

FAC1503

May/June 2016

FINANCIAL ACCOUNTING PRINCIPLES FOR LAW PRACTITIONERS

Duration 2 Hours

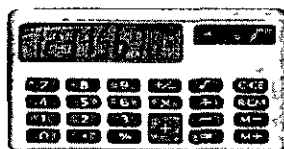
100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

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This paper consists of **9 (NINE)** pages**PLEASE NOTE:**

- 1 Ensure that you are writing the correct examination paper
- 2 Ensure that you are handed the correct examination answer book (BLUE) by the invigilator
- 3 This paper consists of **5 (FIVE)** questions
- 4 All questions must be answered
- 5 Basic calculations, where applicable, must be shown
- 6 Each question attempted must be commenced on a new (separate) page
- 7 Write legibly in blue or black ink

PROPOSED TIMETABLE

(Try not to deviate from this)

Question number	Topic	Marks	Time in minutes
1	Posting from subsidiary journals to general ledger accounts	25	30
2	Trust accounts	22	26
3	Accounting equation	24	29
4	Analysis of financial statements	24	29
5	Multiple choice questions	5	6
	Total	100	120

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QUESTION 1 (25 marks)(30 minutes)

Commence this question on a new (separate) page

The following information for the month ended 30 June 2015 relates to Nanna Traders. Nanna Traders is a registered VAT vendor and uses the periodic inventory system. VAT is included, where applicable, in all amounts at a rate of 14%.

- 1 On 1 June 2015, the following balances appeared in the general ledger of Nanna Traders

	R
Sales	328 000
Purchases	174 000
Bank (favourable)	66 300
Creditors control	215 000
Debtors control	197 000

- 2 The following totals appeared in the subsidiary journals of Nanna Traders at 30 June 2015

Cash Receipts Journal of Nanna Traders for June 2015**CRJ**

Analyses of receipts	Bank	Sales	VAT output	Debtors control
R	R	R	R	R
301 560	301 560	129 000	18 060	154 500

Cash Payments Journal of Nanna Traders for June 2015**CPJ**

Bank	Purchases	VAT input	Creditors control
R	R	R	R
211 296	86 400	12 096	112 800

Sales Journal of Nanna Traders for June 2015**SJ**

Sales	VAT output	Debtors control
R	R	R
322 500	45 150	367 650

Sales Returns Journal of Nanna Traders for June 2015**SRJ**

Sales returns	VAT output	Debtors control
R	R	R
73 500	10 290	83 790

Purchases Journal of Nanna Traders for June 2015**PJ**

Purchases	VAT input	Creditors control
R	R	R
117 900	16 506	134 406

Purchases Return Journal of Nanna Traders for June 2015**PRJ**

Purchases returns	VAT input	Creditors control
R	R	R
10 800	1 512	12 312

General Journal**GJ**

	R	R
Stationary	700	
VAT input	98	
Chico Stationers / Creditors control		798
<i>Stationery purchased on credit</i>		

[TURN OVER]

QUESTION 1 (continued)**REQUIRED**

											Marks																																																
Open the following ledger accounts, using the opening balances given, in the general ledger of Nanna Traders and post the totals of the subsidiary journals to the required ledger accounts at 30 June 2015																																																											
(a) Sales											3½																																																
(b) Purchases											3½																																																
(c) Bank											5																																																
(d) Debtors control											6																																																
(e) Creditors control											7																																																
											[25]																																																
Please note:																																																											
All accounts must be properly balanced at 30 June 2015																																																											
Prepare all the general ledger accounts in the format illustrated below																																																											
<table border="1"> <thead> <tr> <th colspan="4">Dr</th><th colspan="4">Equipment</th><th colspan="4">Cr</th></tr> </thead> <tbody> <tr> <td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr> </tbody> </table>											Dr				Equipment				Cr																																								
Dr				Equipment				Cr																																																			

[TURN OVER]

QUESTION 2 (22 marks)(26 minutes)**Commence this question on a new (separate) page**

The following information for March 2015 relates to Selenga and Partners, an attorney's practice

Transactions by Selenga and Partners for March 2015

- 2 Charged interest of R180 on the arrear account of M Ceki
- 4 Received R1 380 from C Smith in respect of costs incurred on the registration of a bond in his name
- 7 Paid the monthly telephone account of Selenga and Partners with a business cheque, R1 445
- 10 Paid the net amount of R2 150, received from Mrs J Jackson, to the instructing attorneys, S Scott and J James, with a trust cheque
- 14 Received R1 100 from S Osman, a client, who requested Selenga and Partners to act as his defence counsel in a forthcoming court case
- 17 A cheque for R1 380, received from C Smith on 4 March 2015 in respect of the registration of a bond, was returned by the bank marked "R/D"
- 19 Issued a debit note of R650 to B Bosch in respect of fees for drawing up her will
- 21 Received a deposit of R530 from C Nkome, a client, during February 2015 towards the costs of handling her divorce case. The account of A Nkome, however, was erroneously credited with R530. Correct the error
- 23 Paid the Sheriff with a business cheque, R235, for the delivery of a summons to F Dolly
- 25 Purchased office furniture on credit from City Furniture, R3 700
- 27 Paid advocate Williams R710 with a trust cheque to act as the defence counsel for J Fitzgerald in a forthcoming court case
- 29 Debited fees of R1 420, in respect of V Victor's divorce case, to her account
- 31 Drew a cash cheque for R1 500, to restore the petty cash float

REQUIRED

	Marks
Prepare the following journals for March 2015 in the accounting records of Selenga and Partners	
(a) Trust cash receipts. Make provision for the following columns: date, details, trust creditors and bank	3
(b) Trust cash payments. Make provision for the following columns: date, details, trust creditors and bank	4½
(c) Business cash payments. Make provision for the following columns: date, details, sundries and bank	4½
(d) Fees. Make provision for the following columns: date, details, clients control and fees	4
(e) General. Make provision for the following columns: date, details, debit and credit	6
	[22]
Please note.	
Selenga and Partners is not registered as a VAT vendor	

[TURN OVER]

QUESTION 3 (24 marks)(29 minutes)**Commence this question on a new (separate) page**

The following transactions took place in the business of Khumalo Traders during April 2015. The entity applies the periodic inventory system and is not a registered VAT vendor.

Transactions by Khumalo Traders for April 2015

- 2 The owner, Mr Khumalo, transferred his personal vehicle with a value of R82 000 to the entity.
- 4 Issued a cheque for R2 500 to Aircon Suppliers in part payment for an air conditioner purchased for the office during March 2015.
- 7 A debtor, H Eyesele, owed Khumalo Traders an amount of R730. The full amount was paid via an electronic funds transfer.
- 12 Khumalo Traders issued a debit note to the amount of R520 to J Hudson and Son, for goods previously purchased on credit from the entity. The goods were returned as they were not in a good working order when delivered.
- 15 A debtor, G Grey who owed R980 to Khumalo Traders, was declared insolvent by the North Gauteng High Court. His account must be written off as irrecoverable.
- 17 Purchased goods on credit from Wright Traders for R1 200 and received a trade discount of 10%.
- 19 An invoice to the amount of R460 was issued to A Jaffer for goods sold to him on credit.
- 21 Received R350 from N Nel in full settlement of her account of R410.
- 25 Goods purchased from Heyns Wholesalers for R730 was incorrectly recorded in the stationery account. The error must be corrected.
- 28 Interest of 5% per annum was charged on the overdue account of a debtor, D Goldwin, who owed Khumalo Traders R11 200. D Goldwin's account was six (6) months in arrears.

REQUIRED.

						Marks
Analyse the above transactions in tabular format as follows						
Date	Account to be debited	Account to be credited	Effect on the basic accounting equation			
			Assets	Equity	Liabilities	
			R	R	R	
Example 4 April Paid rent of R 5 000						
4	Rental expense	Bank	- 5 000	- 5 000	0	
Please note:						[24]
The columns in respect of the accounting equation must not be totalled.						
Each amount must be preceded by a plus sign (+) for an increase or a minus sign (-) for a decrease, to indicate an increase or a decrease in the element of the accounting equation.						
Show all calculations						

[TURN OVER]

QUESTION 4 (24 marks)(29 minutes)

Commence this question on a new (separate) page

The following information was obtained from the accounting records of Duncan Traders on 28 February 2015

DUNCAN TRADERS**ABBREVIATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2015**

	R
Revenue	780 000
Cost of sales	(301 500)
Inventory (01/03/2014)	161 500
Purchases	370 000
	531 500
Inventory (28/02/2015)	(230 000)
Gross profit	478 500
Distribution, administrative and other expenses	(341 500)
Finance cost (Interest)	(2 700)
Profit before tax	134 300
Income tax expense	(13 094)
Profit for the year	121 206
Other comprehensive income for the year	—
Total comprehensive income for the year	121 206

DUNCAN TRADERS**ABBREVIATED STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2015**

	R
ASSETS	
Non-current assets	700 000
Property, plant and equipment	700 000
Current assets	518 000
Inventories	230 000
Trade and other receivables	197 000
Cash and cash equivalents	91 000
Total assets	1 218 000
EQUITY AND LIABILITIES	
Total equity	576 500
Capital	576 500
Total liabilities	641 500
Non-current liabilities	390 000
Long-term borrowings (Mortgage)	390 000
Current liabilities	251 500
Trade and other payables	251 500
Total equity and liabilities	1 218 000

Additional information

- 1 Credit sales represent 65% of total sales (revenue)
- 2 Credit purchases represent 45% of total purchases
- 3 On 1 March 2014, the opening balances of the debtors control was R137 000 and that of the creditors control, R156 600

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QUESTION 4 (continued)**REQUIRED:**

	Marks
Calculate the following ratios for Duncan Traders at 28 February 2015	
(a) Trade receivables collection period (days)	4
(b) Inventory holding period	4
(c) Acid test ratio	4
(d) Trade payables settlement period	4½
(e) Interest cover	4
(f) Profit margin	3½
	[24]
Please note	
All formulas and calculations must be shown	
All answers must be rounded off to 2 decimal places after the comma	

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QUESTION 5 (5 marks)(6 minutes)**Commence this question on a new (separate) page.**

Multiple choice questions

- (a) The total of the creditors column in the cash payments journal of JB Traders, had been under cast by R2 300 Which one of the following general ledger accounts will be affected by this error?

- 1 Debtors control account
- 2 Sales account
- 3 Purchases account
- 4 Creditors control account
- 5 Bank account

(1)

- (b) Which one of the following possibilities represents the correct order in which underneath steps must be followed, when a transaction takes place?

- (a) Indicate the folio number of the subsidiary journal
- (b) The amounts debited must be equal to the amounts credited
- (c) Think about what the effect of the transaction is going to be on the basic accounting equation (BAE)
- (d) The date of the transaction must be indicated
- (e) Identify the accounts which will be involved
- (f) Determine which accounts have to be debited and which accounts have to be credited
- (g) Indicate the name of the contra ledger account applicable

- 1 (f), (a), (b), (d), (c), (e), (g)
- 2 (c), (e), (f), (b), (d), (g), (a)
- 3 (d), (b), (g), (c), (e), (f), (a)
- 4 (a), (f), (d), (b), (c), (e), (g)
- 5 (e), (d), (b), (f), (g), (c), (a)

(1)

- (c) Choose the correct option

- 1 An asset increases on the credit side and decreases on the debit side of an account
- 2 An liability increases on the debit side and decreases on the credit side of an account
- 3 Income increases on the debit side and decreases on the credit side of an account
- 4 An expenses increases on the debit side and decreases on the credit side of an account
- 5 Drawings increases on the credit side and decreases on the debit side of an account

(1)

- (d) Echo Traders uses control accounts Which one of the following alternatives will cause the trial balance not to balance?

- 1 The discount column in the cash payments journal was debited to the discount allowed account in the general ledger
- 2 A credit purchase invoice was correctly entered as R514 in the purchases journal, but the amount was incorrectly posted as R415 to the personal account of the creditor
- 3 The bank overdraft appears as a credit balance in the trial balance
- 4 A credit sales invoice of R1 700 was incorrectly entered as R170 in the sales journal and posted as such to the personal account of the debtor
- 5 The bank account (favourable) appears as a debit balance in the trial balance

(1)

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QUESTION 5 (continued)

(e) Name the three subsidiary journals involved in a transfer of funds from a trust creditors account to an account in the clients ledger

- (a) the trust cash receipts journal
- (b) the transfer journal
- (c) the trust cash payments journal
- (d) the fees journal
- (e) the business cash receipts journal
- (f) the general journal
- (g) the business cash payments journal

- 1 (a), (f) and (g)
- 2 (b), (c) and (e)
- 3 (c), (d) and (e)
- 4 (a), (d) and (g)
- 5 (c), (e) and (f)

(1)

REQUIRED

	Marks
Answer the above questions by indicating the correct option in your answer book Example (f) option 2	
	[5]