	B1		256 800
Capital	B2		
Law library at cost	B3	36 120	
Equipment at cost	B4	32 076	
Motor vehicles at cost	B5	182 400	
Business bank account	B6	66 032	
Trust bank account	B7	5 304	
Clients control	B8	9 768	5 304
Trust creditors control	B9		846
P & C Stationers	B10		
N Nolan		324	
Nominal accounts section	N1		79 704
Fees earned	N2		
Stationery	N3	846	
Telephone	N4	636	
Water and electricity	N5	2 040	
Wages	N6	6 388	
Office rent		720	
		<u>342 654</u>	<u>342 654</u>

6.6 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none">• Explain the reasons for using a ledger.• List the various ledgers.• Understand the procedure of posting to the trust and business ledgers.• Do the recording of a transaction from books of prime entry to the ledger accounts.• Balance a ledger account.• Interpret a ledger account.• Extract a trial balance.• Prepare listings of trust creditors, clients and business creditors.		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

LEARNING UNIT**7****THE TRANSFER OF TRUST MONIES TO THE BUSINESS ACCOUNT**

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LEARNING UNIT 7: The transfer of trust monies to the business account

Learning outcomes

After studying this learning unit, you should be able to:

- explain the function of the transfer journal
- know and comply with the transfer rules and requirements in terms of the Attorneys Act 53 of 1979, the Legal Practice Act 28 of 2014 and the Rules for the Attorneys' Profession
- define the objectives of transfer procedures
- follow the transfer procedures
- calculate the amounts that must be transferred from the trust creditors ledger to the client ledger for each client
- calculate the total amount that must be transferred from the trust bank account to the business bank account

Key concepts

- Transfer journal
- Transfer rules
- Transfer procedures
- Amount to be transferred
- Payments from business bank account on behalf of trust creditor
- Funds earmarked
- Trust creditor

7.1 Introduction

As discussed in previous learning units, a legal practice differs from other businesses in that the practitioner receives money from clients which must be kept in trust. Section 78(1) of the Attorneys Act and section 86(2) of the Legal Practice Act requires that a separate bank account is opened for trust monies. Trust money may never be deposited into the business bank account except for the payment of fees levied by the practitioner for services rendered and the refund of expenses paid on behalf of the client out of the business bank account. The practitioner can only levy fees once his obligation to the client is met in full. Interim fees may therefore not be transferred from the trust bank account to the business bank account. For ensuring that the legal fees will be paid, the attorney and his client can, however, enter into an agreement that interim fees be deposited into the trust account to be transferred to the business account as soon as the fees are levied.

Two separate sets of accounting records are kept, one for the business and one for the trust. The two sets are not linked and therefore the transfer procedures discussed under 7.2 below should be followed.

In terms of the Rules for the Attorneys' Profession (the Rules) with regards to the transfer of trust funds from the trust bank account to the business bank account, a legal practice shall ensure that the balance on its trust bank account shall at any date be equal to or exceed the total credit balances of the trust creditors in its accounting records. Keep in mind that law practices mostly require that clients deposit money into the trust bank account in advance before any services are rendered or payments are made to third parties e.g. transfer duties, rates and taxes, deposits payable by property buyers, etc. In simple terms, this means that a transfer to the business bank account can only be done if there are sufficient funds in the trust bank account to the credit of the client. The amount of the transfer must thus not create a debit balance in the trust creditor account. The trust bank account is debited when the funds

are received from the client and the trust creditor account of the client is credited. When the funds are transferred to the business bank account, the trust creditor account of the client is debited (via the trust transfer journal) and the trust bank account is credited via the trust cash payments journal.

7.2 The transfer procedure

The transfer procedure is as follows:

- As soon as the attorney levies his fees or pay third parties on behalf of a client through his business bank account, the trust creditor's account and the client's account of the client are cleared or are set off against each other.
- By comparing the balance on a client's account with the balance on his or her corresponding trust creditor's account, one can determine whether there are any funds available in the trust bank account for transfer to the business bank account.
- If there are trust funds available an entry is made in the transfer journal. The trust creditor account is debited and the client account credited. (The calculation of the amount to be transferred is discussed in 7.4 below.)
- A trust cheque is issued or an electronic fund transfer is made in respect of the amount to be transferred. A business receipt is issued and the money is deposited in the business bank account.
- If the client account still reflects a debit balance after the transfer and the attorney's responsibilities towards the client have been fulfilled, the client should settle his account as a business client.
- If a credit balance on the trust creditor account exists after the transfer and the attorney's responsibilities towards the client have been fulfilled, a trust cheque is issued to the trust creditor.
- When an irregular trust debit balance is corrected the opposite procedure is followed. The effect of this is that an amount is transferred from the business bank account to the trust bank account. In this case, a reverse transfer entry is recorded in the transfer journal, cash books and various ledgers.

7.3 Transfer requirements

To comply with the Rules mentioned above, the following requirements should be met before the transfer is made:

- The client should owe an amount to the practice on his or her client account. In other words, his client account should have a debit balance. Funds should simultaneously be available on his or her trust creditor account in order to do the transfer. In other words, the client's trust creditor account should have a credit balance.
- If the amount owing on his or her client account exceeds the amount available on his or her trust creditor account, the amount transferred is limited to the amount available on the client's trust creditor account.
- When the amount available in the client's trust creditor account exceeds the amount owing on his client account, the amount transferred is limited to the amount owing on his client account.
- Although a client may have a debit balance on his or her client account and a credit balance on his or her trust creditor account, a transfer cannot be affected if the funds available as a credit on his or her trust creditor account have been earmarked for a specific purpose. For example, a guarantee could have been issued against the credit balance available or the funds could have been earmarked for the purchase of a certain property.

- If a client's trust creditor account has a debit balance due to the erroneous issue of a trust cheque instead of a business cheque, a transfer from the business bank account to the trust bank account must be done immediately.
- If a client pays the attorney with a cheque, no payments can be made out of the trust bank account on behalf of the client within 10 days of the cheque being deposited. The bank has 10 days to clear the cheque. If the attorney is satisfied that the cheque has not been returned (R/O) by the bank he/she can make payments on behalf of the client from the trust bank account.

By adhering to the Rules and requirements, it ensures that there is no deficit in the trust bank account which prevents the obligations towards the remaining trust creditors from being met. The contrary is also true – that is, that there will be no surplus funds in the trust bank account which should have been transferred to the business bank account.

It is advisable to determine the overall trust position at least once a month (i.e. when the accounts are balanced at the end of the month) to ensure that no deficit exists. All trust cash available (i.e. the trust bank account balance and any trust investments) must be compared with the total trust liability (total of the trust creditors' balances). If the trust funds exceed the trust liabilities, a trust excess exists and is referred to as a trust surplus. The opposite indicates a trust deficit, which may **never** occur.

7.4 Calculation of the amount to be transferred from the trust bank account to the business bank account

Based on the requirements above, the following table can be used to calculate the amount to be transferred:

Description	Mr x	Mr Y		Mr Z			Total
	Trust creditors account	Fees and payments	Trust creditors account	Fees and payments	Trust creditors account	Funds earmarked	Transfer amount
A credit balance = + A debit balance = -	R Cr = + Dr = -	R	R Cr = + Dr = -	R	R Cr = + Dr = -	R Cr = + Dr = -	R Cr = + Dr = -
Trust creditor account balance before transfer (Opening balance + trust receipts – trust payments)	(XXX)		XXXX		XXX		
<u>Minus:</u> Trust funds earmarked for future matters/transactions	-		-		(XX)	XX	
Account balance for current matters	(XXX)		XXXX		X		
<u>Plus:</u> Debit balances on trust creditor accounts to be transferred <u>from</u> business bank account	XXX		-		-		XXX*
Trust creditor account balance before fees	-		XXXX		X	XX	
Fees charges		XX		XX			
<u>Minus:</u> Transfer of funds regarding fees to business bank account. <u>Limited</u> to smallest of fees charged and trust creditor account balance	-		(XX)		(X)	N/A	(XX+X)**
Trust creditor account balance	-		XX		-	XX	
<u>Minus:</u> Payments from business bank account on behalf of trust creditor. <u>Limited</u> to smallest of payments and trust creditor account balance		X	(X)	X	-		(X)***
Final balance on trust creditor's account	-		-		-	XX	
Total transfer from/(to) business bank account	XXX		(X)		(X)		(*+**+***)

7.5 Learning activities and feedback

EXAMPLE 7.1

The following information for the month ended 30 April 20.16 relates to Naidoo Attorneys:

TRIAL BALANCE OF NAIDOO ATTORNEYS ON 31 MARCH 20.16

	Debit R	Credit R
Business bank	9 150	
Trust bank	9 450	
Trust creditors control:		
G Nkosi		5 700
J Modise		3 750
Clients control:		
M Govender	1 770	
G Nkosi	2 550	
J Modise	2 025	
Capital		129 000
Equipment	82 500	
Law library	27 000	
Sheriff		360
Stationery on hand	4 365	
	138 810	138 810

Additional information

- The following totals appeared in the **subsidiary journals** of Naidoo Attorneys on 30 April 20.16:

Trust cash receipts journal

	R
Trust creditors	18 315
L Steyn	15 000
G Nkosi	3 315
Bank	18 315

Trust cash payments journal

	R
Trust creditors	7 305
G Nkosi	5 805
J Modise	1 500
Bank	7 305

Business cash payments journal

Sundries	8 475
Bank	8 475

Fees journal

Clients control	4 390
G Nkosi	1 890
J Modise	2 500
Fees	4 390

- The following entry was made in the general journal of Naidoo Attorneys on 30 April 20.16:

General Journal

GJ

	Dr R	Cr R
M Govender (client)	225	
Interest received		225
<i>Interest levied on account in arrears</i>		

EXAMPLE 1 (continued)

REQUIRED:

PART A

Open the following ledger accounts in the general ledger of Naidoo Attorneys as at 30 April 20.16 and post the subsidiary journals in additional information 1 and 2 above, to these ledger accounts.

- (i) Trust bank
- (ii) Business bank
- (iii) Clients control
- (iv) Trust creditors control
- (v) Fees

Please note:

All accounts must be properly balanced on 30 April 20.16.

Commence the general ledger accounts with the opening balances as given in the trial balance above.

Prepare all the general ledger accounts in the format illustrated below:

Dr		Relevant account name (e.g. Trust bank)										Cr	
R												R	

PART B

Calculate, for each trust creditor, the amount that should be transferred from the trust bank account to the business bank account on 30 April 20.16, after all the information given in the question have been taken into account. The calculation must be done in tabular format as laid out in 7.4.

Please note: Show all calculations.

FEEDBACK: EXAMPLE 7.1

PART A**(i)**

Dr			Trust bank			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	9 450	Apr 30	Trust payments TCPJ	7 305	
30	Trust receipts TCRJ	18 315		Balance c/d	20 460	
		27 765			27 765	
Apr 30	Balance b/d	20 460				

(ii)

Dr			Business Bank			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance c/d	9 150	Apr 30	Payments BCPJ	8 475	
30				Balance c/d	675	
		9 150			9 150	
Apr 30	Balance b/d	675				

(iii)

Dr			Clients control			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	6 345	Apr 30	Balance c/d	10 960	
30	Fees FJ	4 390				
	Sundry journal GJ	225				
		10 960			10 960	
Apr 30	Balance b/d	10 960				

(iv)

Dr			Trust creditors control			Cr
Date	Details	R	Date	Details	R	
Apr 30	Trust bank TCPJ	7 305	Apr 1	Balance b/d	9 450	
	Balance c/d	20 460	30	Trust bank TCRJ	18 315	
		27 765			27 765	
			Apr 30	Balance b/d	20 460	

PART B

Calculation of the amount that must be transferred from the trust bank account to the business bank account:

Description	L Steyn	G Nkosi		J Modise		Total
	Trust creditors account	Fees and payments	Trust creditors account	Fees and payments	Trust creditors account	Transfer amount
A credit balance = + A debit balance = -	R Cr = + Dr = -	R	R Cr = + Dr = -	R	R Cr = + Dr = -	R Cr = + Dr = -
Trust creditor account balance before transfer (Opening balance + trust receipts – trust payments)	15 000		3 210		2 250	
<u>Minus:</u> Trust funds earmarked for future matters/transactions	-		-		-	
Account balance for current matters	15 000		3 210		2 250	
<u>Plus:</u> Debit balances on trust creditor accounts to be transferred <u>from</u> business bank account	-		-		-	
Trust creditor account balance before fees	15 000		3 210		2 250	
Fees charged		<u>1 890</u>		<u>2 500</u>		
<u>Minus:</u> Transfer of funds regarding fees to business bank account. <u>Limited</u> to smallest of fees charged and trust creditor account balance	-		(1 890)		(2 250)	(4 140)
Trust creditor account balance	15 000		1 320		-	
<u>Minus:</u> Payments from business bank account on behalf of trust creditor. <u>Limited</u> to smallest of payments and trust creditor account balance		<u>2 550</u>	(1 320)	<u>2 025</u>	-	(1 320)
Final balance on trust creditor's account	15 000		-		-	
Total transfer from/(to) business bank account			(3 210)		(2 250)	(5 460)

The trust creditors ledger and clients ledger are shown below for completeness only and need not be included in your answer.

Trust creditors ledger

Dr			Steyn			Cr
Date	Details	R	Date	Details	R	
			Apr 30	Trust bank (TCRJ)	15 000	

Dr			G Nkosi			Cr
Date	Details	R	Date	Details	R	
Apr 30	Trust bank (TCPJ)	5 805	Apr 1	Balance b/d	5 700	
	Balance before transfer c/d	3 210	30	Trust bank (TCRJ)	3 315	
		9 015			9 015	
Apr 30	G Nkosi (transfer)	3 210	Apr 30	Balance b/d	3 210	

Dr			J Modise			Cr
Date	Details	R	Date	Details	R	
Apr 30	Trust bank (TCPJ)	1 500	Apr 1	Balance b/d	3 750	
	Balance before transfer c/d	2 250				
		3 750			3 750	
Apr 30	J Modise (transfer)	2 250	Apr 30	Balance b/d	2 250	

Client's ledger

Dr			G Nkosi			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	2 550	Apr 30	G Nkosi (trust creditor)	3 210	
30	Fees FJ	1 890		Balance c/d	1 230	
	Balance before transfer c/d	4 440			4 440	
May 1	Balance b/d	1 230				

Dr			J Modise			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	2 025	Apr 30	J Modise (trust creditor)	2 250	
30	Fees FJ	2 500		Balance c/d	2 275	
	Balance before transfer c/d	4 525			4 525	
May 1	Balance b/d	2 275				

Dr			M Govender			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	1 770				
30	Interest received	225				
May 1	Balance	1 995				

Reconciliations

Trust bank account [R20 460 – R5 460 (transfer to business bank account)]	= R15 000
Trust creditors [Mr L Steyn]	= R15 000
Client control account [R10 960 – R5 460 (transfer from trust creditors control)]	= R5 500
Clients' accounts [Mr G Nkosi R 1 230 + Mr J Modise R2 275 + Mr M Govender R1 995]	= R5 500

EXAMPLE 7.2

Use the same information as in example 1 but add the following:

- Assume that the information in example 1 was before the bank reconciliation of the trust bank account was done. The only differences between the trust bank statement and the trust bank account in the accounting records of Naidoo Attorneys were the following:
 - An electronic funds transfer on 29 April 2016 of R2 000 on behalf of Mr L Steyn to the City Council for rates and taxes; and
 - The reversal by the bank of the R15 000 paid into the trust bank account by Mr L Steyn due to insufficient funds in the private bank account of Mr L Steyn.

These two transactions must still be accounted for in the trust bank account of Naidoo Attorneys.

2. R1 600 of the R3 750 opening balance on the account of Mr J Modise in the trust creditor's ledger is specifically for transfer duties payable once the property is transferred to Mr J Modise. Mr Naidoo expects that the property will be transferred during the second week of May 20.16.

REQUIRED:

PART A

Open the following ledger accounts in the general ledger of Naidoo Attorneys as at 30 April 20.16 and post the subsidiary journals in additional information 1 and 2 above, to these ledger accounts.

- (i) Trust bank
- (ii) Business bank
- (iii) Clients control
- (iv) Trust creditors control
- (v) Fees

Please note:

All accounts must be properly balanced on 30 April 20.16.

Commence the general ledger accounts with the opening balances as given in the trial balance above.

Prepare all the general ledger accounts in the format illustrated below:

Dr		Relevant account name (e.g. Trust bank)								Cr	

PART B

Calculate, for each trust creditor, the amount that should be transferred from the trust bank account to the business bank account on 30 April 20.16, after all the information given in the question have been taken into account.

Please note: Show all calculations.

FEEDBACK: EXAMPLE 7.2

PART A

(i)

Dr			Trust bank			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	9 450	Apr 30	Trust payments TCPJ	*24 305	
30	Trust receipts TCRJ	18 315		Balance c/d	3 460	
		27 765			27 765	
Apr 30	Balance b/d	3 460				

* R7 305 + R2 000 + R15 000 = R24 305

(ii)

Dr			Business Bank			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	9 150	Apr 30	Payments BCPJ	8 475	
				Balance c/d	675	
		9 150			9 150	
Apr 30	Balance b/d	675				

(iii)

Dr			Clients Control			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	6 345	Apr 30	Balance c/d	10 960	
30	Fees FJ	4 390				
	Sundry journal GJ	225				
		10 960			10 960	
Apr 30	Balance b/d	10 960				

(iv)

Dr			Trust creditors control			Cr
Date	Details	R	Date	Details	R	
Apr 30	Trust bank TCPJ	24 305	Apr 1	Balance b/d	9 450	
	Balance c/d	3 460	30	Trust bank TCRJ	18 315	
		27 765			27 765	
			Apr 30	Balance b/d	3 460	

(v)

Dr			Fees			Cr	
Date	Details	R	Date	Details	R		
			Apr 30	Sundry clients FJ	2 960		

PART B

The following table can be used to calculate the amount that must be transferred from the trust bank account to the business bank account:

Description	L Steyn	G Nkosi		J Modise			Total
	Trust creditors account	Fees and payments	Trust creditors account	Fees and payments	Trust creditors account	Funds ear-marked	Transfer amount
A credit balance = + A debit balance = -	R Cr = + Dr = -	R	R Cr = + Dr = -	R	R Cr = + Dr = -	R Cr = + Dr = -	R Cr = + Dr = -
Trust creditor account balance before transfer (Opening balance + trust receipts – trust payments)	(2 000)		3 210		2 250		
<u>Minus:</u> Trust funds earmarked for future matters/transactions	-		-		(1 600)	1 600	
Account balance for current matters	(2 000)		3 210		650		
<u>Plus:</u> Debit balances on trust creditor accounts to be transferred <u>from</u> business bank account	2 000		-		-	-	2 000
Trust creditor account balance before fees	-		3 210		650	1 600	
Fees charged		<u>1 890</u>		<u>2 500</u>			
<u>Minus:</u> Transfer of funds regarding fees to business bank account. <u>Limited</u> to smallest of fees charged and trust creditor account balance	-		(1 890)		(650)	N/A	(2 540)
Trust creditor account balance	-		1 320		-	1 600	
<u>Minus:</u> Payments from business bank account on behalf of trust creditor. <u>Limited</u> to smallest of payments and trust creditor account balance		<u>2 550</u>	(1 320)	<u>2 025</u>	-		(1 320)
Final balance on trust creditor's account	-		-		-	1 600	
Total transfer from/(to) business bank account	2 000		(3 210)		(650)		(1 860)

The trust creditors ledger and clients ledger are shown below for completeness only and need not be included in your answer.

Trust creditors ledger

Dr			L Steyn			Cr		
Date	Details	R	Date	Details	R			
Apr 30	Trust bank (TCPJ)	*17 000	Apr 30	Trust bank (TCRJ)	15 000			
			30	Balance before transfer c/d	2 000			
		17 000			17 000			
Apr 30	Balance b/d	2 000	Apr 30	L Steyn (transfer)	2 000			

* R2 000 + R15 000 = R17 000

Dr			M Govender			Cr		
Date	Details	R	Date	Details	R			
Apr 30	Trust bank (TCPJ)	5 805	Apr 1	Balance b/d	5 700			
	Balance before transfer c/d	3 210	30	Trust bank (TCRJ)	3 315			
		9 015			9 015			
Apr 30	G Nkosi (transfer)	3 210	Apr 30	Balance b/d	3 210			

Dr			J Modise			Cr		
Date	Details	R	Date	Details	R			
Apr 30	Trust bank (TCPJ)	1 500	Apr 1	Balance b/d	3 750			
	Balance before transfer c/d	2 250						
		3 750			3 750			
Apr 30	J Modise (transfer)	650	Apr 30	Balance b/d	2 250			
	Balance c/d	1 600						
		2 250			2 250			
			May 1	Balance b/d	1 600			

Clients ledger

Dr			L Steyn			Cr		
Date	Details	R	Date	Details	R			
Apr 30	L Steyn (trust creditor)	2 000						

Dr			G Nkosi			Cr		
Date	Details	R	Date	Details	R			
Apr 1	Balance b/d	2 550	Apr 30	G Nkosi (trust creditor)	3 210			
30	Fees FJ	1 890		Balance c/d	1 230			
	Balance before transfer c/d	4 440			4 440			
May 1	Balance b/d	1 230						

Dr			J Modise			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	2 025	Apr 30	J Modise (trust creditor)	650	
30	Fees FJ	2 500		Balance c/d	3 875	
	Balance before transfer c/d	4 525				4 525
May 1	Balance	3 875				

Dr			M Govender			Cr
Date	Details	R	Date	Details	R	
Apr 1	Balance b/d	1 770				
30	Interest received	225				
May 1	Balance	1 995				

Reconciliations

Trust bank account [R3 460 – R1 860 (transfer to business bank account)]	=	R1 600
Trust creditors [Mr J Modise]	=	R1 600
Client control account [R10 960 – R1 860 (transfer from trust creditors control)]	=	R9 100
Clients' accounts [Mr L Steyn R2 000 + G Nkosi R1 230 + Mr J Modise R3 875 + Mr M Govender R1 995]	=	R9 100

7.6 The recording process in the transfer journal

The trust cheque must be deposited in the business bank account. The following source documents are of relevance: trust cheques, business receipts and clients' files.

The transfer of the trust funds to the business bank account can take place on the same day as the date on which the attorney levied his fees. It is recommended that the transfer is made as soon as possible, as the accumulation of the attorney's own money in the trust bank account may be seen as a failure to separate business and trust money properly and is a transgression of section 78(1) of Act 53 of 1979.

The exact amount owing on the business account of the client should be transferred. The practice of transferring rounded amounts is not recommended.

When transfers are made for more than one client on a specific day, only one trust cheque, representing the total of individual transfers for the day, is recorded in the business cash book and deposited in the business bank account.

All transfers to the client's ledger and the trust creditor's ledger should be done via the transfer journal.

If we use example 7.1 as an example the transfer journal will be as follows:

Date	Details	Fol	Dr R	Cr R
Apr 30	G Nkosi (trust creditor)		3 210	
	G Nkosi (client)			3 210
	J Modise (trust creditor)		2 250	
	J Modise (client)			2 250
	Amount of trust cheque or EFT to be deposited in the business bank account		5 460	5 460
	Debit trust creditors control account		5 460	
	Credit clients control account			5 460

7.7 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> • Explain the function of the transfer journal. • Know and comply with the transfer rules and requirements in terms of the Attorneys Act 53 of 1979, the Legal Practice Act 28 of 2014 and the Rules for the Attorneys' Profession. • Define the objectives of transfer procedures. • Follow the transfer procedures. • Calculate the amounts that must be transferred from the trust creditors ledger to the client ledger for each client. • Calculate the total amount that must be transferred from the trust bank account to the business bank account. 		

If you answered "yes" to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was "no" to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.

TRUST INVESTMENTS, INTEREST RECEIVED AND BANK CHARGES

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LEARNING UNIT 8: Trust investments, interest received and bank charges

Learning outcomes

After studying this learning unit, you should be able to:

- demonstrate knowledge of the Attorneys Act 53 of 1979, the Legal Practice Act 28 of 2014 and the Rules for the Attorneys' Profession (and rulings where applicable)
- know the important subsections of section 78 of the Attorneys' Act (subsections 78(1), 78(2), 78(3), 78(4) and 78(6))
- know the important subsections of section 86 of the Legal Practice Act (subsections 86(1), 86(2), 86(3), 86(4) and 86(5)(a))
- apply section 78 of the Attorneys' Act to a given set of facts
- apply section 86 of the Legal Practice Act to a given set of facts
- distinguish between a section 78(2)(a) and 78(2A) trust investment
- distinguish between a section 86(3) and 86(4) trust investment
- explain how the interest received is dealt with in each case
- identify the beneficiaries of investment interest
- record trust investment transactions in the accounting records

Key concepts

- Trust money
- Trust investments
- Section 78(2)(a) trust investment
- Section 78(2A) trust investment
- Section 86(3) trust investment
- Section 86(4) trust investment
- Trust creditor
- Auditor
- Non-compliance

8.1 Introduction

In an attorneys practice, clients in most instances are required to deposit money into the trust bank account of the attorney for safekeeping, until the matter or court case has been concluded or has lapsed. Examples of these are:

- deposits in property transactions
- provisions for advocates' fees
- other expenses in court cases and
- the provision for attorneys' fees especially where the amount of fees are material.

This means that there are trust monies in the trust bank account which are not immediately needed for specific purposes and are not earning any interest. This problem is addressed by section 78 of the Attorneys Act of 1979 and section 86 of the Legal Practice Act of 2014. In terms of these sections, attorneys are authorised to invest the trust monies in trust investment accounts. The trust investments still remain part of the trust monies that must together with the trust bank account be equal to or more than the total of the trust creditors' accounts.

There are two types of trust investments, namely:

- Investments in terms of section 78(2)(a) of the Attorneys Act and section 86(3) of the Legal Practice Act; and
- Investments in terms of section 78(2A) of the Attorneys Act and section 86(4) of the Legal Practice Act.

There is no limit to the number of trust investment accounts an attorney's practice may open. The four trust investment accounts, sections 78(2)(a) and 78(2A) of the Attorneys Act and sections 86(3) and 86(4) of the Legal Practice Act are **trust creditors accounts and are not included in the general ledger but in the trust creditors ledger**. These four accounts are the only trust creditor's accounts that may have debit balances

8.2 Section 78(2)(a) of the Attorneys Act and section 86(3) of the Legal Practice Act

In terms of these sections, an attorney may transfer trust money which is not immediately needed to a trust savings or other interest-bearing investment account at a South African banking institution. It may, however, not be invested on the security exchange or in unit trusts. This money is taken from the pool of funds and not from specific trust creditors. The decision to invest the surplus money is made by the attorney.

Both the Attorneys Act and the Legal Practice Act require that the bank statements be endorsed with a reference to section 78(2)(a) of the Attorneys Act and section 86(3) of the Legal Practice Act, whichever is applicable. This legislation also stipulates that the name of the trust investment account in the trust creditors ledger include a reference to the specific section of the legislation applicable, for example. A Bosman Sec 78(2A) Investment: ABC Bank.

Trust money may not be deposited directly into a trust investment account. All trust monies must flow through the trust bank account to the trust investment account and, on withdrawal of the money invested, from the trust investment account back to the trust bank account. The trust creditors can then be paid from the trust bank account.

Interest earned on **section 78(2)(a)** and **section 86(3)** trust investments must be paid over to the **Legal Practitioners' Fidelity Fund** (which replaced the Attorneys Fidelity Fund) or its nominee. It is therefore not the property of the legal practitioner or the trust creditors. The legal practitioner can claim the bank charges on the **trust** bank account and the audit fees on the **trust** accounts back from the Fidelity Fund, subject to certain formulas and requirements.

EXAMPLE 8.1**The accounting treatment of section 78(2)(a) and section 86(3) trust investments**

The following information was obtained from the accounting records of Wintrish Attorneys for June 20.8:

20.8

June

- 1 The balance of the trust bank account of Wintrish Attorneys amounted to R250 000. Mr Wintrish decided to invest R80 000, not immediately required, in a special interest-bearing savings account with Win Bank.
- 30 Wintrish Attorneys withdrew R80 800 from the savings account with Win Bank and deposited it in the trust bank account.

REQUIRED:

Prepare the following in the accounting records of Wintrish Attorneys for June 20.8:

1. Subsidiary journals, properly totalled:
 - 1.1. Trust cash receipts journal
 - 1.2. Trust cash payments journal
 - 1.3. Trust journal
2. Ledgers, properly balanced:
 - 2.1. General ledger
 - 2.2. Trust creditors ledger

FEEDBACK: EXAMPLE 8.1**WINTRISH ATTORNEYS****1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for June 20.8****TCRJ6**

Date	Details	Fol	Trust creditors control R	Bank R
30	Sec 78(2)(a)/Sec 86(3) trust investment – Win Bank (trust creditor)	TCL1	80 800	80 800
30	Credit trust creditors control account	GL2	80 800	
30	Debit trust bank account	GL1		80 800

1.2 Trust cash payments journal for June 20.8

TCPJ6

Date	Details	Fol	Trust creditors control R	Bank R
31	Sec 78(2)(a)/Sec 86(3) trust investment – Win Bank (trust creditor)	TCL1	80 000	80 000
30	Debit trust creditors control account	GL2	80 000	
30	Credit trust bank account	GL1		80 000

1.3 Trust journal for June 20.8

GJ6

Date	Details	Fol	Debit R	Credit R
30	Sec 78(2)(a)/Sec 86(3) trust investment – Win Bank (trust creditor)	TCL1	800	
	Legal Practitioners Fidelity Fund (trust creditor)	TCL2		800
	Transfer of interest to the Fidelity Fund			
30	Debit trust creditors control account	GL2	800	
30	Credit trust creditors control account	GL2		800

2. LEDGERS

2.1 General ledger

Trust Bank

GL1

20.8			R	20.8			R
Jun 1	Balance	b/d	250 000	Jun 1	Trust payments	TCPJ6	80 000
30	Trust receipts	TCRJ6	80 800	30	Balance	c/d	250 800
			330 800				330 800
Jun 30	Balance	b/d	250 800				

Trust creditors control

GL4

20.8			R	20.8			R
Jun 30	Trust bank	TCPJ6	80 000	Jun 1	Balance	b/d	250 000
	Journal debits	GJ6	800	30	Trust bank	TCRJ6	80 800
	Balance	c/d	250 800		Journal credits	GJ6	800
			331 600				331 600
				Jun 30	Balance	b/d	250 800

2.2 Trust creditors ledger

Sec 78(2)(a)/Sec 86(3) trust investment – Win Bank

TCL1

20.8			R	20.8			R
Jun 1	Trust bank	TCPJ6	80 000	Jun 30	Trust bank	TCRJ6	80 800
30	Legal Practitioners Fidelity Fund	GJ6	800				
			80 800				80 800

Legal Practitioners Fidelity Fund

TCL2

			R	20.8			R
				Jun 30	Sec 78(2)(a) trust investment – Win Bank	GJ6	800
							800

- The interest earned on the section 78(2)(a) trust investment accrues to the Fidelity Fund but has not yet been paid to the fund.

8.3 Section 78(2A) of the Attorneys Act and section 86(4) of the Legal Practice Act

In terms of these sections, an attorney can, on the instruction of 'any person', transfer trust money from the trust bank account to an interest-bearing investment. Both the Acts do not define 'any person' but it is understood to be the client/trust creditor. The attorney must have sole authority as trustee, agent or any other fiduciary capacity over the investment. Other than section 78(2)(a) and section 86(3), the decision to invest surplus trust money is made by the client/trust creditor.

Again the Attorneys Act and the Legal Practice Act require that the bank statements be endorsed with a reference to Section 78(2A) of the Attorneys Act and section 86(4) of the Legal Practice Act, whichever is applicable. The name of the trust investment account in the trust creditors ledger must also include a reference to the specific section of the legislation applicable, for example, L Jordaan Sec 86(4) Investment: ABC Bank.

As is the case with section 78(2)(a) and section 86(3), the trust money may not be deposited directly into a trust investment account but must flow through the trust bank account. The same rule is applicable to the withdrawal of the money invested.

One hundred percent of the interest earned on **section 78(2A)** of the Attorneys Act must be paid over to the **trust creditor**. It is therefore not the property of the attorney or the Legal Practitioners' Fidelity Fund or its nominee. Interest earned on **section 86(4)** of the Legal Practice Act is treated differently. **Ninety-five percent** of the interest belongs to the **trust creditor** and the remaining **five percent** must be paid over to the **Legal Practitioners' Fidelity Fund** or its nominee.

EXAMPLE 8.2

The accounting treatment of section 78(2A) and section 86(4) investments

The following information was obtained from the accounting records of Mica Attorneys for May 20.5:

20.5

Apr

- 30 Client E Mc Donald deposited R280 000 into the trust bank account of Mica Attorneys. The R280 000 was the deposit payable by E Mc Donald on a property purchased from the City Council.

May

- 1 E Mc Donald instructed Mica Attorneys to invest the total amount of R280 000 in an interest-bearing investment account at African Bank in terms of section 86(4) of the Act in African Bank, until the transfer of property is affected. The balance of the trust bank account after the deposit into the trust bank account but before the transfer to the trust investment account was R720 000.
- 30 The property was registered in the name of E Mc Donald.
- 31 Mica Attorneys withdrew the investment of E Mc Donald and received R282 400, which was deposited into the trust bank account.

REQUIRED:

Prepare the following in the accounting records of Mica Attorneys for May 20.5:

1. Subsidiary journals, properly totalled:

- 1.1 Trust cash receipts journal
- 1.2 Trust cash payments journal
- 1.3 Trust journal

2. Ledgers, properly balanced:

- 2.1 General ledger
- 2.2 Trust creditors ledger

FEEDBACK: EXAMPLE 8.2

MICA ATTORNEYS**1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for May 20.5****TCRJ5**

Date	Details	Fol	Trust creditors control R	Bank R
31	E Mc Donald sec 86(4) investment - Africa Bank (trust creditor)	TCL1	282 400	282 400
31	Credit trust creditors control account	GL2	282 400	
31	Debit trust bank account	GL1		282 400

1.2 Trust cash payments journal for May 20.5**TCPJ5**

Date	Details	Fol	Trust creditors control R	Bank R
1	E Mc Donald sec 86(4) investment - Africa Bank (trust creditor)	TCL1	280 000	280 000
31	Debit trust creditors control account	GL2	280 000	
31	Credit trust bank account	GL1		280 000

1.3 Trust journal for May 20.5**GJ5**

Date	Details	Fol	Debit R	Credit R
31	E Mc Donald sec 86(4) investment – Africa Bank (trust creditor)	TCL1	2 400	
	E Mc Donald (trust creditor)(95%)	TCL2		2 280
	Legal Practitioners' Fidelity Fund (5%)	TCL3		120
	Transfer of interest to trust creditor and Fidelity Fund			
31	Debit trust creditors control account	GL2	2 400	
31	Credit trust creditors control account	GL2		2 400

2. LEDGERS

2.1 General ledger

Trust Bank

GL1

20.5			R	20.8			R
May 1	Balance	b/d	720 000	May 1	Trust payments	TCPJ5	280 000
31	Trust receipts	TCRJ5	282 400		Balance	c/d	722 400
			1 002 400				1 002 400
31	Balance	b/d	722 400				

Trust creditors control

GL4

20.5			R	20.5			R
May 1	Trust bank	TCPJ5	280 000	May 1	Balance	b/d	720 000
31	Journal debits	GJ5	2 400	31	Trust bank	TCRJ5	282 400
	Balance	c/d	722 400		Journal credits	GJ5	2 400
			1 004 800				1 004 800
				31	Balance	b/d	722 400

2.2 Trust creditors ledger

E Mc Donald sec 86(4) investment – Africa Bank

TCL1

20.5			R	20.5			R
May 1	Trust Bank	TCPJ5	280 000	May 31	Trust bank	TCRJ5	282 400
31	E McDonald/Fidelity Fund	GJ5	2 400				
			282 400				282 400

E Mc Donald

TCL2

			R	20.5			R
				May 1	Balance	b/d	280 000
				31	E Mc Donald sec 78(2A) investment - Africa Bank	TJ5	2 280
							282 280

Legal Practitioners Fidelity Fund

TCL3

			R	20.5			R
				May 30	E Mc Donald sec 86(4) investment – Africa Bank	TJ5	120
							120

- The trust creditor's account does not decrease when the investment is made. The trust bank account (trust asset) decreases whilst the client's investment account (trust asset) increases.

If the investments were made in terms of section 78(2A) the answer will be the same as above, except for the following changes:

- All the references to section 86(4) will be replaced with section 78(2A)
- The trust journal will change as follows:

1.3 Trust journal for May 20.5

GJ5

Date	Details	Fol	Debit R	Credit R
31	E Mc Donald sec 78(2A) investment – Africa Bank (trust creditor)	TCL1	2 400	
	E Mc Donald (trust creditor)(100%) Transfer of interest to trust creditor	TCL2		2 400
31	Debit trust creditors control account	GL2	2 400	
31	Credit trust creditors control account	GL2		2 400

- The trust creditor E Mc Donald will change as follows

E Mc Donald

TCL2

			R	20.5			R
				May 1	Balance	b/d	280 000
				31	E Mc Donald sec 78(2A) investment – Africa Bank	TJ5	2 400
							282 400

- The Legal Practitioners Fidelity Fund in the trust creditors ledger will not exist.

EXAMPLE 8.3

The accounting treatment of Section 78(2)(a) and Section 78(2A) trust investments.

The following information was obtained from the accounting records of Morgan Attorneys for August 20.7:

Balances at 1 August 20.7:

	R
Trust bank	337 500
Trust creditors	337 500

The trust creditors consist of:

	R
W Weyers	112 500
M Mills	93 750
S Shabangu	56 250
D Denkel	75 000

The following transactions took place during August 20.7:

Aug

- 1 Morgan Attorneys decided to invest R150 000 of the trust funds not immediately required, in a special savings account at Best Bank until 31 August 20.7.
- 3 M Mills requested Morgan Attorneys to invest the amount in his trust account in a special savings account to his benefit. Morgan Attorneys invested the amount in First Bank.
- 5 W Weyers requested Morgan Attorneys to invest R58 000 of his trust funds in a savings account at Best Bank. Morgan Attorneys acted accordingly.
- 22 Morgan Attorneys withdrew the investment made on 3 August 20.7 and received R95 625. Morgan Attorneys paid R48 750 to B Barney and the rest of the amount in the trust account of M Mills to him.
- 31 Morgan Attorneys redeemed half the trust investment made on 1 August 20.7 and received R76 825 which he paid into the trust bank account.

REQUIRED:

Prepare the following in the accounting records of Morgan Attorneys for August 20.7:

1. Subsidiary journals, properly totalled:

- 1.1 Trust cash receipts journal
- 1.2 Trust cash payments journal
- 1.3 Trust journal

2. Ledgers, properly balanced:

- 2.1 General ledger
- 2.2 Trust creditors ledger

FEEDBACK: EXAMPLE 8.3

MORGAN ATTORNEYS**1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for August 20.7****TCRJ8**

Date	Details	Fol	Trust creditors control R	Bank R
22	M Mills sec 78(2A) investment – First Bank (trust creditor)	TCL6	95 625	95 625
31	Sec 78(2)(a) trust investment – Best Bank (trust creditor)	TCL5	76 825	76 825
31	Credit trust creditors control account	GL2	172 450	
31	Debit trust bank account	GL1		172 450

1.2 Trust cash payments journal for August 20.7**TCPJ5**

Date	Details	Fol	Trust creditors control R	Bank R
1	Sec 78(2)(a) trust investment – Best Bank (trust creditor)	TCL5	150 000	150 000
3	M Mills sec 78(2A) investment – First Bank (trust creditor)	TCL6	93 750	93 750
5	W Weyers sec 78(2A) investment – Best Bank (trust creditor)	TCL7	58 000	58 000
22	M Mills (trust creditor) – B Barney	TCL2	48 750	48 750
22	M Mills (trust creditor)	TCL2	46 875	46 875
31	Debit trust creditors control account	GL2	397 375	
31	Credit trust bank account	GL1		397 375

1.3 Trust journal for August 20.7**GJ8**

Date	Details	Fol	Debit R	Credit R
31	Sec 78(2)(a) trust investment – Best Bank (trust creditor)	TCL5	1 825	1 825
	Legal Practitioners Fidelity Fund (trust creditor)			
	Transfer of interest to the Fidelity Fund			
	M Mills sec 78(2A) investment – First Bank (trust creditor)	TCL6	1 875	
	M Mills (trust creditor)			
	Transfer of interest to client	TCL2		1 875
31	Debit trust creditors control account	GL2	3 700	
31	Credit trust creditors control account	GL2		3 700

2. LEDGERS

2.1 General ledger

Trust Bank				GL1			
20.7			R	20.7			R
Aug 1	Balance	b/d	337 500	Aug 31	Trust payments	TCPJ8	397 375
31	Trust receipts	TCRJ8	172 450		Balance	c/d	112 575
			509 950				509 950
Aug 31	Balance	b/d	112 575				

Trust creditors control				GL4			
20.7			R	20.7			R
Aug 31	Balance	TCPJ8	397 375	Aug 1	Balance	b/d	337 500
	Journal debits	GJ8	3 700	31	Trust bank	TCRJ8	172 450
	Balance	c/d	112 575		Journal credits	GJ8	3 700
			513 650				513 650
				Aug 31	Balance	b/d	112 575

2.2 Trust creditors ledger

W Weyers				TCL1			
			R	20.7			R
				Aug 1	Balance	b/d	112 500

M Mills				TCL2			
20.7			R	20.7			R
Aug 22	Trust bank	TCPJ8	48 750	Aug 1	Balance	b/d	93 750
	Trust bank	TCPJ8	46 875	31	M Mills Sec 78(2A) investment – First Bank	GJ8	1 875
			95 625				95 625

S Shabangu				TCL3			
			R	20.7			R
				Aug 1	Balance	b/d	56 250

D Denkel**TCL4**

			R	20.7 Aug Aug 1	Balance	b/d	R 75 000
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Sec 78(2)(a) trust investment – Best Bank**TCL5**

20.7 Aug 1 31	Trust bank Legal Practitioners Fidelity Fund	TCPJ8 GJ8	R 150 000 1 825 151 825 75 000	20.7 Aug 31	Trust Bank Balance	TCRJ8 c/d	R 76 825 75 000 151 825
Aug 31	Balance	b/d					

M Mills sec 78(2A) investment – First Bank**TCL6**

20.7 Aug 3 31	Trust bank M Mills (trust creditor)	TCPJ8 GJ8	R 93 750 1 875 95 625	20.7 Aug 31	Trust bank	TCRJ8	R 95 625 95 625
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W Wyers sec 78(2A) investment – First Bank**TCL7**

20.7 Aug 5	Trust bank	TCPJ8	R 58 000				R
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Legal Practitioners Fidelity Fund**TCL8**

			R	20.7 Aug 31	Sec 78(2)(a) trust investment – Best Bank	GJ8	R 1 825
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- A trust investment is made from the trust bank account and not the trust creditor's account.
- Investments made in accordance with section 78 are the only trust creditors' accounts that may reflect debit balances.
- The balance of the trust creditors control account and the total of the list of trust creditors' balances should be the same.

Trust Reconciliation

	R
Trust creditors:	
W Weyers	112 500 Cr
S Shabangu	56 250 Cr
D Denkel	75 000 Cr
Legal Practitioners Fidelity Fund	1 825 Cr
Sec 78(2)(a) trust investment – Best Bank	(75 000) Dr
W Weyers sec 78(2A) investment – Best Bank	(58 000) Dr
	<hr/>
	112 575
Trust assets	
Trust bank account	<hr/>
	112 575 Dr

8.4 The Rules for the Attorneys' Profession in respect of trust monies

8.4.1 Introduction

A practising attorney is a member of the Law Society and must abide by the Rules for the Attorneys' Profession (hereafter referred to as The Rules). The Rules may by no means supersede the provisions made in section 78 of the Attorneys Act 53 of 1979 or section 86 of the Legal Practice Act 28 of 2014 regarding the trust bank account or trust investments.

The Rules furthermore prescribes that proper accounting records be kept in an official language of South Africa that comply with generally accepted accounting practice and these records to be kept for at least five years. The accounting records should clearly differentiate between monies received for, or on account of, any person or monies paid for, or on account of, any person.

8.4.2 Appointment of an auditor/public accountant

The attorney's practice has a legal obligation to appoint an auditor/public accountant who has to report to the Law Society. The auditor has to perform the duties and responsibilities imposed by the Attorneys Act 53 of 1979 (as amended), the Legal Practice Act 28 of 2014, the Companies Act 61 of 1973 (as amended), as well as the Public Accountants and Auditors Act 51 of 1951 (as amended).

The Attorneys Act, the Legal Practice Act, as well as the Rules require an annual audit report to be rendered by the auditor. The report must be issued on the prescribed form of the Law Society and submitted to the Law Society within six months after the reporting period, usually the year end of the legal practice. Although it is the auditor's responsibility to issue and submit the report, the legal practice is obliged to ensure that the report is issued and submitted to the Law Society in time. The report must be submitted to the Law Society by the auditor and not the legal practice. In the report, the auditor must state whether the accounting records and specifically the trust records, complied with the Attorneys Act, the Legal Practice Act and the Rules.

The auditor has an obligation to report on the following:

- A trust deficit as soon as it is detected. A trust deficit will arise when the total of the trust creditors' balances exceeds the trust monies.

- The result of queries by the auditor on any material issue regarding the accounting records of the attorney's practice that was not dealt with to his satisfaction.
- Restricted access to the accounting records of the legal practice after, reasonable requests by the auditor.

8.4.3 Accounting to clients

The attorney's practice should, within a reasonable time after the performance or earlier termination of any mandate, account to his client in writing and retain a copy of each such account for not less than five years. The following information must be included in the account statement:

- All amounts, appropriately explained, received in connection with the matter concerned.
- All expenses incurred and other payments regarding the matter.
- Fees and other charges levied or raised against the client and in instances where a fee has been agreed upon, the fact that it was agreed upon and the amount.
- The amount owing to or by the client.

8.4.4 Consequences of non-compliance with prescriptions

The consequences of non-compliance with section 78 of the Attorneys Act 53 of 1979, section 86 of the Legal Practice Act 28 of 2014 and the Rules for the Attorneys' Profession can be:

- the removal from the roll;
- suspension from practice; and
- other kinds of instruction, for example, more frequent audit reports that state that the attorney's records were in order.

8.5 Learning activities and feedback

LEARNING ACTIVITY 1

The recording of trust, business and transfer transactions in an attorney's practice

On 1 May 20.2 the following information was obtained from the accounting records of C Candice Attorneys:

	R
Business bank	4 300
Trust bank	37 000
Client control	1 350
A Backer	250
J Rhodes	1 100
Trust creditors control	37 000
M Munnik	24 800
Z Zontach	11 700
G Adams	500

The following transactions occurred in the attorney's practice of C Candice Attorneys during May 20.2:

20.2 May	
1	G Adams decided to divorce his wife and deposited a bank guaranteed cheque of R15 000 with Candice Attorneys to cover fees and charges, including advocate fees.
2	G Adams gave a written instruction that R7 000 be invested in an interest-bearing account at SA Bank. C Candice Attorneys executed the instruction.
5	C Candice Attorneys instructed advocate K Lombaard to handle Adams' divorce and paid his account to the amount of R6 000.
6	C Candice Attorneys decided to invest R10 000 of the trust monies in the trust bank account not needed for immediate use, in a special savings account at First Bank.
14	C Candice Attorneys received a combined cheque from A Bacher, a client, to the amount of R700 for: <ul style="list-style-type: none"> • Settlement of his account for services rendered in a collection matter (fees have been charged during the previous month), R250 • A deposit for fees still to be levied for the preparation of a purchase contract, R450.
24	The divorce case of G Adams was settled and C Candice Attorneys levied a fee of R4 000. C Candice Attorneys withdrew the investment made on 2 June 20.2 and received R7 100. The attorney's practice paid the amount due to G Adams after all transfers were made.
28	C Candice Attorneys withdrew R5 000 of the trust investment made on 6 May 20.2. Interest on the investment amounted to R100.
30	C Candice Attorneys received written instruction from M Munnik to invest R12 000 of his funds held in trust, in an interest-bearing savings account at SA Bank. C Candice Attorneys obliged.

Please note that the trust investments were made in terms of section 78 of the Attorneys Act

REQUIRED:

Prepare the following in the accounting records of C Candice Attorneys for May 20.2:

1. Subsidiary journals, property totalled:

- 1.1 Business cash receipts journal
- 1.2 Trust cash receipts journal
- 1.3 Trust cash payments journal
- 1.4 Trust journal
- 1.5 Fees journal
- 1.6 Transfer journal

2. Ledgers, properly balanced:

- 2.1 General ledger
- 2.2 Trust creditors ledger
- 2.3 Clients ledger

FEEDBACK: LEARNING ACTIVITY 1

C CANDICE ATTORNEYS**1. SUBSIDIARY JOURNALS****1.1 Business cash receipts journal for May 20.2****BCRJ5**

Date	Details	Fol	Sundries R	Bank R
14	Trust bank (transfer A Bacher)	TCPJ5	250	250
24	Trust bank (transfer G Adams)	TCPJ5	4 000	4 000
			4 250	
31	Debit business bank account	GL2		4 250

1.2 Trust cash receipts journal for May 20.2**TCRJ5**

Date	Details	Fol	Trust creditors control R	Bank R
1	G Adams (trust creditor)	TCL3	15 000	15 000
14	A Bacher (trust creditor)	TCL4	700	700
24	G Adams sec 78(2A) investment – SA Bank (trust creditor)	TCL5	7 100	7 100
28	Sec 78(2)(a) trust investment – First Bank (trust creditor)	TCL6	5 100	5 100
31	Credit trust creditors control account	GL2	27 900	
31	Debit trust bank account	GL1		27 900

1.3 Trust cash payments journal for May 20.2**TCPJ5**

Date	Details	Fol	Trust creditors control R	Bank R
2	G Adams sec 78(2A) investment – SA Bank (trust creditor)	TCL6	7 000	7 000
5	G Adams (trust creditor) – Adv K Lombaard	TCL3	6 000	6 000
6	Sec 78(2)(a) trust investment – First Bank (trust creditor)	TCL5	10 000	10 000
14	Business bank (transfer A Bacher)	BCRJ5		250
24	G Adams (trust creditor)	TCL3	5 600	5 600
24	Business bank (transfer G Adams)	BCRJ5		4 000
30	M Munnik sec 78(2A) investment – SA Bank (trust creditor)	TCL7	12 000	12 000
31	Debit trust creditors control account	GL4	40 600	
31	Credit trust bank account	GL1		44 850

1.4 Trust journal for May 20.2

GJ5

Date	Details	Fol	Debit R	Credit R
24	G Adams sec 78(2A) investment – SA Bank (trust creditor)	TCL6	100	
	G Adams (trust creditor)	TCL3		100
	Transfer of interest to client			
31	Sec 78(2)(a) trust investment – First Bank (trust creditor)	TCL5	100	
	Legal Practitioners Fidelity Fund (trust creditor)	TCL8		100
	Transfer of interest to the Fidelity Fund			
31	Debit trust creditors control account	GL4	200	
31	Credit trust creditors control account	GL4		200

1.5 Fees journal for May 20.2

FJ5

Date	Details	Fol	Debit R	Credit R
24	G Adams (client)	CL3	4 000	
	Fees			4 000
	Charge fees for divorce			
31	Debit trust creditors control account	GL4	200	
31	Credit trust creditors control account	GL4		200

1.6 Transfer journal for May 20.2

TJ5

Date	Details	Fol	Debit R	Credit R
14	A Bacher (trust creditor)	TCL4	250	
	A Bacher (client)	CL1		250
	Transfer of fees from combined cheque			
24	G Adams (trust creditor)	TCL3	4 000	
	G Adams (client)	CL3		4 000
	Transfer of account			
31	Debit trust creditors control account	GL4	4 250	
31	Credit clients control account	GL3		4 250

2. LEDGERS

2.1 General ledger

Trust Bank

GL1

20.2			R	20.2			R
May 1	Balance	b/d	37 000	May 31	Trust payments	TCPJ5	44 850
31	Trust receipts	TCRJ5	27 900		Balance	c/d	20 050
			64 900				64 900
Jun 1	Balance	b/d	20 050				

Business bank

GL2

20.2			R				R
May 1	Balance	b/d	4 300				
31	Receipts	BCRJ5	4 250				
			8 550				

Clients control

GL3

20.2			R	20.2			R
May 1	Balance	b/d	1 350	May 31	Journal credits	GJ5	4 250
31	Fees	FJ5	4 000		Balance	c/d	1 100
			5 350				5 350
Jun 1	Balance	b/d	1 100				

Trust creditors control

GL4

20.2			R	20.2			R
May 31	Trust bank	TCPJ5	40 600	May 1	Balance	b/d	37 000
	Journal debits	GJ5	200	31	Trust bank	TCRJ5	27 900
	Journal debits	TJ5	4 250		Journal credits	GJ5	200
	Balance	c/d	20 050				65 100
			65 100	Jun 1	Balance	b/d	20 050

Fees

GL5

			R	20.2			R
				May 31	Client control	FJ5	4 000

2.2 Trust creditors ledger

M Munnik

TCL1

			R	20.2			R
				May 1	Balance	b/d	24 800

Z Zontach**TCL2**

			R	20.2 May 1	Balance	b/d	R 11 700
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G AdamsTCL3

20.2 May 5	Trust bank – advocate	TCPJ5	R 6 000	20.2 May 1	Balance	b/d	R 500
24	G Adams (client)	TJ5	4 000		Trust bank	TCRJ5	15 000
	Trust bank	TCPJ5	5 600	31	G Adams sec 78(2A) investment – SA Bank	GJ5	100
			15 600				15 600

A Bacher**TCL4**

20.2 May 14	A Bacher (client)	TJ5	R 250	20.2 May 14	Trust bank	TCRJ5	R 700
31	Balance	c/d	450				
			700	Jun 1	Balance	b/d	450

Sec 78(2)(a) trust investment – First Bank**TCL5**

20.2 May 6	Trust bank	TCPJ5	R 10 000	20.2 May 28	Trust Bank	TCRJ5	R 5 100
31	Legal Practitioners Fidelity Fund	GJ5	100	31	Balance	c/d	5 000
			10 100				10 100
Jun 1	Balance	b/d	5 000				

G Adams sec 78(2A) investment – SA Bank**TCL6**

20.2 May 2	Trust bank	TCPJ5	R 7 000	20.2 May 24	Trust bank	TCRJ5	R 7 100
24	G Adams (trust creditor)	GJ5	100				
			7 100				7 100

M Munnik sec 78(2A) investment – SA Bank**TCL7**

20.2 May 30	Trust bank	TCPJ5	R 12 000				R
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Legal Practitioners Fidelity Fund**TCL8**

			R	20.2			
				May 31	Sec 78(2)(a) trust investment – First Bank	GJ5	R 100

List of trust creditors balances on 31 May 20.2

	R
M Munnik	
Z Zontach	24 800
G Adams	11 700
A Bacher	450
Sec 78(2)(a) trust investment – First Bank	(5 000)
G Adams sec 78(2A) investment – SA Bank	
M Munnik sec 78(2A) investment – SA Bank	(12 000)
Fidelity Guarantee Fund	100
	<u>20 050</u>

Balance of trust bank account on 31 May 20.220 050**2.3 Clients ledger****A Bacher****CL1**

20.2				20.2			
May 1	Balance	b/d	250	May 14	A Bacher (trust creditor)	TJ5	250
			<u>250</u>				<u>250</u>

J Rhodes**CL2**

20.2							
May 1	Balance	b/d	1 100				

G Adams**CL3**

20.2				20.2			
May 24	Fees	FJ5	4 000	May 24	G Adams (trust creditor)	TJ5	4 000
			<u>4 000</u>				<u>4 000</u>

LEARNING ACTIVITY 2**The recording of trust investments and transfer transactions in the books of prime entry and ledgers of an attorney's practice**

On 30 June 20.5 the following information was obtained from the accounting records of Bracken Attorneys:

- (1) The balance of the trust creditors control account and the trust bank accounts amounted to R800 000 each.

- (2) After Bracken Attorneys investigated their trust creditors, the following came to light:
- (a) On 1 June 20.5 Mrs K Kock, a client of Bracken Attorneys gave the instruction that R100 000 kept in trust on her behalf, be invested in an interest-bearing savings account until registration of the unmovable property. On the same day, Bracken Attorneys invested R100 000 at Phantombank on behalf of Mrs K Koch. On 30 June 20.5 when closing the account, Bracken Attorneys received a cheque for R101 000 and paid the interest earned on the investment to the beneficiaries.
 - (b) On 1 June 20.5 a client of Bracken Attorneys, J Venter, gave written instruction for R200 000 held in trust on his behalf, to be invested in unit trusts. Bracken Attorneys immediately executed the instruction.
 - (c) On 1 June 20.5 Bracken Attorneys decided to invest R150 000 of the surplus funds not immediately needed, in an interest-bearing savings account with Permbank. When closing the account on 30 June 20.5 Bracken Attorneys received R152 000 and issued a cheque for R1 950 regarding the payment of interest earned on the investment, after bank charges were deducted.

Please note that the trust investments were made in terms of section 86 of the Legal Practice Act.

REQUIRED:

Prepare the following in the accounting records of Bracken Attorneys for June 20.5:

1. Subsidiary journals, property totalled:

- 1.1 Trust cash receipts journal
- 1.2 Trust cash payments journal
- 1.3 Trust journal

2. Ledgers, properly balanced:

- 2.1 General ledger
- 2.2 Trust creditors ledger

FEEDBACK: LEARNING ACTIVITY 2

BRACKEN ATTORNEYS**1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for June 20.5****TCRJ6**

Date	Details	Fol	Trust creditors control R	Bank R
Jun 30	K Kock sec 86(4) investment – Phantombank (trust creditor)	TCL3	101 000	101 000
Jun 30	Sec 86(3) trust investment – Permbank (trust creditor)	TCL5	152 000	152 000
30	Credit trust creditors control account	GL2	253 000	
30	Debit trust bank account	GL1		253 000

1.2 Trust cash payments journal for June 20.5**TCPJ6**

Date	Details	Fol	Trust creditors control R	Bank R
Jun 1	K Kock sec 86(4) investment – Phantombank (trust creditor)	TCL3	100 000	100 000
Jun 1	J Venter sec 86(4) investment – (trust creditor)	TCL1	200 000	200 000
Jun 1	Sec 86(3) trust investment – (trust creditor)	TCL4	150 000	150 000
Jun 30	K Kock (trust creditor)	TCL5	950	950
Jun 30	Legal Practitioners Fidelity Fund	TCL6	50	50
30	Debit trust creditors control account	GL4	452 950	
30	Credit trust bank account	GL1		452 950

1.3 General journal for June 20.5**GJ6**

Date	Details	Fol	Debit R	Credit R
Jun 30	K Kock sec 86(4) investment – Phantombank (trust creditor)	TCL3	1 000	
	K Kock (trust creditor)	TCL1		950
	Legal Practitioners Fidelity Fund	TCL6		50
	Transfer of interest to client and Fidelity Fund			
Jun 30	Sec 86(3) trust investment – Permbank (trust creditor)	TCL5	2 000	
	Legal Practitioners Fidelity Fund (trust creditor)	TCL6		2 000
	Transfer of interest to Fidelity Fund			
30	Debit trust creditors control account	GL4	3 000	
30	Credit trust creditors control account	GL4		3 000

The following journal was not required but is shown for illustrative purposes:

Business general journal for June 20.5

Date	Details	Fol	Debit R	Credit R
Jun 30	Legal Practitioners Fidelity Fund (client) Bank charges Trust bank charges claimed back from Fidelity Fund by deducting it from trust interest earned		50	50

The R50 balance of Legal Practitioners Fidelity Fund's trust creditor account will be transferred to the business bank account in the same way as for the transfer of the attorney's fees.

2. LEDGERS

2.1 General ledger

Trust Bank				GL1			
20.5			R	20.5			R
Jun 1	Balance	b/d	800 000	Jun 30	Trust payments	TCPJ6	452 950
30	Trust receipts	TCRJ6	253 000		Balance	c/d	600 050
			1 053 000				1 053 000
Jun 30	Balance	b/d	600 050				

Trust creditors control				GL2			
20.5			R	20.5			R
Jun 30	Trust bank	TCPJ6	452 950	Jun 1	Balance	b/d	800 000
	Journal debits	GJ6	3 000	30	Trust bank	TCRJ6	253 000
	Balance	c/d	600 050		Journal credits	GJ6	3 000
			1 056 000				1 056 000
				Jun 30	Balance	b/d	600 050

2.2 Trust creditors ledger

K Kock				TCL1			
20.5			R	20.5			R
Jun 30	Trust bank	TCPJ6	950	Jun 1	Balance	b/d	100 000
	Balance	c/d	100 000		K Kock sec 86(4) investment – Phantombank	GJ6	950
			100 950				100 950
				Jun 30	Balance	b/d	100 000

J Venter**TCL2**

			R	20.5 Jun 1	Balance	b/d	R 200 000
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K Kock sec 86(4) investment – Phantombank**TCL3**

20.5 Jun 30	Trust bank K Kock (trust creditor) K Kock/Fidelity Fund	TCPJ6	R 100 000	20.5 Jun 1	Trust bank	TCRJ6	R 101 000
		GL6	1 000				
			101 000				101 000

J Venter sec 86(4) investment**TCL4**

20.5 Jun 30	Trust bank	TCPJ6	R 200 000				R
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Sec 86(3) trust investment**TCL5**

20.5 Jun 30	Trust bank Legal Practitioners Fidelity Fund	TCPJ6	R 150 000	20.5 Jun 30	Trust Bank	TCRJ6	R 152 000
		GJ6	2 000				
			152 000				152 000

Legal Practitioners Fidelity Fund**TCL6**

20.5 Jun 30	Trust bank Trust bank Balance	TCPJ6 TCPJ6 c/d	R 1 950 50 50	20.5 Jun 30	Sec 86(3) trust investment – Permbank K Kock – sec 86(4) trust investment – Phantom- bank	GJ6	R 2 000 50
			2 050				2 050
				Jun 30	Balance	b/d	50

2.3 List of trust creditors balances on 30 May 20.5

	R
K Kock	100 000
J Venter	200 000
Other Trust creditors	500 000
K Kock sec 78(2A) investment – Phantombank	-
J Venter sec 78(2A) investment	(200 000)
Sec 78(2)(a) trust investment – First Bank	-
Legal Practitioners Fidelity Fund	50
	<u>600 050</u>
Balance of trust bank account on 30 June 20.5	<u><u>600 050</u></u>

8.6 Self-assessment

After having worked through this study unit, are you able to do the following?

	Yes	No
<ul style="list-style-type: none">• Demonstrate knowledge of the Attorneys Act 53 of 1979, the Legal Practice Act 28 of 2014 and the Law Society Rules (and rulings where applicable).• Know the important subsections of section 78 of the Attorneys' Act (subsections 78(1), 78(2), 78(3), 78(4) and 78(6)).• Know the important subsections of section 86 of the Legal Practice Act (subsections 86(1), 86(2), 86(3), 86(4) and 86(5)(a)).• Apply section 78 of the Attorneys' Act to a given set of facts.• Apply section 86 of the Legal Practice Act to a given set of facts.• Distinguish between a section 78(2)(a) and 78(2A) trust investment.• Distinguish between a section 86(3) and 86(4) trust investment.• Explain how the interest received is dealt with in each case.• Identify the beneficiaries of investment interest.• Record trust investment transactions in the accounting records.		

If you answered "yes" to all of the above assessment criteria, you have covered the guide and can now focus on revision of all the examples which can help you prepare for the exams. If your answer was "no" to any of the above criteria, revise the section concerned before commencing with the revision of the study material.

LEARNING UNIT

9

CORRESPONDENTS

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LEARNING UNIT 9: Correspondents

Learning outcomes

After studying this learning unit, you should be able to:

- define the term “correspondent”
- distinguish between the instructing and instructed correspondent
- prepare the instructed attorney’s correspondent account statement
- demonstrate an understanding of the correspondent allowance
- calculate the correspondent allowance
- calculate collection commission
- record all correspondent transactions in the accounting records of the instructing and instructed correspondent

Key concepts

- Correspondents
- Instructing attorney
- Instructed attorney
- Account statement
- Collection
- Collection fees
- Expenses incurred
- $\frac{1}{3}$ share of fees

9.1 Introduction

Every attorney’s practice has to make use of the services of a correspondent at some point. The reason being that in some instances the instruction from the client to the attorney can only be executed in a jurisdiction where the attorney does not have an office. An example is where a client, Mrs Kay, who resides in Nelspruit, requests Mr Moloi, an attorney, to collect maintenance money from her ex-husband in Pretoria and to register a trust for her children. As Mr Moloi only has an office in Nelspruit, he has to instruct Mr Mkefa, an attorney in Pretoria, to collect the money and register the trust. The attorney who gives the instruction is known as the **instructing** attorney and the attorney who receives the instruction and renders the service, is known as the **instructed** attorney.

9.2 Categories of instructions

The instructions given to the instructed attorney can be divided into two categories, namely:

- Instructions where no trust monies are involved.

Examples of this category are inter alia, the registration of patents and companies, the settlement of divorce cases, the settlement of disputes and third party claims.

- Instructions where trust monies are involved

Examples of this category are inter alia, the collection of debts and child maintenance.

It is important to distinguish between the two categories, as the entries in the accounting records of both the instructed and the instructing attorneys differ for each category.

9.3 Flow of activities

The flow of activities when an attorney makes use of the services of a correspondent is described with reference to the example 9.1 above.

- Mr Moloi receives a mandate from Mrs Kay (client) to act on her behalf in the registration of the trust and to collect the maintenance money.
- As Mr Moloi only has an office in Mbombela, he instructs Mr Mkefa, the attorney in Pretoria, to act on his behalf in the two matters.
- Mr Mkefa then executes his instructions and records the transactions entered into by him, in his accounting records. Please note that Mr Mkefa acts on behalf of Mr Moloi and **not** on behalf of Mrs Kay. There will thus not be a trust creditor account or a client account for Mrs Kay in Mr Mkefa's accounting records. The instructing attorney, Mr Moloi, will be Mr Mkefa's client and a trust creditor account and a client account will be opened for Mr Moloi in Mr Mkefa's ledgers.
- Mr Mkefa then draws up his account statement and issues Mr Moloi with a cheque or EFT for the money collected, after deducting the fees he is entitled to and the refunds of expenses incurred on behalf of Mr Moloi.
- Mr Moloi then records the information in the account statement which was received from Mr Mkefa in his own accounting records. Both Mr Mkefa and Mrs Kay will be accounted for as clients of Mr Moloi. As trust money is involved in the collection matter, trust creditor accounts will be opened for Mr Mkefa and Mrs Kay.

9.4 General form of a correspondent account statement

There are various forms of correspondent account statements, but for the purpose of this module, we shall deal only with the most common form.

For a better understanding of the above, it is necessary to provide a simplified correspondent account statement to explain what each entry entails, and to indicate how the instructed attorney compiles such statement.

Correspondent account statement

Accounting statement Mkefa Attorneys		P O Box 1 TEMBISA 30 April 20.9	
Moloi Attorneysx MBOMBELA		R	R
Collection – M Kay vs Z Kay	(1)		750
Fees for receiving instruction	(2)	11	
Fees for issuing summons – Z Kay	(3)	16	
Tracing fees paid – Z Kay	(4)	10	
Sheriff fees – Z Kay	(5)	15	
Collection fees	(6)	75	
Your ⅓ share of fees (allowance)	(7)		34*
Cheque herewith/electronic fund transfer to yourselves	(8)	657	
		784	784

x The instructing attorney

\$ The instructed attorney

* ⅓ of (R11 + R16 + R75) (the ⅓ principle will be explained later)

To understand the instructed attorney's account statement, it is essential that you realise that the statement is prepared from the accounting records of the **instructed** attorney, Mkefa Attorneys.

Neither M Kay nor Z Kay are clients of Mkefa Attorneys. Mkefa Attorneys acts on behalf of Moloi Attorneys and therefore sends the account statement to Moloi Attorneys with details on what took place with regards to the instructions received.

The figures which are shown in brackets in the correspondent account statement have been included for discussion purposes only.

Money collected by the instructed attorney (1)

According to the account statement, Mkefa Attorneys collected R750 in the matter of M Kay v Z Kay. Because Moloi Attorneys is the beneficiary, the money cannot be paid out to another party. Mkefa Attorneys acts on behalf of Moloi Attorneys, its trust creditor, and not on behalf of Mrs M Kay.

Expenses incurred (4 and 5)

Mkefa Attorneys incurred expenses in collecting the money from Z Kay, for example, tracing fees and sheriff fees. It can be assumed that these types of expenses were incurred before the money was collected.

Mkefa Attorneys will therefore pay fees from its **business** bank account on behalf of Moloi Attorneys, with the result that Moloi Attorneys becomes an ordinary client regarding these expenses.

If money is collected from Mr Z Kay on behalf of Moloi Attorneys, Mkefa Attorneys will have to set off the client account and trust creditor account of Moloi Attorneys against each other to determine the net amount of the trust cheque or EFT payable to Moloi Attorneys.

If Mkefa Attorneys could not collect any money from Mr Z Kay, Moloi Attorneys will have to compensate Mkefa Attorneys for the expenses incurred.

Fees charged (2, 3 and 6)

Professional (2 and 3)

Mkefa Attorneys devoted time to collect the money from Mr Z Kay, for example, time was spent on receiving instructions and on issuing the summons. Moloi Attorneys is responsible for the payment of the fees levied by Mkefa Attorneys. If Mkefa Attorneys is unable to collect money from Mr Z Kay, Moloi Attorneys will be responsible for payment of the fees.

Collection fees (6)

In terms of the rules of the Law Society, the Attorneys Act 53 of 1979 and the Legal Practice Act 28 of 2014, an attorney is entitled to 10% of all money collected by him or her, with a limit of R1 000 per collection. This amount is adjusted from time to time, but for the purpose of this module, the R1 000 limit must be used. For collections of **more** than R10 000 per client, the attorney can only levy collection fees to the amount of R1 000.

If an attorney has to collect R30 000 and the collection is done in **instalments** of R10 000 each, he or she is entitled to 10% of each instalment, which means that the collection fees will eventually amount to R3 000.

When Mkefa Attorneys collects the R750, the firm is entitled to R75 in collection fees.

Distribution of fees (7)

In terms of rules of the Law Society, the Attorneys Act 53 of 1979 and the Legal Practice Act 28 of 2014, the instructing attorney is entitled to one-third of **all fees** (professional and collection) **levied** by the instructed attorney.

The instructing attorney, Moloi Attorneys, is not entitled to one-third of the advocate fees, sheriff fees and tracing fees. These are expenses incurred on behalf of third parties and are not fees charged by the instructed attorney.

At this stage, Mkefa Attorneys debits the client account of Moloi Attorneys with R102 (R11 + R16 + R75) in respect of fees. Moloi Attorneys is therefore entitled to R34 ($\frac{1}{3}$ of R102) of these fees. A reverse entry for this amount must be made against the **client account** of Moloi Attorneys, via the fees journal.

Issuing of a trust cheque or making an electronic fund transfer to the instructing attorney (8)

To determine the amount of the net debits on the client account of Moloi Attorneys, the fees received minus the expenses incurred by Mkefa Attorneys must be set off against the trust creditor account of Moloi Attorneys, via the transfer journal. This will be the amount of the trust cheque or EFT to be sent to Moloi Attorneys (R657).

9.5 Recording of the account statement in the accounting records of the instructed attorney

The figures in brackets in the subsidiary journals and ledger accounts are once again a reference to the transactions on the statement.

1. SUBSIDIARY JOURNALS

1.1 Trust cash receipts journal for April 20.9

TCRJ4

Date	Details	Fol	Trust creditors R	Bank R
30	Moloi Attorneys (Mr Z Kay) (1)	T7	750	750
30	Debit trust bank account (general ledger)	A12		750
30	Credit trust creditors control account	A10	750	

1.2 Trust cash payments journal for April 20.9

TCPJ4

Date	Details	Fol	Trust creditors R	Bank R
30	Moloi Attorneys (payment of collection i.r.o. M Kay v Z Kay) (8) Business bank account - transfer	T7 C	657	657 93
30	Credit trust bank account (general ledger)	A12		750
30	Debit trust creditors control account	A10	657	

1.3 Business cash receipts journal for April 20.9

BCRJ4

Date	Details	Fol	Bank R
30	Trust bank account – transfer	C	93
30	Debit business bank account (general ledger)	A13	93

1.4 Business cash payments journal for April 20.9

BCPJ4

Date	Details	Fol	Clients R	Bank R
30	Moloi Attorneys – (tracing fees Mr Z Kay) (4) Moloi Attorneys – (sheriff fee Mr Z Kay) (5)	D8 D8	10 15	10 15
30	Credit business bank account (general ledger)	A13		25
30	Debit clients control account	A11	25	

1.5 Fees journal for April 20.9

FJ4

Date	Details	Fol	Dr R	Cr R
30	Moloi Attorneys (client) (2)(3)(6) Fees Being acceptance of instruction: R11; issuing of summons: R16; and 10% collection fees: R75 (M Kay v Mr Z Kay)	D8 A9	102	102
30	Fees (7) Moloi Attorneys (client) 1/3 share of fees	A9 D8	34	34
30	Debit clients control account R(102 – 34)	A11	68	
30	Credit fees account	A9		68

1.6 Transfer journal for April 20.9**TJ4**

Date	Details	Fol	Dr R	Cr R
30	Moloi Attorneys (trust creditor) Moloi Attorneys (client) Amount of the trust cheque to be deposited in the business bank account	T7 D8	93	93
30	Debit trust creditors control account	A10	93	
30	Credit clients control	A11		93

$R(11 + 16 + 10 + 15 + 75) - R34 = R93$ (As shown in the clients account of Moloi Attorneys)

2. LEDGERS**2.1 General ledger****Fees account****A9**

			R	20.9			R
				Apr 30	Fees journal credits	FJ4	68

Trust creditors control account**A10**

20.9			R	20.9			R
Apr 30	Trust bank	TCPJ4	657	Apr 30	Trust bank	TCRJ4	750
	Client control	TJ4	93				
			750				750

Clients control account**A11**

20.9			R	20.9			R
Apr 30	Business bank	BCPJ4	25	Apr 30	Trust creditors control	TJ4	93
	Fees	FJ4	68*				
			93				93

* $R(102 - 34) = R68$ (see fees journal)

Trust bank account**A12**

20.9			R	20.9			R
Apr 30	Receipts	TCRJ4	750	Apr 30	Payments	TCPJ4	750

Business bank account**A13**

20.9			R	20.9			R
Apr 30	Receipts	BCRJ4	93	Apr 30	Payments	BCPJ4	25
					Balance	c/d	68
			93				93
	Balance	b/d	68				

2.2 Clients ledger

Moloi Attorneys				D8			
20.9			R	20.9			R
Apr 30	Fees (2)(3)(6)	FJ4	102*	Apr 30	Fees (7)	FJ4	34
	Business bank (4)	BCPJ4	10		Moloi Attorneys (trust creditor)	TJ4	93
	Business bank (5)	BCPJ4	15				
			127				127

	R
* Instruction	11
Summons	16
Collection fees	75
	<u>102</u>

2.3 Trust creditors ledger

Moloi Attorneys				T7			
20.9			R	20.9			R
Apr 30	Moloi Attorneys (client)	TJ4	93	Apr 30	Trust bank (1)	TCRJ4	750
	Trust bank (8)	TCPJ4	657				
			750				750

3. TRIAL BALANCE

The following will be the trial balance compiled from the **general** ledger accounts:

	Dr R	Cr R
Business bank account	68	
Fees account		68
	68	68

Trial balance of Mkefa Attorneys at 30 April 20.9

The trial balance indicates that the accounting procedures have been implemented correctly. Mkefa Attorneys did in fact receive R68 in fees for services rendered and this amount is included in the business bank account balance.

If more than one collection is made on behalf of an instructing attorney, then more than one collection may appear on the statement. This can now be illustrated by way of example 9.1.

EXAMPLE 9.1**Instructed attorney**

The accounting entries in the accounting records of the instructed attorney as prepared from the account statement.

Khanyeza & Booï send the following account statement to the instructing attorneys, Yasien & Gani.

Account statement		
Khanyeza & Booï. Messrs Yasien & Gani 25 Pret-o-ria Avenue PRETVILLE		P O Box 10 BELA BELA 16 February 20.1
	R	R
Collection – Peter v Paul		1 200
Fees for receiving instruction	50	
Fees for issuing summons	40	
Sheriff fees (cash)	90	
Collection fees	120	
Your ⅓ share of fees R(50 + 40 + 120)		70
Collection – Mavis v Mary		900
Fees for receiving instruction	30	
Collection fees	90	
Your ⅓ share of fees R(30 + 90)		40
Cheque attached/Electronic fund transfer to yourselves	1 790	
	2 210	2 210

REQUIRED:

Record the information as contained in the account statement in the following accounting records of Khanyeza & Booï (instructed attorneys):

- 1 Subsidiary journals
- 2 Ledgers
- 3 Trial balance

FEEDBACK: EXAMPLE 9.1

ACCOUNTING RECORDS OF KHANYEZA & BOOI

1. SUBSIDIARY JOURNALS

1.1 Trust cash payments journal for February 20.1

TCPJ2

Date	Details	Fol	Trust creditors R	Bank R
16	Yasien & Gani (Peter v Paul and Mavis v Mary) Business bank account – transfer	T7 C	1 790	1 790 310
28	Credit trust bank account	A12		2 100
28	Debit trust creditors control account	A10	1 790	

1.2 Trust cash receipts journal for February 20.1

TCRJ2

Date	Details	Fol	Trust creditors R	Bank R
16	Yasien & Gani (Peter v Paul) Yasien & Gani (Mavis v Mary)	T7 T7	1 200 900	1 200 900
28	Debit trust bank account	A12		2 100
28	Credit trust creditors control account	A10	2 100	

1.3 Business cash payment journal for February 20.1

BCPJ2

Date	Details	Fol	Clients R	Bank R
16	Yasien & Gani (Sheriff fees: Paul)	D8	90	90
28	Credit business bank account	A13		90
28	Debit clients control account	A11	90	

1.4 Business cash receipts journal for February 20.1

BCRJ2

Date	Details	Fol	Bank R
16	Trust bank account – transfer	C	310
28	Debit business bank account	A13	310

1.5 Fees journal for February 20.1**FJ2**

Date	Details	Fol	Dr R	Cr R
16	Yasien & Gani (client) Fees Fees for receiving instructions: R80; issuing summons: R40; collection fees: R210	D8 A9	330	330
	Fees Yasien & Gani (client) 1/3 share of fees	A9 D8	110	110
28	Debit clients control account R(33 – 11)	A11	220	
28	Credit fees account	A9		220

1.6 Transfer journal for February 20.1**TJ2**

Date	Details	Fol	Dr R	Cr R
16	Yasien & Gani (trust creditor) Yasien & Gani (client) Amount of trust cheque to be deposited in business bank account	T7 D8	310	310
28	Debit trust creditors control account	A10	310	
28	Credit clients control account	A11		310

2. LEDGERS**2.1 General ledger****Fees account****A9**

			R	20.1 Feb 28			R
					Fees journal credits	FJ2	220

Trust creditors control account**A10**

20.1 Feb 28			R	20.1 Feb 28			R
	Trust bank	TCPJ2	1 790		Trust bank	TCRJ2	2 100
	Client control	TJ2	310				
			2 100				2 100

Clients control account**A11**

20.1 Feb 28			R	20.1 Feb 28			R
	Business bank	BCPJ2	90		Trust creditors	TJ2	310
	Fees	FJ2	220		control		
			310				310

Trust bank account

A12

20.1			R	20.1			R
Feb 28	Receipts	TCRJ2	2 100	Feb 28	Payments	TCPJ2	2 100

Business bank account

A13

20.1			R	20.1			R
Feb 28	Receipts	TCPJ2	310	Feb 28	Payments	BCPJ2	90
					Balance	c/d	220
			310				310
Mar 1	Balance	b/d	220				

2.2 Clients ledger

Yasien & Gani

D8

20.1			R	20.1			R
Feb 16	Business bank	BCPJ	90	Feb 16	Fees	FJ2	110
	Fees	FJ	330		Yasien & Gani (trust creditor)	TJ2	310
			420				420

2.3 Trust creditors ledger

Yasien & Gani

T7

20.1			R	20.1			R
Feb 16	Trust bank	TCPJ2	1 790	Feb 16	Trust bank	TCRJ2	1 200
	Yasien & Gani (client)	TJ2	310		Trust bank	TCRJ2	900
			2 100				2 100

3. TRIAL BALANCE

Trial balance of Khanyeza & Booie at 28 February 20.1

	Dr	Cr
	R	R
Business bank account	220	
Fees account		220
	220	220

9.6 Learning activities and feedback

LEARNING ACTIVITY 1

The money collected by an instructed attorney from a third party constitutes business money. True or false?

FEEDBACK: LEARNING ACTIVITY 1

False. The attorney collects money on behalf of a client. This money does not become the attorney's property, but is kept in trust until it is paid out to the client.

LEARNING ACTIVITY 2

The expenses incurred by an instructed attorney are paid out of the business bank account. True or false?

FEEDBACK: LEARNING ACTIVITY 2

True. Expenses are often paid before any money has been collected, and the attorney will therefore pay these from his or her business bank account.

LEARNING ACTIVITY 3

By means of which journal is the amount of the trust cheque to be deposited in the business bank account determined.

FEEDBACK: LEARNING ACTIVITY 3

The transfer journal.

LEARNING ACTIVITY 4

The recording of correspondent transactions in the accounting records of P Jacobs, the instructed attorney.

P Jacobs collected R120 on the instruction of H Hendriks & Co, and submitted the following statement to H Hendriks & Co:

Account statement		
P Jacobs		
H Hendriks & Co		PO Box 12345
RUSTENBURG		PRETORIA
		31 October 20.6
Collection – L Letaba v G Greer	R	R
Fees for receiving instruction	6	120
Fees for issuing summons	15	
Sheriff fees	21	
Correspondence	6	
Drawing up of acknowledgement of debt	18	
Collection fees	12	
Your 1/3 share of fees (allowance)		19
Cheque herewith/Electronic fund transfer to yourselves	61	
	139	139

NB: All expenses are still outstanding and must be recovered directly from H Hendriks & Co.

REQUIRED:

Prepare all the entries as reflected in the account statement in the accounting records of P Jacobs.

FEEDBACK: LEARNING ACTIVITY 4

ACCOUNTING RECORDS OF P JACOBS

SUBSIDIARY JOURNALS

1.1 Trust cash receipts journal for October 20.6

TCRJ10

Date	Details	Fol	Trust creditors R	Bank R
31	H Hendriks & Co (Letaba v Greer)	TC7	120	120
31	Debit trust bank account	A12		120
31	Credit trust creditors control account	A10	120	

1.2 Trust cash payments journal for October 20.6

TCPJ10

Date	Details	Fol	Trust creditors R	Bank R
31	Business bank account – transfer H Hendriks & Co (payment of collection – Letaba v Greer)	C TC7	61	59 61
31	Credit trust bank account (general ledger)	A12		120
31	Debit trust creditors control account	A10	61	

1.3 Business cash receipts journal for October 20.6

BCRJ10

Date	Details	Fol	Clients R	Bank R
31	Trust bank account – transfer	C		59
31	Debit business bank account (general ledger)	A13		59

1.4 General journal for October 20.6**GJ10**

Date	Details	Fol	Dr R	Cr R
31	H Hendriks & Co (client) Sheriff fees Sheriff fees outstanding	D8 A14	21	21
31	Debit clients control account	A11	21	
31	Credit sheriff fee account	A14		21

1.5 Fees journal for October 20.6**FJ10**

Date	Details	Fol	Dr R	Cr R
31	H Hendriks & Co (client) Fees Taking instruction R6; summons: R15; correspondence: R6; drawing up of acknowledgement of debt R18; and collection fees: R12 (Letaba v Greer)	D8 A9	57	57
	Fees H Hendriks & Co (client) 1/3 share of fees	A9 D8	19	19
31	Debit client control account R(57 – 19)	A11	38	
31	Credit fees account	A9		38

1/3 share of fees: $R(6 + 15 + 6 + 18 + 12) \times \frac{1}{3}$
 $= R57 \times \frac{1}{3}$
 $= R19$

Sheriff fees and advocate fees do not form part of the professional fees.

1.6 Transfer journal for October 20.6**TJ10**

Date	Details	Fol	Dr R	Cr R
31	H Hendriks & Co (trust creditor) H Hendriks & Co (client) Amount of trust cheque to be deposited in business bank account	TC7 D8	59	59
31	Debit trust creditors control account	A10	59	
31	Credit clients control account	A11		59

2. LEDGERS**2.1 General ledger**

Fees account						A9	
			R	20.6		R	
				Oct 31	Fees journal credits	FJ10	38

Trust creditors control account

A10

20.6			R	20.6			R
Oct 31	Client control	TJ10	59	Oct 31	Trust bank	TCRJ10	120
	Trust bank	TCPJ10	61				
			120				120

Clients control account

A11

20.6			R	20.6			R
Oct 31	Journal debits	GJ10	21	Oct 31	Trust creditors	TJ10	59
	Fees	FJ10	38		control		
			59				59

Trust bank account

A12

20.6			R	20.6			R
Oct 31	Receipts	TCRJ10	120	Oct 31	Payments	TCPJ10	120

Business bank account

A13

20.6			R				R
Oct 31	Receipts	BCRJ10	59				

Sheriff fees account

A14

			R	20.6			R
				Oct 31	H Hendriks & Co	GJ10	21
					(client)		

2.2 Clients ledger

H Hendriks & Co

D8

20.6			R	20.6			R
Oct 31	Fees*	FJ10	57	Oct 31	Fees	FJ10	19
	Sheriff fees	GJ10	21		H Hendriks & Co	TJ10	59
			78		(trust creditor)		
							78

R

* Instruction	6
Summons	15
Correspondence	6
Acknowledgement of debt	18
Collection	12
	<u>57</u>

2.3 Trust creditors ledger

H Hendriks & Co				TC7			
20.6			R	20.6			R
Oct 31	H Hendriks & Co (client)	TJ10	59	Oct 31	Trust bank	TCRJ10	120
	Trust bank	TCPJ10	61				
			120				120

3. TRIAL BALANCE

Trial balance at 31 October 20.6

	Dr R	Cr R
Fees account		38
Business bank account	59	
Sheriff fees account		21
	59	59

LEARNING ACTIVITY 5

The accounting entries in the accounting records of the instructed attorney as prepared from the account statement.

CISA & Co send the following account statement to the instructing attorneys, J van Zyl & Co.

Account statement		
CISA & Co		P O Box 555 Stanger 31 May 20.1
J van Zyl & Co PO Box 12124 Pretoria		
Collection – J Juan vs M Mervin	R	R
Sheriff fees	217	15 000
Fee for receiving instruction	430	
Fee for preparation of summons	150	
Correspondence fee	26	
Fee for drafting of admission of guilt	60	
Collection fee	1 000	
Your ⅓ share of fees		555
VAT @ 14%	233	78
Cheque herewith/Electronic fund transfer to yourselves	13 517	
J Juan vs S Juan – divorce case		
Fee for receiving instruction	300	
Advocate for divorce case	330	
Sheriff fees	21	
Your ⅓ allowance of fees		100
VAT @ 14%	42	14
Amount owing		579
	16 326	16 326

REQUIRED:

Record the information as contained in the account statement, in the following accounting records of CISA & Co:

- 1 Subsidiary journals
- 2 Ledgers
 - 2.1 General ledger
 - 2.2 Clients ledger
 - 2.3 Trust creditors ledger
- 3 Prepare trial balance

FEEDBACK: LEARNING ACTIVITY 5**ACCOUNTING RECORDS OF CISA & CO****1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for May 20.1****TCRJ5**

Date	Details	Fol	Trust creditors R	Bank R
31	J van Zyl & Co (Juan vs Mervin)	T5	15 000	15 000
31	Debit trust bank account	G4		15 000
31	Credit trust creditors control account	G10	15 000	

1.2 Trust cash payments journal for May 20.1**TCPJ5**

Date	Details	Fol	Trust creditors R	Bank R
31	J van Zyl & Co (Juan vs Mervin)	T5	13 517	13 517
	Business bank account – transfer	C		1 483
31	Credit trust bank account	G4		15 000
31	Debit trust creditors control account	G10	13 517	

1.3 Business cash receipts journal for May 20.1**BCRJ5**

Date	Details	Fol	Clients R	Bank R
31	Trust bank account	C		1 483
31	Debit business bank account	G5		1 483

1.4 Business cash payments journal for May 20.1**BCPJ5**

Date	Details	Fol	Clients R	Bank R
31	J van Zyl & Co (Sheriff fees – Juan: R217 + R21)	D9	238	238
	J van Zyl & Co (Advocate – Juan)	D9	330	330
31	Credit business bank account	G5		568
31	Debit clients control account	G11	568	

1.5 Fees journal for May 20.1**FJ5**

Date	Details	Fol	Dr R	Cr R
31	J van Zyl & Co (client) Fees VAT Fees for receiving instructions: (R430 + R300); issuing of summons: R150; correspondence R26; admission of guilt: R60; collection fee: R1000	D9 G14 G17	2 241	1 966 275
	Fees VAT J van Zyl & Co (client) 1/3 share of fees	G14 G17 D9	655 92	747
31	Debit client control account R(2 241 – 747)	G11	1 494	
31	Credit fees account R(1 966 – 655)	G14		1 311
31	Credit VAT control account R(233 – 78 + 42 – 14)	G17		183

1.6 Transfer journal for May 20.1**TJ5**

Date	Details	Fol	Dr R	Cr R
31	J van Zyl & Co (trust creditor)(J Juan vs M Mervin) J van Zyl & Co (client) Amount of trust cheque to be deposited in business bank account	T5 D9	1 483	1 483
31	Debit trust creditors control account	G10	1 483	
31	Credit clients control account	G11		1 483

2. LEDGERS

2.1 General ledger

Trust bank account

G4

20.1			R	20.1			R
May 31	Receipts	TCRJ5	15 000	May 31	Payments	TCPJ5	15 000
			15 000				15 000

Business bank account

G5

20.1			R	20.1			R
May 31	Receipts	BCRJ5	1 483	May 31	Payments	BCPJ5	568
					Balance	c/d	915
			1 483				1 483
May 31	Balance	b/d	915				

Trust creditors control account

G10

20.1			R	20.1			R
May 31	Trust bank	TCPJ5	13 517	May 31	Trust bank	TCRJ5	15 000
	Client control	TJ5	1 483				
			15 000				15 000

Clients control account

G11

20.1			R	20.1			R
May 31	Fees & VAT	FJ5	1 494	May 31	Trust creditors control	TJ5	1 483
	Business bank	BCPJ5	568		Balance	c/d	579
			2 062				2 062
May 31	Balance	b/d	579				

Fees account

G14

			R	20.1			R
				May 31	Fees journal credits	FJ5	1 311

VAT control account

G17

			R	20.1			R
				May 31	Journal credits	FJ5	183

2.2 Clients ledger

J van Zyl & Co				D9			
20.1			R	20.1			R
May 31	Business bank	BCPJ5	238	May 31	Fees & VAT	FJ5	747
	Business bank	BCPJ5	330		J van Zyl & Co (trust creditor)	TJ5	1 483
	Fees & VAT	FJ5	2 241		(J Juan vs M Mervin)		
					Balance	c/d	579
			2 809				2 809
May 31	Balance	b/d	579				

2.3 Trust creditors ledger

J van Zyl & Co (in respect of J Juan vs M Mervin)				T5			
20.1			R	20.1			R
May 31	Trust bank	TCPJ5	13 517	May 31	Trust bank	TCRJ5	15 000
	J van Zyl & Co (client)	TJ5	1 483				
			15 000				15 000

3. TRIAL BALANCE

Trial balance of CISA & Co at 31 May 20.1

	Dr R	Cr R
Business bank account	915	
Clients control account	579	
Fees account		1 311
VAT control account		183
	1 494	1 494

9.7 Recording of the account statement in the accounting records of the instructing attorney

In this section of the learning unit, the steps to be followed by the **instructing** attorney, to account for the transactions entered into by the instructed attorney, will be discussed. This will be done by referring to the account statement of Mkefa Attorneys at the start of this learning unit.

For ease of reference the account statement follows:

Correspondent account statement

Accounting statement Mkefa Attorneys		
Messrs Moloi Attorneysx MBOMBELA		P O Box 1 TEMBISA 30 April 20.9
	R	R
Collection – M Kay v Mr Z Kay (1)		750
Fees for receiving instruction (2)	11	
Fees for issuing summons – Mr Z Kay (3)	16	
Tracing fees paid – Mr Z Kay (4)	10	
Sheriff fees – Mr Z Kay (5)	15	
Collection fees (6)	75	
Your ⅓ share of fees (allowance) (7)		34*
Cheque herewith/Electronic fund transfer to yourselves (8)	657	
	784	784

x The instructing attorney

\$ The instructed attorney

* ⅓ of (R11 + R16 + R75) (the ⅓ principle will be explained later)

Moloi Attorneys (instructing attorney) should apply the following steps to account for the transactions:

Step 1 Receipt of correspondent account statement and a cheque/electronic fund transfer

Where an account statement to which a cheque/EFT is attached, is received from an instructed attorney, the most important duty of the instructing attorney (Moloi Attorneys) is to immediately issue a **trust** receipt and to deposit the money in the trust bank account if paid by cheque. It follows that the instructing attorney must credit a trust creditor's account with the amount, namely, Mkefa Attorneys (the instructed attorney).

(T-accounts are used to facilitate the explanation – the journal entries are shown in a separate section).

The following entry is made.

Trust bank		
Mkefa Attorneys (trust creditor)	R 657	
Mkefa Attorneys (trust creditor)		
	Trust bank	R 657

Step 2 Distribution of the original collection

The next step is to record all the entries appearing on the account statement. Every entry made by the instructed attorney on the account statement is the result of such attorney acting on the instructions of the instructing attorneys, Moloi Attorneys (to collect money from Mr Z Kay on behalf of M Kay). Each entry must be analysed and recorded in the relevant journal, after distinguishing clearly between business transactions and trust transactions. The following entries are made

- **To transfer the R750 to the trust creditors account of M Kay:**

Mkefa Attorneys (trust creditor)

M Kay	R 750	
-------	----------	--

M Kay (trust creditor)

	Mkefa Attorneys	R 750
--	-----------------	----------

This entry is made in order to transfer the cash collected by Mkefa Attorneys to the trust creditors account of M Kay. M Kay is the client (trust creditor) of Moloi Attorneys, and is accountable to him.

- **To debit the total expenses incurred and fees levied by Mkefa Attorneys in respect of M Kay, to the latter's account:**

Mkefa Attorneys (trust creditor)

	M Kay	R 127
--	-------	----------

M Kay (trust creditor)

Mkefa Attorneys	R 127	
-----------------	----------	--

This entry is made because M Kay is liable for the expenses incurred by Mkefa Attorneys in respect of the collection.

- **To record the fees earned by Moloi Attorneys:**

Mkefa Attorneys (client)

Fees ($\frac{1}{3}$ share of fees: $\frac{1}{3} \times 102$)	R 34	
--	---------	--

Fees

	Mkefa Attorneys	R 34
--	-----------------	---------

The purpose of this entry is to record the one-third of the fees to which Moloi Attorneys is entitled. Because this is fees, it amounts to a business transaction and a client account is therefore opened for Mkefa Attorneys. A direct debit entry cannot be made to the trust creditor account of Mkefa Attorneys.

- **When all the entries appearing on the account statement have been recorded, the ledger accounts must be examined to ensure that they reflect the true state of affairs:**

Trust creditors ledger of Moloi Attorneys

Mkefa Attorneys

M Kay	R 750	Trust bank M Kay	R 657 127
-------	----------	---------------------	-----------------

M Kay

Mkefa Attorneys	R 127	Mkefa Attorneys	R 750
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Clients ledger of Moloi Attorneys

Mkefa Attorneys

Fees ($\frac{1}{3}$ share of fees)	R 34		
-------------------------------------	---------	--	--

- The trust creditor account of Mkefa Attorneys has a credit balance of R34, and the client account has a debit balance of R34. A transfer can therefore be made from the trust creditor account to the client account of Mkefa Attorneys via the transfer journal, and to deposit a trust cheque of R34 in the business bank account.

Mkefa Attorneys (trust creditor)

Mkefa Attorneys (client)	R 34		
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Mkefa Attorneys (client)

		Mkefa Attorneys (trust creditor)	R 34
--	--	----------------------------------	---------

Trust bank

		Business bank	R 34
--	--	---------------	----------------

Business bank

Trust bank	R 34		
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When this entry has been completed, the client account and the trust creditor account of Mkefa Attorneys will close off as shown in the next section.

The account of M Kay has a credit balance of R623, which is the amount of the trust cheque to be paid out to him. The balance on his account will remain as is, until a trust cheque is issued or an electronic fund transfer is made to him.

Step 3 Recording in subsidiary journals

To gain an overall idea of the accounting process, study the recording of the various transactions in the different subsidiary journals and ledger accounts in the accounting records of Moloi Attorneys.

MOLOI ATTORNEYS**1.1 Trust cash receipts journal for April 20.9****TCRJ4**

Date	Details	Fol	Trust creditors R	Bank R
	Mkefa Attorneys (amount received - M Kay v Mr Z Kay)	TC1	657	657
30	Debit trust bank account (general ledger)	A5		657
30	Credit trust creditors control account	A1	657	

1.2 Trust cash payments journal for April 20.9**TCPJ4**

Date	Details	Fol	Bank R
	Business bank account (trust cheque – transfer to business bank account)	C	34
30	Credit trust bank account (general ledger)	A5	34

1.3 Business cash receipts journal for April 20.9**BCRJ4**

Date	Details	Fol	Bank R
	Trust bank account (transfer from trust bank account as per transfer journal)	C	34
30	Debit business bank account (general ledger)	A4	34

1.4 General journal for April 20.9

GJ4

Date	Details	Fol	Dr R	Cr R
	Mkefa Attorneys (trust creditor) M Kay (trust creditor) Amount recovered from Mr Z Kay	TC1 TC2	750	750
	M Kay (trust creditor) Mkefa Attorneys (trust creditor) Expenses incurred by Mkefa Attorneys on behalf of M Kay	TC2 TC1	127	127
30	Debit clients control account*	A1	877	
30	Credit trust creditors control account*	A1		877

***NB:** In this instance, these two entries happen to have the same totals, but in practice this need not necessarily be the case.

Fees of the instructed attorney R(11 + 16 + 75) = R102 plus tracing fees, R10, and Sheriff fees, R15 = R127

1.5 Fees journal for April 20.9

FJ4

Date	Details	Fol	Dr R	Cr R
	Mkefa Attorneys (client) Fees 1/3 share of fees	D1 A3	34	34
30	Debit clients control account	A1	34	
30	Credit fees account	A3		34

1.6 Transfer journal for April 20.9

TJ14

Date	Details	Fol	Dr R	Cr R
	Mkefa Attorneys (trust creditor) Mkefa Attorneys (client) Amount of trust cheque to be deposited in business bank account	TC1 D1	34	34
30	Debit trust creditors control account	A1	34	
30	Credit clients control account	A2		34

GENERAL LEDGER**MOLOI ATTORNEYS****Trust creditors control account****A1**

20.9 Apr 30	Client control Journal debits (general journal) Balance	TJ4 GJ4 c/d	R 34 877 623 1 534	20.9 Apr 30 May 1	Trust Bank Journal credits (general journal) Balance	TCRJ4 GJ4 b/d	R 657 877 1 534 623
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Clients control account**A2**

20.9 Apr 30	Journal Debits (fees journal)	FJ4	R 34 34	20.9 Apr 30	Trust creditors control	TJ4	R 34 34
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Balance therefore "NIL"

Fees account**A3**

				20.9 Apr 30	Mkefa Attorneys (fees journal)	FJ4	R 34
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Business bank account**A4**

20.9 Apr 30	Receipts	BCRJ4	R 34				
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Trust bank account**A5**

20.9 Apr 30	Receipts	TCRJ4	R 657 657	20.9 Apr 30	Payments Balance	TCPJ4 c/d	R 34 623 657
May 1	Balance	b/d	623				

CLIENTS LEDGER**MOLOI ATTORNEYS****Mkefa Attorneys****D1**

20.9 Apr 30	Fees	FJ4	R 34	20.9 Apr 30	Mkefa Attorneys (trust creditor)	TJ4	R 34
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TRUST CREDITORS LEDGER

MOLOI ATTORNEYS

Mkefa Attorneys				TC1			
20.9			R	20.9			R
Apr 30	M Kay (trust creditor)	GJ4	750	Apr 30	Trust bank	TCRJ4	657
	Mkefa Attorneys (client)	TJ4	34		M Kay (trust creditor)	GJ4	127
			784				784

Balance therefore "NIL"

M Kay				TC2			
20.9			R	20.9			R
Apr 30	Mkefa Attorneys (trust creditor)	GJ4	127	Apr 30	Mkefa Attorneys (trust creditor)	GJ4	750
	Balance	c/d	623				750
			750				750
				May 1	Balance	b/d	623

TRIAL BALANCE

Trial balance of Moloi Attorneys at 30 April 20.9

	Dr R	Cr R
Fees		34
Business bank	34	
Trust bank	623	
Trust creditors control (M Kay)		623
	657	657

Moloi Attorneys' one-third ($\frac{1}{3}$) share of the fees, as claimed by Mkefa Attorneys, is not recorded in the account of Moloi Attorneys' client (M Kay), as this is a matter between the two firms of attorneys. When Moloi Attorneys (the instructing attorney) therefore send their client (M Kay) a final statement, mention will be made in it of:

- (a) the amount collected; and
- (b) the fees and expenses claimed by Mkefa Attorneys (the **instructed** attorneys)

EXAMPLE 9.2

The accounting entries in the accounting records of the instructing attorney as prepared from the account statement

The firm of Yasien & Gani receives the following account statement from its correspondent, Khanyeza & Booi:

Account statement		
Khanyeza & Booi. Messrs Yasien & Gani 25 Pretoria Avenue Pretville	PO Box 10 Bela Bela 16 February 20.1	
	R	R
Collection – Peter v Paul		1200
Fees for receiving instruction	50	
Fees for issuing summons	40	
Sheriff fees (cash)	90	
Collection fees	120	
Your $\frac{1}{3}$ share of fees R(50 + 40 + 120)		70
Claim – Mavis v Mary		900
Fees for receiving instruction	30	
Collection fees	90	
Your $\frac{1}{3}$ share of fees R(30 + 90)		40
Cheque attached/Electronic fund transfer to yourselves	1790	
NB: The instructing attorneys paid their clients by cheque	2210	2210

REQUIRED:

Record the information as contained in the account statement from Khanyeza & Booi in the following accounting records of Yasien & Gani (the instructing attorneys):

- 1 Subsidiary journals
- 2 Ledgers
 - 2.1 General ledger
 - 2.2 Clients ledger
 - 2.3 Trust creditors ledger
- 3 Trial balance

FEEDBACK: EXAMPLE 9.2**ACCOUNTING RECORDS OF YASIEN & GANI****1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for February 20.1****TCRJ2**

Date	Details	Fol	Trust creditors R	Bank R
28	Khanyeza & Booi (trust creditor)	T1	1790	1790
28	Debit trust bank account	A4		1790
28	Credit trust creditors control account	A2	1790	

1.2 Trust cash payments journal for February 20.1

TCPJ2

Date	Details	Fol	Trust creditors R	Bank R
28	Business bank account (transfer) Peter Mavis	C T2 T3	900 780	110 900 780
28	Credit trust bank account	A4		1790
28	Debit trust creditors control account	A2	1680	

1.3 Business cash receipts journal for February 20.1

BCRJ2

Date	Details	Fol	Bank R
28	Trust bank account (transfer)	C	110
28	Debit business bank account	A5	110

1.4 Transfer journal for February 20.1

TJ2

Date	Details	Fol	Dr R	Cr R
28	Khanyeza & Booï (trust creditor) Khanyeza & Booï (client) Amount of trust cheque to be deposited in the business bank account	T1 D2	110	110
28	Debit trust creditors control account	A2	110	
28	Credit clients control account	A3		110

1.5 General journal for February 20.1

GJ2

Date	Details	Fol	Dr R	Cr R
28	Khanyeza & Booï (trust creditor) Peter (trust creditor) Money collected by Khanyeza & Booï (Peter v Paul)	T1 T2	1 200	1 200
	Peter (trust creditor) Khanyeza & Booï (trust creditor) Fees charged and expenses incurred by Khanyeza & Booï to collect money from Paul: Fees R(40 + 50) R90 Stamps R10 Sheriff fee R80 Collection fees R120	T2 T3	300	300
	Khanyeza & Booï (trust creditor) Mavis (trust creditor) Money collected by Khanyeza & Booï (Mavis v Mary)	T1 T3	900	900

Date	Details	Fol	Dr R	Cr R
	Mavis (trust creditor) Khanyeza & Booi (trust creditor) Fees charged and expenses incurred by Khanyeza & Booi to collect money from Mary: Fees R30 Collection fees R90	T3 T1	120	120
28	Debit trust creditors control account	A2	2520	
28	Credit trust creditors control account	A2		2520

1.6 Fees journal for February 20.1

FJ2

Date	Details	Fol	Dr R	Cr R
28	Khanyeza & Booi (client) Fees 1/3 share of fees charged by Khanyeza & Booi handed over to firm of Yasien & Gani as follows: Peter v Paul – R70 Mavis v Mary – R40	D2 A1	110	110
28	Debit clients control account	A3	110	
28	Credit fees account	A1		110

2. LEDGERS

2.1 General ledger

Fees account

A1

				20.1			R
				Feb 28	Khanyeza & Booi (client)	FJ2	110

Trust creditors control account

A2

20.1			R	20.1			R
Feb 28	Client control	TJ2	110	Feb 28	Trust bank	TCRJ2	1790
	Journal debits	GJ2	2520		Journal credits	GJ2	2520
	(general journal)				(general journal)		
	Trust bank	TCPJ2	1680				
			4310				4310

Clients control account

A3

20.1			R	20.1			R
Feb 28	Journal debits (fees journal)	FJ2	110	Feb 28	Trust creditors control	TJ2	110
			110				110

Trust bank account

A4

20.1			R	20.1			R
Feb 28	Receipts	TCRJ2	1790	Feb 28	Payments	TCPJ2	1790
			1790				1790

Business bank account

A5

20.1			R				
Feb 28	Receipts	BCRJ2	110				

2.2 Clients ledger

Khanyeza & Booi

D2

20.1			R	20.1			R
Feb 28	Fees	FJ2	110	Feb 28	Khanyeza & Booi (trust creditor)	TJ2	110

2.3 Trust creditors ledger

Khanyeza & Booi

T1

20.1			R	20.1			R
Feb 28	Peter (trust creditor)	GJ2	1 200	Feb 28	Trust bank	TCRJ2	1 790
	Mavis (trust creditor)	GJ2	900		Peter (trust creditor)	GJ2	300
	Khanyeza & Booi (client)	TJ2	110		Mavis (trust creditor)	GJ2	120
			2 210				2 210

Peter

T2

20.1			R	20.1			R
Feb 28	Khanyeza & Booi (trust creditor)	GJ2	300	Feb 28	Khanyeza & Booi (trust creditor)	GJ2	1 200
	Trust bank	TCPJ2	900				
			1 200				1 200

Mavis				T3			
20.1			R	20.1			R
Feb 28	Khanyeza & Booï (trust creditor)	GJ2	120	Feb 28	Khanyeza & Booï (trust creditor)	GJ2	900
	Trust bank	TCPJ2	780				
			900				900

3. TRIAL BALANCE

Trial balance of Yasien & Gani at 28 February 20.1

	Dr R	Cr R
Business bank account	110	
Fees account		110
	110	110

LEARNING ACTIVITY 6

Explain what the first accounting step of an instructing attorney would be if a statement with a cheque attached were to be received from a correspondent.

FEEDBACK: LEARNING ACTIVITY 6

To issue a trust receipt immediately and to deposit the money in his or her (ie the instructing attorney's) trust bank account.

LEARNING ACTIVITY 7

Name the account in the general ledger that will indicate the amount which must be available in the trust bank account.

FEEDBACK: LEARNING ACTIVITY 7

The trust creditors control account.

LEARNING ACTIVITY 8

Explain why an instructing attorney always has more than one trust creditor.

FEEDBACK: LEARNING ACTIVITY 8

Both client and the instructed attorney are trust creditors of the instructing attorney.

LEARNING ACTIVITY 9

The recording of correspondent transactions in the accounting records of the instructing attorney

Account statement P Jacobs		
H Hendriks & Co. RUSTENBURG	PO Box 12345 PRETORIA 31 October 20.6	
	R	R
Collection – L Letaba v G Greer		
Fees for receiving instruction	6	
Fees for issuing summons	15	
Sheriff fees	21	
Correspondence	6	
Drawing up of acknowledgement of debt	18	
Collection fees	12	
Your 1/3 share of fees		19
Cheque herewith/Electronic fund transfer to yourselves	61	
	139	139

NB: All expenses are still outstanding and must be recovered directly from H Hendriks.

REQUIRED:

Show the entries appearing on the above account statement as they would appear in the accounting records of the instructing attorney.

FEEDBACK: LEARNING ACTIVITY 9

ACCOUNTING RECORDS OF H HENDRIKS

SUBSIDIARY JOURNALS

1.1 Trust cash receipts journal for October 20.6

TCRJ10

Date	Details	Fol	Trust creditors R	Bank R
31	P Jacobs (trust creditor)	T1	61	61
31	Debit trust bank account	A5		61
31	Credit trust creditors control account	A1	61	

1.2 Trust cash payments journal for October 20.6**TCPJ10**

Date	Details	Fol	Trust creditors R	Bank R
31	Business bank account – transfer	C		19
31	Credit trust bank account	A5		19

1.3 Business cash receipts journal for October 20.6**BCRJ10**

Date	Details	Fol	Bank R
31	Trust bank account - transfer	C	19
31	Debit business bank account	A4	19

1.4 General journal for October 20.6**GJ10**

Date	Details	Fol	Dr R	Cr R
31	P Jacobs (trust creditor)	T1	120	
	L Letaba (trust creditor)	T2		120
	Amount collected from Greer			
	L Letaba (trust creditor)	T2	78	
	P Jacobs (trust creditor)	T1		78
	Expenses incurred by Jacobs on behalf of L Letaba			
31	Debit trust creditors control account	A1	198	
31	Credit trust creditors control account	A1		198

1.5 Fees journal for October 20.6**FJ10**

Date	Details	Fol	Dr R	Cr R
31	P Jacobs (client)	D1	19	
	Fees	A3		19
	1/3 share of fees			
31	Debit clients control account	A2	19	
31	Credit fees account	A3		19

1.6 Transfer journal**TJ10**

Date	Details	Fol	Dr R	Cr R
31	P Jacobs (trust creditor)	T1	19	
	P Jacobs (client)	D1		19
	Amount of the trust cheque to be deposited in the business bank account			
31	Debit trust creditors control account	A1	19	
31	Credit clients control account	A2		19

2. LEDGERS

2.1 General ledger

Trust creditors control account

A1

20.6			R	20.6			R
Oct 31	Sundry journal debits	GJ10	198	Oct 31	Trust bank	TCRJ10	14 049
	Client control	TJ10	19		Sundry journal credits	GJ10	16 318
	Balance	c/d	42				
			259				259
				Nov 1	Balance	b/d	42

Clients control account

A2

20.6			R	20.6			R
Oct 31	Fees	FJ10	19	Oct 31	Trust creditors control	TJ10	19

Fees account

A3

				20.6			R
				Oct 31	P Jacobs	FJ10	19

Business bank account

A4

20.6			R				
Oct 31	Receipts	BCRJ10	19				

Trust bank account

A5

20.6			R	20.6			R
Oct 31	Receipts	TCRJ10	61	Oct 31	Payments	TCPJ10	19
					Balance	c/d	42
			61				61
	Balance	b/d	42				

2.2 Clients ledger

P Jacobs

D1

20.6			R	20.6			R
Oct 31	Fees	FJ10	19	Oct 31	P Jacobs (trust creditor)	TJ10	19

2.3 Trust creditors ledger

P Jacobs

T1

20.6			R	20.6			R
Oct 31	L Letaba (trust creditor)	GJ10	120	Oct 31	Trust bank	TCRJ10	61
	P Jacobs (client)	TJ10	19		L Letaba (trust creditor)	GJ10	78
			139				139

L Letaba

T2

20.6			R	20.6			R
Oct 31	P Jacobs (trust creditor)	GJ10	78	Oct 31	P Jacobs (trust creditor)	GJ10	120
	Balance	b/d	42				
			120				120
				Nov 1	Balance	b/d	42

3. TRIAL BALANCE

Trial balance of H Hendriks at 31 October 20.6

	Dr R	Cr R
Fees		19
Business bank	19	
Trust bank	42	
Trust creditors control (Letaba)		42
	61	61

LEARNING ACTIVITY 10

Account statement

The accounting entries of correspondent transactions in the accounting records of first entry and ledgers of an instructing attorney.

The firm J van Zyl & Co received the following account statement from its correspondent, CISA & Co:

Account statement		
CISA & Co. J van Zyl & Co PO Box 12124 Pretoria	PO Box 555 Stanger 31 May 20.1	
	R	R
Collection – J Juan vs M Mervin		15 000
Sheriff fees	217	
Fee for receiving instruction	430	
Fee for preparation of summons	150	
Correspondence fee	26	
Fee for drafting of admission of guilt	60	
Collection fee	1 000	
Your 1/3 share of fees		555
VAT @ 14%	233	78
Cheque herewith/Electronic fund transfer to yourselves	13 517	
J Juan vs S Juan – divorce case		
Fee for receiving instruction	300	
Advocate for divorce case	330	
Sheriff fees	21	
Your 1/3 share of fees		100
VAT @ 14%	42	14
Amount owing		579
	16 326	16 326

J van Zyl & Co paid J Juan the amount collected.

NOTE: J van Zyl & Co do not have permission to settle the accounts of the different matters against each other.

REQUIRED:

Record the information as contained in the account statement from CISA & Co in the following accounting records of J van Zyl & Co (the instructing attorney):

- 1 Subsidiary journals
- 2 Ledgers
 - 2.1 General ledger
 - 2.2 Clients ledger
 - 2.3 Trust creditors ledger
- 3 Trial balance

FEEDBACK: LEARNING ACTIVITY 10

ACCOUNTING RECORDS OF J VAN ZYL & CO**1. SUBSIDIARY JOURNALS****1.1 Trust cash receipts journal for May 20.1****TCRJ5**

Date	Details	Fol	Trust creditors R	Bank R
31	CISA & Co (trust creditor)	T3	13 517	13 517
31	Debit trust bank account	G1		13 517
31	Credit trust creditors control account	G3	13 517	

1.2 Trust cash payments journal for May 20.1**TCPJ5**

Date	Details	Fol	Trust creditors R	Bank R
31	J Juan (trust creditor)	T8	12 884	12 884
	Business bank account – transfer (J Juan vs M Mervin)	C		633
31	Credit trust bank account	G1		13 517
31	Debit trust creditors control account	G3	12 884	

1.3 Business cash receipts journal for May 20.1**BCRJ5**

Date	Details	Fol	Clients R	Bank R
31	Trust bank account (transfer) (J Juan vs M Mervin)	C		633
31	Debit business bank account	G2		633

1.4 Transfer journal for May 20.1**TJ5**

Date	Details	Fol	Dr R	Cr R
31	CISA & Co (trust creditor) (J Juan vs M Mervin)	T3	633	
	CISA & Co (client)	D5		633
	Amount of trust cheque to be deposited in the business bank account			
31	Debit trust creditors control account	G3	633	
31	Credit clients control account	G4		633

1.5 General journal for May 20.1

GJ5

Date	Details	Fol	Dr R	Cr R
31	CISA & Co (trust creditor) J Juan (trust creditor) Money collected by CISA & Co (Juan v Mervin)	T3 T8	15 000	15 000
	J Juan (trust creditor) CISA & Co (trust creditor) Fees charged and expenses incurred by CISA & Co to collect money from M Mervin: Fees R1 666 Sheriff fee R 217 VAT R 233	T8 T3	2 116	2 116
	J Juan (client) CISA & Co (client) Fees charged and expenses incurred by CISA & Co regarding divorce case Juan: Fees R300 Advocate fee R330 Sheriff fee R 21 VAT R 42	D7 D5	693	693
31	Debit trust creditors control account	G3	17 116	
31	Credit trust creditors control account	G3		17 116
31	Debit clients control account	G4	693	
31	Credit clients control account	G4		693

1.6 Fees journal for May 20.1

GJ5

Date	Details	Fol	Dr R	Cr R
31	CISA & Co (client) Fees VAT $\frac{1}{3}$ share of fees (including VAT) charged by CISA & Co (J Juan v M Mervin)	D5 G5 G6	633	555 78
	CISA & Co (client) Fees VAT $\frac{1}{3}$ share of fees (including VAT) charged by CISA & Co (J Juan v S Juan)	D5 G5 G6	114	100 14
31	Debit clients control account	G4	747	
31	Credit fees account	G5		655
31	Credit VAT control account	G6		92

2. LEDGERS

2.1 General ledger

Trust bank account

G1

20.1			R	20.1			R
May 31	Receipts	TCRJ5	13 517	May 31	Payments	TCPJ5	13 517
			13 517				13 517

Business bank account

G2

20.1			R				
May 31	Receipts	BCRJ5	633				

Trust creditors control account

G3

20.1			R	20.1			R
May 31	Client control	TJ5	633	May 31	Trust bank	TCRJ5	13 517
	Journal debits	GJ5	17 116		Journal credits	GJ5	17 116
	(general journal)				(general journal)		
	Trust bank	TCPJ5	12 884				
			30 633				30 633

Clients control account

G4

20.1			R	20.1			R
May 31	Journal debits (fees journal)	FJ5	747	May 31	Journal credits (general journal) (J Juan vs S Juan)	GJ5	693
	Journal debits (general journal) (J Juan vs S Juan)	GJ5	693		Trust creditors control (M Mervin)	TJ5	633
					Balance	c/d	114
			1 440				1 440
May 31	Balance	b/d	114				

Fees account

G5

				20.1			R
				May 31	CISA & Co (client)	FJ5	655

VAT control account

G6

				20.1			R
				May 31	CISA & Co (client)	FJ5	92

2.2 Clients ledger

CISA & Co				D5			
20.1			R	20.1			R
May 31	Fees & VAT	FJ5	747	May 31	CISA & Co (trust creditor)	TJ5	693
	Balance	c/d	579		J Juan (client)	GJ5	633
			1 326				1 326
				May 31	Balance	b/d	579

J Juan (in respect of J Juan vs S Juan)

D7

20.1			R				
May 31	CISA & Co (client)	GJ5	693				

2.3 Trust creditors ledger

CISA & Co (in respect of J Juan vs M Mervin)

T3

20.1			R	20.1			R
May 31	CISA & Co (client)	TJ5	633	May 31	Trust bank	TCRJ5	13 517
	J Juan (trust creditor)	GJ5	15 000		J Juan (trust creditor)	GJ5	2 116
			15 367				15 633

J Juan (in respect of J Juan vs M Mervin)

T8

20.1			R	20.1			R
May 31	Trust bank	TCPJ5	12 884	May 31	CISA & Co (trust creditor)	GJ5	15 000
	CISA & Co (trust creditor)	GJ5	2 116				
			15 000				15 000

3. TRIAL BALANCE

Trial balance of J van Zyl & Co at 31 May 20.1

	Dr R	Cr R
Business bank account	633	
Clients control account	114	
Fees account		655
VAT control account		92
	747	747

9.8 Self-assessment

After having worked through this learning unit, are you now able to do the following?

	Yes	No
<ul style="list-style-type: none"> • Define the term “correspondent”. • Distinguish between the instructing and instructed correspondent. • Prepare the instructed attorney’s correspondent account statement. • Demonstrate an understanding of the correspondent allowance. • Calculate the correspondent allowance. • Calculate collection commission. • Record all correspondent transactions in the accounting records of the instructing and instructed correspondent. 		

If you answered “yes” to all of the above assessment criteria, you can now move on to the next Learning Unit. If your answer was “no” to any of the above criteria, revise this Learning Unit again before commencing with the next Learning Unit.