

## **FAC1503**

October/November 2017

### **FINANCIAL ACCOUNTING PRINCIPLES FOR LAW PRACTITIONERS**

Duration 2 Hours

100 Marks

**EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT**

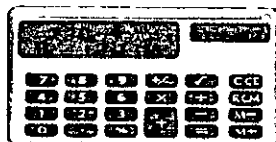
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Use of a non-programmable pocket calculator is permissible

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

**[TURN OVER]**

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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 TIME-TABLE**

(Avoid deviating from this)

Question number	Topic	Marks	Time in minutes
1	Subsidiary journals	19	23
2	Accounting equation	19	23
3	Cash journals, bank account and bank reconciliation statement	19	23
4	Trust accounts	27	32
5	Analysis of financial statements	16	19
	Total	100	120

**[TURN OVER]**

**QUESTION 1 (19 marks)(23 minutes)**

Commence this question on a new (separate) page.

The following information for the month ended 30 April 2017 relates to Express Services and Suppliers. The entity uses the periodic inventory system and is a registered VAT vendor. VAT is included, where applicable, in all amounts at a rate of 14%.

**Transactions by Express Services and Suppliers for April 2017:**

- 5 Sold trading inventory to the amount of R2 394 to R Phiri
- 13 Cash sales of trading inventory, R1 482
- 15 Issued a cheque for R700 to Copu Traders, a trade creditor, as part payment of the entity's account
- 17 Purchased trading inventory on credit from Model Traders, R2 337
- 21 Received an invoice from JT Wholesalers for inventory purchased on credit for R3 420
- 24 Sold trading inventory to the amount of R2 736 to G Wright
- 26 Cash purchases of trading inventory, R1 539
- 28 Issued a receipt to S Smith for the payment of his account, R400
- 30 Paid the monthly wages, R3 600
- 30 Total repair services rendered for the month per cash register roll, R5 700

**REQUIRED:**

	Marks
Open the following subsidiary journals for the month ended 30 April 2017 in the accounting records of Express Services and Suppliers and record the above transactions in the relevant subsidiary journals	
(a) Cash receipts journal. Make provision for the following columns: date, details, bank, sales, trade receivables control, services rendered, VAT output, and sundry accounts. Do not total the columns.	5½
(b) Cash payments journal. Make provision for the following columns: date, details, bank, purchases, trade payables control, VAT input and sundry accounts. Do not total the columns.	5½
(c) Sales journal. Make provision for the following columns: date, details, sales, VAT output and trade receivables control. Do not total the columns.	4
(d) Purchases journal. Make provision for the following columns: date, details, purchases, VAT input and trade payables control. Do not total the columns.	4
	<b>[19]</b>

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**QUESTION 2 (19 marks)(23 minutes)****Commence this question on a new (separate) page**

The following transactions for February 2017 relates to the law firm Bell Attorneys, of which Mr W Bell is the sole owner. The firm is not registered as a VAT vendor.

**Transactions entered into by Bell Attorneys for February 2017**

- 3 Mr W Bell deposited R25 000 into the business bank account as additional capital
- 4 Purchased stationery on credit from E Fay for R1 600 and received a discount of 10%
- 7 Paid R3 100 to Top Properties for office rent
- 12 Mr W Bell took one of the firm's surplus laptops with a book value of R4 700 to be used by his children
- 21 Bell Attorneys paid R5 000 to Advocate N Ntuli on behalf of client S Vermaak
- 28 Bell Attorneys issued a debit note to the amount of R9 800 to J Khoza for bond registration fees

**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	
<b>Example</b>						
Feb 4 Paid the monthly telephone account of the entity with a cheque for R 4 200						
4	Telephone	Bank	- 4 200	- 4 200	0	

<b>Please note</b>						[19]
The columns in respect of the accounting equation must <b>not</b> be totalled						
Each amount <b>must</b> 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 3 (19 marks)(23 minutes)****Commence this question on a new (separate) page**

The following information for the month ended 30 April 2017 relates to Runway Traders

- 1 Balances and totals at the end of April 2017
  - Bank statement, R1 956 (favourable)
  - Cash receipts journal, R10 062
  - Cash payments journal, R12 570
- 2 The previous month's bank reconciliation statement was extracted from the accounting records of Phakathi Traders

**RUNWAY TRADERS**

Bank reconciliation statement as at 31 March 2017

	<b>Debit</b>	<b>Credit</b>
	<b>R</b>	<b>R</b>
Credit balance per bank statement		1 734
Deposit not yet credited to bank statement		1 200
Cheques not yet presented for payment		
- no 804 dated 20 October 2016 (Donation)	4 000	
- no 894 dated 17 January 2017 (DD Pharos)	833	
- no 895 dated 28 March 2017 (BC Garner)	1 278	
Error in the amount of a deposit in the bank statement		840
Credit balance per bank account		2 337
	<b>6 111</b>	<b>6 111</b>

- 3 A comparison of the above bank reconciliation and the bank statement with the cash journals for April 2017 revealed the following
  - 3.1 The bank statement for April 2017 reflected the following items which do not appear in the cash journals
    - Correction of the error in the amount of a deposit, R840
    - Deposit credited, R1 200
    - Cheque no 894, R833
    - Dishonoured cheque from S Sweaters, R350
    - Cheque book costs, R102 and service fees, R175
    - Debit order for the monthly insurance premium, R803
    - Direct deposit for rent received from a sub-tenant, R971
    - A deposit made by another client of the bank erroneously credited on Runway Traders bank statement, R4 268
  - 3.2 The following items appear only in the cash journals, but not on the bank statement
    - Deposits not yet recorded by the bank, R6 215
    - Cheque no 903 issued to SM Saltiel on 3 April 2017, R3 929
  - 3.3 Cheque no 804 was issued to Silinde Pre-school Centre as a donation. The pre-school centre has since closed down.

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**QUESTION 3** (continued)**REQUIRED:**

	Marks
Complete the following in the accounting records of Runway Traders at 30 April 2017	
(a) Cash receipts and cash payments journals (bank columns only), properly totalled, on 30 April 2017	7½
(b) The bank account in the general ledger, properly balanced, on 30 April 2017	5
(c) The bank reconciliation statement, properly balanced, on 30 April 2017	6½
	<b>[19]</b>

**[TURN OVER]**

**QUESTION 4 (27 marks)(32 minutes)****Commence this question on a new (separate) page**

The following information for the month ended on 31 August 2017 relates to Radebe Attorneys

**TRIAL BALANCE OF RADEBE ATTORNEYS ON 31 JULY 2017**

	Debit	Credit
	R	R
Business bank	8 000	
Trust bank	9 500	
Trust creditors control		
N Nyati		6 000
M Mentz		3 500
Clients control		
N Nyati	-	
M Mentz	1 900	
Capital		60 400
Equipment	40 000	
Law library	10 000	
Sheriff		500
Stationery on hand	1 000	
	<b>70 400</b>	<b>70 400</b>

**Additional information**

- 1 The following totals appeared in the **subsidiary journals** of Radebe Attorneys on 31 August 2017

<b>Trust cash receipts journal</b>	<b>R</b>	<b>Trust cash payments journal</b>	<b>R</b>
Trust creditors	5 000	Trust creditors	5 800
M Mentz	2 000	N Nyati	4 000
N Nyati	3 000	M Mentz	1 800
Bank	5 000	Bank	5 800
<b>Business cash payments journal</b>		<b>Fees journal</b>	
Sundries	4 500	Clients control	4 100
Bank	4 500	N Nyati	2 600
		M Mentz	1 500
		Fees	4 100

- 2 R2 800 of the R6 000 opening balance on the account of Mrs N Nyati in the trust creditors ledger is specifically earmarked for transfer duties payable once the property is transferred to Mrs N Nyati. Mr Radebe expects that the property will be transferred during the second week of September 2017

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**QUESTION 4** (continued)**REQUIRED**

		Marks																																																																																																																																		
<b>PART A</b>																																																																																																																																				
Open the following ledger accounts in the general ledger of Radebe Attorneys as at 31 August 2017 and post the subsidiary journals in additional information 1 above, to these ledger accounts																																																																																																																																				
(i)	Trust bank	5																																																																																																																																		
(ii)	Business bank	4																																																																																																																																		
(iii)	Clients control	4																																																																																																																																		
(iv)	Trust creditors control	5																																																																																																																																		
(v)	Fees	1																																																																																																																																		
		(19)																																																																																																																																		
<b>Please note:</b>																																																																																																																																				
All accounts must be properly balanced on 31 August 2017																																																																																																																																				
Commence the general ledger accounts with the opening balances as given in the trial balance above																																																																																																																																				
<b>Prepare all the general ledger accounts in the format illustrated below.</b>																																																																																																																																				
<table><tr><th colspan="2">Dr</th><th colspan="8">Relevant account name (e.g Trust bank)</th><th colspan="2">Cr</th></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><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><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><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></table>												Dr		Relevant account name (e.g Trust bank)								Cr																																																																																																														
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<b>PART B</b>																																																																																																																																				
Calculate, for each trust creditor, the amount that should be transferred from the trust bank account to the business bank account on 31 August 2017, after all the information given in the question have been taken into account												8																																																																																																																								
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<b>Please note</b>																																																																																																																																				
Show all calculations																																																																																																																																				

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**QUESTION 5 (16 marks)(19 minutes)**

Commence this question on a new (separate) page

The following information was obtained from the accounting records of Holmes Traders Ltd on 30 June 2017

**HOLMES TRADERS LTD  
ABBREVIATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017**

	R
Revenue	1 600 000
Cost of sales	(782 250)
Inventory (01/07/2016)	212 600
Purchases	860 000
Inventory (30/06/2017)	(290 350)
<b>Gross profit</b>	<b>817 750</b>
Other income	18 510
Distribution, administrative and other expenses	(519 270)
Finance cost (Mortgage)	(36 000)
<b>Profit for the year</b>	<b>280 990</b>
Other comprehensive income for the year	–
<b>Total comprehensive income for the year</b>	<b>280 990</b>

**HOLMES TRADERS LTD  
ABBREVIATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**

	R
<b>ASSETS</b>	
<b>Non-current assets</b>	454 000
Property, plant and equipment	454 000
<b>Current assets</b>	749 850
Inventories	290 350
Trade receivables	385 000
Cash and cash equivalents	74 500
<b>Total assets</b>	<b>1 203 850</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	654 850
Capital	654 850
<b>Total liabilities</b>	549 000
<b>Non-current liabilities</b>	360 000
Long-term borrowings (Mortgage)	360 000
<b>Current liabilities</b>	189 000
Trade and other payables	189 000
<b>Total equity and liabilities</b>	<b>1 203 850</b>

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**QUESTION 5** (continued)**Additional information**

- 1 Credit sales represent 65% of total sales (revenue)
- 2 Credit purchases represent 45% of total purchases
- 3 On 1 July 2016, the opening balances of the trade receivables control was R278 000 and that of the trade payables control, R143 000

**REQUIRED.**

	Marks
Calculate the following ratios of Holmes Traders Ltd at 30 June 2017	
(a) Profit margin	2½
(b) Inventory holding period	3½
(c) Acid test ratio	2½
(d) Return on assets	3½
(e) Trade receivables collection period (days)	4
	<b>[16]</b>
<b>Please note:</b> All formulas and calculations must be shown All answers must be rounded off to 2 decimal places after the comma, e g 3,458% to 13,46%	