

**FAC1503
RFA1503**

May/June 2017

FINANCIAL ACCOUNTING PRINCIPLES FOR LAW PRACTITIONERS

Duration 2 Hours

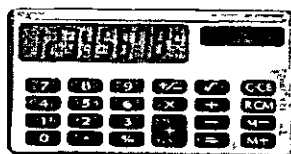
100 Marks

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 TIME-TABLE

(Avoid deviating from this)

Question number	Topic	Marks	Time in minutes
1	Cash journals, bank account and bank reconciliation statement	20	24
2	Accounting equation	20	24
3	Analysis of financial statements	20	24
4	Posting from subsidiary journals to general ledger accounts (trusts)	28	34
5	Multiple choice questions	12	14
	Total	100	120

[TURN OVER]

QUESTION 1 (20 marks)(24 minutes)**Commence this question on a new (separate) page**

The following information came to light when comparing Riopez (Pty) Ltd's cash journals with the bank statement of the entity for the month ended 31 August 2016

- 1 Balances
 - The bank account in the general ledger had a favourable balance of R4 152 on 31 July 2016
 - The bank statement had a favourable balance of R15 559 on 31 August 2016
- 2 Totals in the cash journals on 31 August 2016, amounted to

	R
- Cash receipts journal	33 912
- Cash payments journal	12 335
- 3 On comparing the cash journals with the bank statement for August 2016, the following differences were found
 - 3.1 - A debtor, D Dollen paid R1 350 directly into the bank account of Riopez (Pty) Ltd
 - The bank erroneously debited Riopez (Pty) Ltd's account with a cheque amounting to R1 150, drawn by Liopet (Pty) Ltd
 - A cheque for R3 677, received on 17 August 2016 from P Mlangeni, a debtor, was returned by the bank marked R/D
 - Items on the debit side of the bank statement not yet recorded in the cash journals
 - Bank charges, R158
 - Cheque book charges, R80
 - Internet banking fees, R30
 - Interest on favourable bank balance, R335
 - A debit order for motor vehicle insurance of R5 760, payable to Insuresafe, appeared on the bank statement but not in the relevant cash journal
 - Cash sales of R2 771 entered into the cash receipts journal on 31 August 2016, was only deposited at the bank on 4 September 2016
 - 3.2 The following cheques were not yet presented to the bank for payment
 - no 395 dated 23 August 2016, to RNA Stationers for staples purchased, R122
 - no 320 dated 25 January 2016, to Mos Ltd, a creditor, R980
 - no 390 dated 14 July 2016, to Mobinet for the telephone account, R669

REQUIRED:

	Marks
Complete the following in the accounting records of Riopez (Pty) Ltd as at 31 August 2016	
(a) Cash receipts and cash payments journals (bank columns only), properly totalled, as at 31 August 2016	9
(b) The bank account in the general ledger, properly balanced, as at 31 August 2016	5
(c) The bank reconciliation statement, properly balanced, as at 31 August 2016	6
	[20]

[TURN OVER]

QUESTION 2 (20 marks)(24 minutes)

Commence this question on a new (separate) page.

- 1 The following information for June 2016 relates to Sheki Suppliers
- The entity is not registered as a VAT vendor
 - The periodic inventory system is used
- 2 Sheki Suppliers entered into the following transactions for the month of June 2016

Date Transaction

- 4 Purchased inventory on credit from Wilkin Wholesalers for R1 850, after receiving a trade discount of 10% Settlement discount of 8% will be awarded by the creditor, if the amount is settled within 30 days Sheki Suppliers intends to settle the account during June 2016
- 11 Issued a receipt to S Struwig for R950, for a payment received on his account
- 19 Cashed a cheque for R2 900 R1 800 was for the week's wages and the balance for restoring the cash float balance of the petty cash
- 23 Issued a cheque to Wilkin Wholesalers to settle the outstanding amount for inventory purchased on credit earlier in June 2016
- 29 Purchased a new photocopy machine on credit from Office Suppliers for R1 370

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 December Purchased stationery of R2 000					
4	Stationery	Bank	- 2 000	- 2 000	

[20]

Please note:

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 the effect on the element in the accounting equation

Show all calculations

[TURN OVER]

QUESTION 3 (20 marks)(24 minutes)

Commence this question on a new (separate) page.

The following information pertains to Torino Traders

TORINO TRADERS**ABBREVIATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

	R
Revenue (including cash sales of R115 500)	771 456
Cost of sales	(242 956)
Inventory (01/10/2015)	99 276
Purchases (including cash purchases of R145 200)	264 000
Inventory (30/09/2016)	363 276 (120 320)
Gross profit	528 500
Distribution, administrative and other expenses	(460 065)
Finance cost (Mortgage)	(55 000)
Profit for the year	13 435
Other comprehensive income for the year	–
Total comprehensive income for the year	13 435

TORINO TRADERS**ABBREVIATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016**

	R
ASSETS	
Non-current assets	523 600
Property, plant and equipment	523 600
Current assets	198 390
Inventories	120 320
Trade and other receivables (01/10/2015 – R84 210)	72 780
Cash and cash equivalents	5 290
Total assets	721 990
EQUITY AND LIABILITIES	
Total equity	72 473
Capital	72 473
Total liabilities	649 517
Non-current liabilities	550 000
Long-term borrowings (Mortgage)	550 000
Current liabilities	99 517
Trade and other payables (01/10/2015 – R90 235)	88 517
Current portion of long-term borrowings	11 000
Total equity and liabilities	721 990

[TURN OVER]

QUESTION 3 (continued)**REQUIRED:**

	Marks
Calculate the following ratios of Torino Traders CC at 30 September 2016	
(a) Solvency ratio	3
(b) Interest cover	4½
(c) Gross profit percentage	3½
(d) Trade payables settlement period	5
(e) Inventory turnover rate	4
	[20]
Please note	
All formulas and calculations must be shown	
All answers must be rounded off to 2 decimal places after the comma	

[TURN OVER]

QUESTION 4 (28 marks)(34 minutes)

Commence this question on a new (separate) page.

The following information for the month ended 30 April 2016 relates to Besuka Attorneys

TRIAL BALANCE OF BESUKA ATTORNEYS ON 31 MARCH 2016

	Debit	Credit
	R	R
Business bank	6 100	
Trust bank	6 300	
Trust creditors control		
G Galati		3 800
J Jackson		2 500
Clients control		
M Schmidt	1 180	
G Galati	1 700	
J Jackson	1 350	
Capital		86 000
Equipment	55 000	
Law library	18 000	
Sheriff		240
Stationery on hand	2 910	
	92 540	92 540

Additional information

- 1 The following totals appeared in the **subsidiary journals** of Besuka Attorneys on 30 April 2016

Trust cash receipts journal	R	Trust cash payments journal	R
Trust creditors	12 210	Trust creditors	4 870
L Botha	10 000	G Galati	3 870
G Galati	2 210	J Jackson	1 000
Bank	12 210	Bank	4 870
Business cash payments journal		Fees journal	
Sundries	5 650	Clients control	2 960
Bank	5 650	G Galati	1 260
		J Jackson	1 700
		Fees	2 960

- 2 The following entry was made in the general journal of Besuka Attorneys on 30 April 2016

General Journal	GJ	
	Dr	Cr
	R	R
M Schmidt (client)	150	
Interest received		150
Interest levied on account in arrears		

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QUESTION 4 (continued)**REQUIRED**

										Marks																																								
PART A																																																		
Open the following ledger accounts in the general ledger of Besuka Attorneys as at 30 April 2016 and post the subsidiary journals in additional information 1 and 2 above, to these ledger accounts																																																		
(i) Trust bank										5																																								
(ii) Business bank										4																																								
(iii) Clients control										5																																								
(iv) Trust creditors										5																																								
(v) Fees										1																																								
										(20)																																								
Please note:																																																		
All accounts must be properly balanced on 30 April 2016																																																		
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.																																																		
<table><tr><td colspan="2">Dr</td><td colspan="6">Relevant account name (e g Trust bank)</td><td colspan="2">Cr</td></tr><tr><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></tr><tr><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																																
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 2016, after all the information given in the question have been taken into account										8																																								
										[28]																																								
Please note																																																		
Show all calculations																																																		

QUESTION 5 (12 marks)(14 minutes)

Commence this question on a new (separate) page

MULTIPLE CHOICE QUESTIONS

This question consists of six **MULTIPLE CHOICE QUESTIONS** of 2 marks each. The questions are not related to each other. Only one option for each question is correct. Indicate the chosen option in your examination script next to the question number in brackets, for example, Question (i) option 2

(i) Which of the following terms form part of the engagement letter between a law practitioner and his clients?

- (a) the nature and scope of the services rendered
- (b) the billing process
- (c) the basis of fees charged
- (d) the law practitioner's experience and ability
- (e) the conduct of the law practitioner and the limitations thereof

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

(2)

(ii) Which one of the following statements concerning the managing of human resources by law practitioners, is **correct**?

- 1 Human resources refer only to employed practitioners
- 2 The human resource cycle includes, amongst others, training, evaluation, benefits and capital
- 3 When managing physical resources, the law practitioner should consider the advantages and disadvantages of leasing versus purchasing
- 4 Financial planning requires the law practitioners to determine the best location and layout of the office space
- 5 Financial planning by the law practitioners requires that different forms of financing be considered. Obtaining a loan is a less risky form of finance

(2)

(iii) Which of the following information should form part of the partnership agreement?

- (a) the purpose and scope of the partnership
- (b) the names of the different partners
- (c) the capital contributions expected from the partners
- (d) the duties and limitations of the respective partners
- (e) the method followed in settling disputes
- (f) the rules to be applied in the withdrawal of partnership funds
- (g) the formula to be applied in the distribution of profits or losses

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

(2)

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QUESTION 5 (continued)**MULTIPLE CHOICE QUESTIONS** (continued)

- (iv) Which one of the following statements concerning accounting for law practitioners, is **correct**?
- 1 The receipts of money from the law practitioner's clients for the services still to be rendered will be recorded in the business cash receipts journal
 - 2 The payments/refunds and transfer of money from the trust account must be recorded in the transfer journal
 - 3 Business transactions are transactions that occur for the benefit of the law practitioners
 - 4 The purpose of the trust fund in a law practice is to keep clients' money for investment
 - 5 When the expenses of a client were paid from the attorney's business bank account, the client's account will be credited with these amounts
- (2)
- (v) Which subsidiary journals will be affected when a transfer of funds from the trust bank account to the business bank account is recorded?
- 1 Transfer journal and trust cash payment journal
 - 2 Business cash receipts journal, trust cash receipts journal, transfer journal and trust cash payments journal
 - 3 Fees journal, business cash payment journal and trust cash payment journal
 - 4 Transfer journal, trust cash payments journal and business cash receipts journal
 - 5 Transfer journal and business cash receipts journal
- (2)
- (vi) Which one of the following options represents all the factors that must be considered by the partners in a law practice when determining the compensation system?
- 1 Number of hours billed, fees collected, capital contributions, years in practice and management responsibilities
 - 2 Fees collected and number of hours billed
 - 3 New business generated, number of hours billed and fees collected
 - 4 Financial resources, number of hours billed, responsibility of management and physical resources
 - 5 Number of hours billed, capital contributions, years in practice, administration support and calendar system

(2)

[12]