

# FAC1501 & FAC 1503 EXAM PACK

## Accounting Principles for Law Practitioners & Introductory Financial Accounting

## MAY-JUNE 2010

### QUESTION 1 (15 marks) (17 minutes)

Commence this question on a new (separate) page

The following information for the month ending 30 April 2010 pertains to Anco Traders:

1.

ANCO TRADERS

Bank reconciliation statement as at 31 March 2010

	Debit	Credit
	R	R
Credit balance per bank statement		8 559
Deposit not yet credited		606
Cheques not yet presented for payment:		
No 1909 – dated 12/01/2010 (R Ndlovu)	1 404	
No 1953 – dated 15/03/2010 (Telkom)	1 818	
No 1961 – dated 17/03/2010 (Stationery Limited)	195	
No 1975 – dated 22/03/2010 (Green Suppliers)	3 948	
No 1980 – dated 25/03/2010 (PR Deliveries)	264	
Debit balance per bank account	1 536	
	9 165	9 165

2. Totals of the bank columns of the cash journals at 30 April 2010 before any of the information with regard to the comparison of the bank statement with the cash journals (see no 3) were recorded:

Cash receipts journal, R10 062  
Cash payments journal, R12 570

3. Information obtained by comparing the bank statement for April 2010 with the cash journals for April 2010 and the bank reconciliation statement as at 31 March 2010 (see no 1 above):

- 3.1 A deposit of R1 038 paid into the bank account of Anco Traders on 30 April 2010 was only reflected on the bank statement for May 2010.
- 3.2 Cheque no 1961 as well as the outstanding deposit on the bank reconciliation statement as at 31 March 2010 appeared on the bank statement for April 2010.
- 3.3 On 27 April 2010 Anco Traders paid a donation of R550 into the current account of WK School. The bookkeeper neglected to record this transaction in the accounting records of Anco Traders. The transaction did appear on the bank statement for April 2010.
- 3.4 Cheque no 1909 was issued to a creditor to settle a debt but it was lost. The cheque was replaced on 5 April 2010 with cheque no 1986. No accounting entries were made in the books to record this transaction.
- 3.5 Cheque no 1953 was issued to Telkom to pay the telephone account for March 2010, but was incorrectly entered as R1 818 in the cash payments journal. It was correctly recorded on the bank statement for April 2010 as R1 980.
- 3.6 Cheque no 1980 for R264 was issued to PR Deliveries for merchandise to be delivered. Payment of the cheque was stopped by Anco Traders because the goods were transported on 30 March 2010 with their own delivery vehicle.

**QUESTION 1 (continued)**

3.7 The following cheques, issued during April 2010, did not appear on the bank statement for April 2010:

- Cheque no 1988, dated 7 April 2010, for R4 290 to JJ Stores in settlement of Anco Traders' account.
- Cheque no 2001, dated 14 April 2010, for R1 560 to Stationery Limited.
- Cheque no 2002, dated 15 April 2010, for R2 980 to the municipality for water and electricity.

3.8 A cheque for R540, received on 24 April 2010 from a debtor A Botha has been dishonoured by the debtor's bank.

3.9 Interest on fixed deposit of R700 was received from RE Bank. The amount was deposited directly into the current account of Anco Traders.

3.10 The following items only appeared on the bank statement for April 2010:

- Cheque book, R44
- Cash handling fees, R60
- Service charges, R280

3.11 The bank statement showed a favourable balance of R10 096 on 30 April 2010.

**REQUIRED:**

- |  |             |
|--|-------------|
| 1.1 Complete the cash receipts and cash payments journals of Anco Traders, bank columns only, at 30 April 2010.                  | (6)         |
| 1.2 Prepare the bank account in the general ledger of Anco Traders, properly balanced, on 30 April 2010.                         | (2)         |
| 1.3 Prepare the bank reconciliation statement of Anco Traders as at 30 April 2010. Begin with the balance as per bank statement. | (7)         |
|  | <b>[15]</b> |

**Solution 1**

**1.1 ANCO TRADERS**

**Cash Receipts Journal- April 2010**

Details	Amount (R)
Provisional Total	10 062
Creditors Control/ R. Ndlovu (cheque cancelled)	1 404

Delivery expenses (cheque cancelled)	264
Interest Income	700
<b>Total Receipts</b>	<b>12 430</b>

### **Cash Payments Journal- April 2010**

<b><u>Details</u></b>	<b><u>Amount (R)</u></b>
Provisional Total	12 570
Donations	550
Creditors Control/ R. Ndlovu (cheque reissued)	1 404
Telephone (1980-1818)	162
Debtors Control (A. Botha)	540
Bank Charges (44+60+280)	384
<b>Total Payments</b>	<b>15 610</b>

### **1.2 ANCO TRADERS**

### **GENERAL LEDGER- APRIL 2010**

<b>Bank Account</b>							
2010				2010			
April 1	Balance	b/d	1 536	April 30	Total Payments	CPJ	15 610
30	Total Receipts	CRJ	12 430				
30	Balance	c/d	1 644				
			<b>15 610</b>				<b>15 610</b>
				2010 May 1	Balance	b/d	1 644

### **1.3 Bank reconciliation statement as at 30 April 2010**

	<b>Debit (R)</b>	<b>Credit (R)</b>
Credit balance per bank statement		10 096
Outstanding deposit		1 038
Outstanding cheques: 1975	3 948	
1988	4 290	
2001	1 560	
2002	2 980	

Credit balance per bank account		1 644
	<b>12 778</b>	<b>12 778</b>

## **NOTES**

### Bank Reconciliation

A company's cash balance at bank and its cash balance according to its accounting records usually do not match. This is due to the fact that, at any particular date, cheques may be outstanding, deposits may be in transit to the bank, and errors may have occurred, e.t.c. Therefore companies have to carry out bank reconciliation process which prepares a statement accounting for the difference between the cash balance in the company's cash account and the cash balance according to its bank statement.

Following are the transactions which usually appear in company's records but not in the bank statement:

**Deposits in transit:** Deposits which have been sent by the company to the bank but have not been received by the bank at proper time before the issuance of the bank statement.

**Cheques outstanding:** Cheques which have been issued by the company but were not presented or cleared before the issuance of the bank statement.

Following are the transactions which usually appear in bank statement but not in the company's cash account:

**Service charges:** Service charges may have been deducted by the bank. Such charges are usually not known by the company before the issuance of the bank statement.

**Interest income:** If any interest income has been earned by the company on its bank account, it is not usually entered in the company's cash account before the issuance of a bank statement.

**NSF Cheques:** NSF stands for "not sufficient funds". These are the cheques deposited by the company in bank account but the bank is unable to receive payment on those cheques due to insufficient funds in the payer's account.

**QUESTION 2 (22 marks) (27 minutes)**

Commence this question on a new (separate) page

The following transactions for February 2010, pertains to QW Traders. The entity is **not** registered as a VAT vendor and uses the periodic inventory system.

**Transactions: February 2010**

- 2 A debtor, T Bafu, owes the entity an amount of R1 800 for six (6) months. The entity's policy is to charge interest at 12% per annum on debtors' accounts that are outstanding for six (6) months or more.
- 3 Sold merchandise for cash, R5 550.
- 4 Paid the telephone account of R 2 100 by cheque.
- 8 The owner of QW Traders transferred his personal computer, with a value of R3 500, to the entity.
- 9 Issued a credit note to Traders 4-All for merchandise returned by them, R3 899
- 17 Merchandise purchased from Fox Traders on credit for R1 500 was correctly entered into the purchases journal but posted to the account of F Faders in the creditors ledger. Correct the error.
- 25 The account of AA Stander of R2 200 was written off as irrecoverable in December 2009. The full amount was however recovered from his estate in February 2010.
- 27 Bought stationery on credit from PL Stationers for R900 less 15% trade discount. Settlement discount of 5% will be granted if the balance is settled within 30 days.
- 30 The cash register roll of QW Traders showed an amount of R7 200 for cash sales during the day.

**REQUIRED:**

For each of the transactions listed above, indicate the source document, account debited and account credited in the general ledger, as well as the effect of each transaction on the accounting equation. Use a "+" and "-" to indicate an increase or a decrease in the elements of the accounting equation. You are also required to indicate the amount of the increase or decrease. Prepare a table with the following format and fill in the required information. [22]

**Example:**

Paid salaries by cheque, R2 800.

No	Source document	General ledger		Accounting equation		
		Account debited	Account credited	Assets =	Equity +	Liabilities
Example	Cheque counterfoil	Salaries	Bank	- 2 800	- 2 800	

## Solution 2

### QW Traders- Transactions for February 2009

NO	SOURCE DOCUMENTS	GENERAL LEDGER		ACCOUNTING EQUATION		
		ACCOUNT DEBITED	ACCOUNT CREDITED	ASSETS=	EQUITY+	LIABILITIES
2	Debit note	Debtors Control/ T. Bafu	Interest Received	+108 <sup>1</sup>	+108 <sup>1</sup>	
3	Cash Receipt	Bank	Sales	+5 550	+5 550	
4	Cheque Counterfoil	Telephone	Bank	-2 100	-2 100	
8	General Journal narration	Equipment	Capital	+3 500	+3 500	
9	Credit note	Sales Returns	Debtors Control/ Debtors 4-All	-3 899	-3 899	
17	General Journal narration	F. Faders	Fox Traders			-1 500 -1 500
25	Cash Receipt	Bank	Credit Losses Recovered	+2 200	+2 200	
27	Invoice	Stationery	Creditors Control/ PL Stationers		-765 <sup>2</sup>	+ 765 <sup>2</sup>
30	Cash Register roll	Bank	Sales	+7 200	+7 200	

## Calculations

### Calculation 1: Interest Received

$$R1\ 800 \times 12\% \times 6/12$$

**=R108**

The interest is 12% per annum but we should charge for six months, hence the 6/12.

Calculation 2: Stationery

Cost	R900
Trade Discount	15%
	$=15\% \times 900$
	<b>=135</b>

Cost net of Discount=  $900 - 135$   
 $=765$

**NB** Costs are recorded net of trade discount.



**QUESTION 3 (32 marks) (40 minutes)**

Commence this question on a new (separate) page

The following information pertains to the accounting records of M&M Traders. The entity is registered as a VAT Vendor and uses the periodic inventory system.

**(a) TRAIL BALANCE AS AT 30 APRIL 2010**

	Debit	Credit
	R	R
Capital .....		110 000
Creditors control .....		53 000
Debtors control .....	65 000	
Bank .....	185 738	
Sales .....		249 550
Purchases.....	110 200	
VAT Input .....	14 337	
VAT Output.....		14 125
Salaries and wages .....	15 400	
Water and electricity .....	36 000	
	426 675	426 675

**(b) SUBSIDIARY JOURNALS OF M&M TRADERS AT 31 MAY 2010:**

**Cash receipts journal**

	R
Bank	188 153
Sales	143 000
Debtors control	32 500
Settlement discount granted	(550)
VAT Input	(77)
VAT Output	2 780

**Cash payments journal**

	R
Bank	69 805
Purchases	28 200
Creditors control	37 600
Settlement discount received	(1 250)
VAT Input	5 430
VAT Output	(175)

**Sales journal**

Debtors control	18 240
VAT Output	2 240
Sales	16 000

**Sales returns journal**

Debtors control	342
VAT Output	42
Sales returns	300

**Purchases journal**

Creditors control	28 500
VAT Input	3 500
Purchases	25 000

**Purchases returns journal**

Creditors control	570
VAT Input	70
Purchases returns	500

**REQUIRED:**

- 1 Use the balances supplied in the trail balance of M&M Traders as at 30 April 2010 to open accounts in the general ledger of M&M Traders on 1 May 2010 for each of the accounts listed.
- 2 Post the applicable information from the May 2010 subsidiary journals to the relevant general ledger accounts. Only open new accounts where there is not an existing account.
- 3 Do not balance the accounts at 31 May 2010.

[32]

**QUESTION 3 (32 marks)**

**M&M TRADERS**  
**GENERAL LEDGER**

Dr						Capital						Cr	
				R		2010 May	1	Balance	b/d	R	110 000	^	
Dr						Creditors control						Cr	
2010 May	31	Bank & discount Purchases returns	CPJ PRJ	37 600 570	✓ ✓	2010 May	1 31	Balance Purchases	b/d PJ	53 000 28 500	✓ ✓		
Dr						Debtors control						Cr	
2010 May	1	Balance	b/d	65 000	✓	2010 May	31	Bank & discount	CRJ	32 500	✓		
	31	Sales	SJ	18 240	✓			Sales returns	SRJ	342	✓		
Dr						Bank						Cr	
2010 May	1	Balance	b/d	185 738	✓	2010 May	31	Total payments	CPJ	69 805	✓		
	31	Total receipts	CRJ	188 153	✓								
Dr						Sales						Cr	
						2010 May	1	Balance	b/d	249 550	✓		
							31	Bank	CRJ	143 000	✓		
								Debtors control	SJ	16 000	✓		
Dr						Purchases						Cr	
2010 May	1	Balance	b/d	110 200	✓								
	31	Bank	CPJ	28 200	✓								
		Creditors control	PJ	25 000	✓								

**QUESTION 3 (continued)**

Dr VAT Input Cr										
2010				R		2010			R	
May	1	Balance	b/d	14 337	✓	May	31	Creditors control	PRJ	70 ✓
	31	Bank	CPJ	5 430	✓					
		Debtors control	CPJ	77	✓					
		Creditors control	PJ	3 500	✓					
Dr VAT Output Cr										
2010						2010				
May	31	Debtors control	SRJ	42	✓	May	1	Balance	b/d	14 125 ✓
							31	Bank	CRJ	2 780 ✓
								Creditors control	CPJ	175 ✓
								Debtors control	SJ	2 240 ✓
Dr Salaries & wages Cr										
2010										
May	1	Balance	b/d	15 400	^					
Dr Water & electricity Cr										
2010										
May	1	Balance	b/d	36 000	^					
Dr Sales returns Cr										
2010										
May	31	Debtors control	SRJ	300	✓					
Dr Purchases returns Cr										
						2010				
						May	31	Creditors control	PRJ	500 ✓
Dr Settlement discount received Cr										
						2010				
						May	31	Creditors control	CPJ	1 250 ✓
Dr Settlement discount granted Cr										
2010										
May	31	Debtors control	CRJ	550	^					

**QUESTION 4 (15 marks) (17 minutes)**

Commence this question on a new (separate) page

The financial statements of JB Traders are as follows:

**JB TRADERS**

**ABBREVIATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2010**

	Notes	R
Revenue	1	2 400 000
Cost of sales	2	(810 500)
Inventory (1/3/2009)		164 500
Purchases		880 000
Inventory (28/2/2010)		(234 000)
<b>Gross profit</b>		<b>1 589 500</b>
Other income		15 000
Operating expenses		(320 240)
<b>Profit for the year</b>		<b>1 284 260</b>
Other comprehensive income for the year		–
<b>Profit/Total comprehensive income for the year</b>		<b>1 284 260</b>

**JB TRADERS**

**STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2010**

	R
<b>ASSETS</b>	
<b>Non-current assets</b>	380 000
Property, plant and equipment	380 000
<b>Current assets</b>	514 500
Inventories	234 000
Trade receivables	202 000
Cash and cash equivalents	78 500
<b>Total assets</b>	<b>894 500</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	360 500
<b>Non-current liabilities</b>	430 000
Long-term borrowings (Mortgage)	430 000
<b>Current liabilities</b>	104 000
Trade and other payables	104 000
<b>Total equity and liabilities</b>	<b>894 500</b>

**Notes for the year ended 28 February 2009:**

1. Fees earned from clients for services rendered on credit represent 60% of total revenue
2. Credit purchases represent 68% of the amount of purchases.

**QUESTION 4 (continued)**

**REQUIRED:**

Calculate the following for the year ended 28 February 2010, rounded off to 2 decimal places:

- |     |  |     |
|-----|--|-----|
| 4.1 | Acid test ratio                        | (3) |
| 4.2 | Profit for the year percentage         | (3) |
| 4.3 | Creditor's payment period              | (3) |
| 4.4 | Inventory turnover rate                | (3) |
| 4.5 | Return on assets (profit for the year) | (3) |

N.B. Show the correct formulas and all your calculations.

[15]

**SOLUTION 4**

**4.1 Acid Test Ratio**

Formulae: 
$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$= \frac{514500 - 234000}{104\ 000}$$

$$= \underline{\underline{2.70:1}}$$

A stringent indicator that determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test ratio is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets.

**4.2 Profit for the year percentage**

Formulae: 
$$= \frac{\text{Profit before tax}}{\text{Sales}} \times 100$$

$$= \frac{1\ 284\ 260}{2\ 400\ 000} \times 100$$

$$= \underline{\underline{53.51\%}}$$

**Net profit ratio** is the ratio of net profit to net sales. It is expressed as a percentage.

#### **4.3 Trade Payables Payment Period**

Formulae:  $\frac{\text{Average trade payables}}{\text{Credit Purchases}} \times 365$

$$= \frac{104\,000}{598\,400^1} \times 365$$

$$= \underline{\underline{63.44\text{days or } 63\text{days}}}$$

#### **Calculation 1**

$$880\,000 \times 68\%$$

$$= 598\,400$$

A company's average payable period tells how long it takes a company to pay its invoices from trade creditors, such as suppliers.

#### **4.4 Inventory Turnover Rate**

Formulae:  $\frac{\text{Cost of Sales}}{\text{Average Inventory}}$

$$= \frac{810\,500}{(234\,000 + 164\,500)/2}$$

$$= \underline{\underline{4.07 \text{ times}}}$$

A ratio showing how many times a company's inventory is sold and replaced over a period.

#### **4.5 Return on assets**

Formulae  $\frac{\text{Profit before interest and tax}}{\text{Total Assets}}$

$$\frac{=1\,284\,260}{894\,500}$$

$$= \underline{1.44:1}$$

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

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

Commence this question on a new (separate) page

**Question 5 consists of five unrelated questions.**

5.1

Time records are important for law practitioners to identify all the liable tasks and to determine the cost of providing legal services to clients. To ensure that all fees charged to clients are reasonable, certain factors must be taken into account by a law practise. Name four (4) of these factors and discuss each one in a short sentence.

(4)

5.2

Name and discuss shortly four (4) ways in which technology enhances the services rendered by law practices.

(4)

5.3

List the four (4) managing practice systems that a law practice should consist of to be regarded as a functional and organised practice.

(4)

5.4

What must a receipt of trust money indicate to be regarded as a proper receipt of money?

(4)

[16]

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**SOLUTION 5**

- 5.1 The time and the labour involved. These determine the effort involved and the levels of lawyers involved. Charges are normally made per labour hour.

- The amount involved and the results involved. The more the money involved, the more is likely to be the charges.
- The time limitations set out by the client: The lesser the time specified, the more the pressure.
- The law practitioner's experience, reputation and ability: Lawyers with a proven track record and experience are more expensive than starters. In a legal engagement, the time spent by each level should be determined prior to charging.
- Whether the fee is fixed or contingent: A fixed fee is specified prior to the engagement whilst a contingent fee depends on the fulfilment of certain conditions.
- The likelihood that the acceptance of the particular employment may lead to other employment by the law practitioner.

## 5.2

### **a) Leveraging the intellectual work product of the law practice**

Work done can be stored to enable future referencing as new cases of a similar nature can be undertaken as previously done instead of starting from scratch

### **b) Instruction and training**

Technology can be used in training new lawyers through presentations and sending of data. Notes and lectures can also be stored using technology.

### **c) Assuring accuracy**

Data can be more accurate or it can be free from human error if it is analysed and prepared using technology.

### **d) Legal research**

Technology facilitates research on new developments in the field and it enables the creation of databases that can be utilised by the field as a whole.

### **e) Communication**

Technology facilitates communication in terms of speed and effectiveness.

## 5.3

- a) Substantive system
- b) Document assembly systems
- c) Administrative support systems



d) Calendar and tickler system

5.4

The date of receipt

The name of the person who paid the money

The amount in words and in figures

The purpose for which the money was received e.g. fees

The account(s) affected

The issuer of the receipt.

***OCTOBER-NOVEMBER 2010***

**QUESTION 1 (20 marks) (24 minutes)**

Commence this question on a new (separate) page.

The following transactions for February 2010 pertain to Fast Sales Traders. The entity is **not** registered as a VAT vendor and uses a periodic inventory system.

**Transactions: February 2010**

- 1 Bought packaging materials on credit from Kay Zet for R1 600 less 10% trade discount.
- 6 Fast Sales Traders acquired a loan of R9 000 at 12% interest per annum from ADC Bank. The loan must be repaid on 28 February 2012.
- 10 The account of R6 400 of Ken Toon, a debtor, must be written off as irrecoverable.
- 15 A donation of inventory with as cost price of R1 500 was made to Tshwane Municipality.
- 18 Issued a cheque of R3 000 to SA Bank as a repayment on a loan.
- 20 Goods sold to A Moses on credit for R3 400. This transaction was entered correctly in the sales journal but posted to A Mason' s account. (Correct this error.)
- 24 Fast Sales Traders bought office furniture of R8 000 from Furniture Ltd, payable in two monthly instalments, with the first instalment due on 31 March 2010.
- 27 Heine Jones charged Fast Sales an interest of 12% per annum on the outstanding account of R8 600 for four (4) months.
- 29 Received an invoice from Stars Ltd for Stationery ordered from them, R2 500.
- 30 A cheque was drawn for private use, R1 400.

**REQUIRED:**

Analyse the above transactions of Fast Sales Traders for February 2010 in tabular format as follows:

Date	Account to be debited	Account to be credited	Effect on the basic accounting equation		
			Assets	Equity	Liabilities
February 1 Purchased stationery on credit from D Dorset for R10 000.					
Feb 2	Stationery	D Dorset	R	R – 10 000	R + 10 000

- NB:**
1. The columns in respect of the accounting equation must **NOT** be totalled.
  2. Each amount **MUST** be preceded by a plus sign (+) for an increase or a minus sign (–) for a decrease.
  3. Show all calculations.

[22]

## **SOLUTION 1**

### **Fast Sales: Transactions for February 2010**

NO	GENERAL LEDGER		EFFECT ON THE BASIC ACCOUNTING EQUATION		
	ACCOUNT DEBITED	ACCOUNT CREDITED	ASSETS=	EQUITY+	LIABILITIES
1	Packaging Material	Kay Zet/ Creditors Control		-1 440	+1 440
6	Bank	Loan: ADC Bank	+9 000		+9 000
10	Credit Losses	Ken Toon/ Debtors Control	-6 400	-6 400	
15	Donations	Purchases		-1 500 +1 500	
18	Loans: SA Bank	Bank	-3 000		-3 000
20	A.Moses	A.Manson	+3 400 -3 400		
24	Furniture	Furniture Limited/ Creditors Control	+8 000		+8 000
27	Interest Expense	Heine Jones/ Creditors Control		- 344	+ 344
29	Stationery	Stars Ltd/ Creditors Control		-2 500	+2 500
30	Drawings	Bank	-1 400	-1 400	

**QUESTION 2 (20 marks) (24 minutes)**

Commence this question on a new (separate) page.

The following information pertains to Rock Traders:

**ROCK TRADERS**

Bank reconciliation statement as at 30 August 2010

	Debit	Credit
	R	R
Credit balance per bank statement		4 590
Debit incorrect deposit	4 995	
Credit outstanding deposit		6 675
Credit incorrect cheque no 224		1 620
Cheques not yet presented for payment:		
No 120 – dated 26/02/2010 (Bold Conscience)	750	
No 152 – dated 25/08/2010 (I Ismael)	2 250	
No 154 – dated 27/08/2010 (T Blair)	3 765	
Debit balance per bank account	1 125	
	12 885	12 885

On comparing the cash journals for September 2010 and the bank reconciliation statement for August 2010 against the bank statement for September 2010, the following were noted:

- On 30 September 2010 the totals of the bank columns in the subsidiary journals were:  
Cash receipts journal, R59 265  
Cash payments journal, R55 770
- On 30 September 2010 the bank statement showed a favourable balance of R8 085
- Cheque no 120 issued to Bold Conscience for insurance was stale and must be cancelled.
- Cheque no 152 appeared on the bank statement for September 2010.
- A debtor, K King, paid an amount of R1 485 directly into the bank account of the entity.
- The incorrect cheque no 224 as well as the incorrect deposit of R4 995, was corrected on the bank statement for September 2010.
- A cheque for R360, received from Watts Traders and deposited during September 2010 was reflected on the bank statement as R/D (refer to drawer).
- A tenant, H Smash, deposited her rent payment of R2 010 directly into the bank account of the entity.
- On 29 September 2010 D Dorothy made an electronic funds transfer from her cell phone to pay for merchandise sold to her for R9 090. This amount appeared on the bank statement but not in the books of the entity.

**QUESTION 2 (continued)**

10. A deposit of R13 590 made on 30 September 2010 did not appear on the bank statement.
11. The bank statement showed the following charges:
  - Cash handling fee, R60
  - Cheque book fees, R90
  - Service fees, R285
12. A debit order of R1 365 appeared on the bank statement. It was in favour of Recover All for the insurance of the owner's house.
13. The bank statement was debited incorrectly with cheque no 168 for R600. The cheque was drawn by another client of the bank.
14. Cheque 198 for R2 715, dated 29 September 2010, to Teletalk for communication services, appeared in the cash payments journal but not on the bank statement.
15. The outstanding deposit on 30 August 2010 of R6 675 was reflected on the bank statement on 1 September 2010.

**REQUIRED:**

- 2.1 Complete the cash receipts and cash payments journals of Rock Traders, bank columns only, at 30 September 2010. (9)
  - 2.2 Prepare the bank account in the general ledger of Rock Traders, properly balanced, on 30 September 2010. (5)
  - 2.3 Prepare the bank reconciliation statement of Rock Traders as at 30 September 2010. Begin with the balance as per bank statement. (6)
- [20]**

**2.1 R. ROCK TRADERS**

**Cash Receipts Journal- September 2010**

Details	Bank
	R
Provisional Total	59 265
Insurance (cheque cancelled)	750
Debtors Control/ K. King	1 485
Rent Income	2 010
Sales (D.Dorothy)	9 090
	<b>72 600</b>

### Cash Payments Journal- September 2010

Details	Bank
	R
Provisional Total	55 770
Debtors Control (Watts Traders)	360
Bank charges (calculation 1)	435
Drawings	1 365
	<b>57 930</b>

#### Calculation 1

60+90+285=435

### 2.2GENERAL LEDGER

BANK							
2010 Sep 1	Balance	b/d	R 1 125	2010 Sep 30	Total payments	CPJ	57 930
30	Total Receipts	CRJ	<u>72 600</u>		Balance	c/d	<u>15 795</u>
			<b>73 725</b>				<b><u>73 725</u></b>
Oct 1	Balance	b/d	15 795				

### 2.3 R. ROCK TRADERS

#### Bank Reconciliation Statement as at 30 September 2010

	Debit	Credit
	R	R
Credit balance per bank statement		8 085
Outstanding Deposits		13 590
Incorrect Cheque: 168		600
Outstanding cheques: 154	3 765	
198	2 715	
Balance as per bank account (see above)	15 795	

	<b>22 275</b>	<b>22 275</b>



**QUESTION 3 (24 marks) (30 minutes)**

Commence this question on a new (separate) page.

The following information for February 2010 was obtained from the accounting records of Smash Hit Traders. The entity is registered as a VAT vendor and uses the periodic inventory system.

- 1 On 1 February 2010, the following balances appeared, amongst others, in the general ledger of Smash Hit Traders:

	R
Debtors control	57 000
Creditors control	33 000
Bank	(85 000)
Sales	45 500
Purchases	81 000
VAT Input	3 600
VAT Output	2 500

- 2 The following totals, amongst others, appeared in the subsidiary journals of Smash Hit Traders on 28 February 2010:

Cash receipts journal	R	Cash payments journal	R
Bank	22 412	Bank	20 313
Sales	14 500	Purchases	12 300
Settlement discount granted	1 200	Settlement discount received	1 850
Debtors control	7 250	Creditors control	8 400
VAT Output	2 030	VAT Input	1 722
VAT Input	168	VAT Output	259
<b>Purchases journal</b>		<b>Purchases returns journal</b>	
Total	21 603	Total	6 156
Purchases	18 950	Purchases returns	5 400
VAT Input	2 653	VAT Input	756
<b>Sales journal</b>		<b>Sales returns journal</b>	
Total	24 225	Total	4 275
Sales	21 250	Sales returns	3 750
VAT Output	2 975	VAT Output	525

**REQUIRED:**

Open all the general ledger accounts that will be needed to post from the subsidiary journals to the ledger (note that an account must only be opened once: e.g. the bank account). Transfer the balances on 1 February 2010 to the applicable ledger accounts (refer to 1 above). Post the subsidiary journal column totals to the applicable ledger accounts at 28 February 2010 (refer to 2 above). Balance/total the accounts at 28 February 2010.

[24]

**QUESTION 3 (24 marks)**

**SMASH HIT TRADERS**  
**GENERAL LEDGER**

Dr					Bank					Cr				
2010				R	2010				R					
Feb	28	Total receipts	CRJ	22 412	Feb	1	Balance	b/d	85 000					
		Balance	c/d	82 901		28	Total payments	CPJ	20 313					
				105 313					105 313					
					2010	1	Balance	b/d	82 901					
					Mar									(3)
Dr					Sales					Cr				
					2010									
					Feb	1	Balance	b/d	45 500					
						28	Bank	CRJ	14 500					
							Debtors control	SJ	21 250					
									81 250					(2)
Dr					Creditors control					Cr				
2010					2010									
Feb	28	Bank & discount	CPJ	8 400	Feb	1	Balance	b/d	33 000					
		Purchases				28	Purchases	PJ	21 603					
		returns	PRJ	6 156										
		Balance	c/d	40 047					54 603					
				54 603	2010	1	Balance	b/d	40 047					(3½)
					Mar									
Dr					Debtors control					Cr				
2010					2010									
Feb	1	Balance	b/d	57 000	Feb	28	Bank & discount	CRJ	7 250					
	28	Sales	SJ	24 225			Sales returns	SRJ	4 275					
				81 225			Balance	c/d	69 700					
									81 225					
2010														
Mar	1	Balance	b/d	69 700										(3½)

**QUESTION 3 (continued)**

Purchases										
Dr				Cr						
2010 Feb	1	Balance	b/d	R 81 000	^				R	
	28	Bank	CPJ	12 300	^					
		Creditors control	PJ	18 950	^					
				112 250	^					
										(2)
VAT Input										
Dr				Cr						
2010 Feb	1	Balance	b/d	3 600	^	2010 Feb	28	Creditors control	PRJ	756 ^
	28	Bank	CPJ	1 722	^			Balance	c/d	7 387 ^
		Creditors control	CPJ	2 653	^					
		Debtors control	CRJ	168	^					
				8 143						8 143
2010 Mar	1	Balance	b/d	7 387	^					
										(4)
VAT Output										
Dr				Cr						
2010 Feb	28	Debtors control	SRJ	525	^	2010 Feb	28	Balance	b/d	2 500 ^
		Balance	c/d	7 239	^			Bank	CRJ	2 030 ^
								Debtors control	SJ	2 975 ^
								Creditors control	CPJ	259 ^
				7 764						7 764
						2010 Mar	1	Balance	b/d	7 239 ^
										(4)
Sales returns										
Dr				Cr						
2010 Feb	28	Debtors control	SRJ	3 750	^					(1/2)
Purchases returns										
Dr				Cr						
						2010 Feb	28	Creditors control	PRJ	5 400 ^
										(1/2)
Settlement discount received										
Dr				Cr						
						2010 Feb	28	Creditors control	CPJ	1 850 ^
										(1/2)
Settlement discount granted										
Dr				Cr						
2010 Feb	28	Debtors control	CRJ	1 200	^					(1/2)

[24]

**QUESTION 4 (18 marks) (21 minutes)**

Commence this question on a new (separate) page.

The financial statements of Wandile Traders appeared as follows:

**WANDILE TRADERS  
ABBREVIATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
28 FEBRUARY 2010**

	R
Revenue	719 000
Cost of sales	(364 125)
Inventory (01/03/2009)	91 300
Purchases	380 000
Inventory (28/02/2010)	(107 175)
<b>Gross profit</b>	<b>354 875</b>
Other income	7 805
Operating expenses	(259 635)
<b>Profit for the year</b>	<b>103 045</b>
Other comprehensive income for the year	-
<b>Profit/Total comprehensive income for the year</b>	<b>103 045</b>

**WANDILE TRADERS  
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2010**

	R
<b>ASSETS</b>	
<b>Non-current assets</b>	<b>265 000</b>
Property, plant and equipment	265 000
<b>Current assets</b>	<b>336 925</b>
Inventories	107 175
Trade receivables	192 500
Cash and cash equivalents	37 250
<b>Total assets</b>	<b>601 925</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	<b>284 925</b>
<b>Non-current liabilities</b>	<b>150 000</b>
Long-term borrowings (Mortgage)	150 000
<b>Current liabilities</b>	<b>167 000</b>
Trade and other payables	167 000
<b>Total equity and liabilities</b>	<b>601 925</b>

**REQUIRED:**

Calculate the following for the year ended 28 February 2010 and round off all your answers to 2 decimal places where applicable:

- |     |  |     |
|-----|--|-----|
| 3.1 | Current ratio  | (3) |
| 3.2 | Profit for the year percentage                                       | (3) |
| 3.3 | Trade receivables collection period (assume all sales are on credit) | (3) |
| 3.4 | Trade payables period (assume all purchases are on credit)           | (3) |
| 3.4 | Acid test ratio  | (3) |
| 3.5 | Solvency ratio   | (3) |

**NB: Show the formulas and all calculations**

**[18]**

#### **4.1 Current Ratio**

Formulae:  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$= \frac{336\,925}{167\,000}$$

$$= \underline{\underline{2.02:1}}$$

A liquidity ratio that measures a company's ability to pay short-term obligations.

#### **4.2 Profit for the year percentage**

Formulae:  $= \frac{\text{Profit before tax}}{\text{Sales}} \times 100$

$$= \frac{103\,045}{719\,000} \times 100$$

$$= \underline{\underline{14.33\%}}$$

**Net profit ratio** is the ratio of net profit to net sales. It is expressed as a percentage.

#### **4.3 Trade Receivables Payment Period**

Formulae:  $\frac{\text{Average trade debtors}}{\text{Credit sales}} \times 365$

$$= \frac{192\,500}{719\,000} \times 365$$

$$\underline{\underline{97.72\text{days or } 98\text{days}}}$$

**Debtors turnover ratio** or **accounts receivable turnover ratio** indicates the velocity of debt collection of a firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year

#### **4.4 Trade Payment Period**

Formulae:  $\frac{\text{Average trade payables} \times 365}{\text{Credit Purchases}}$

$$= \frac{167\,000 \times 365}{380\,000}$$

$$= \underline{\underline{160.41 \text{ days or } 160 \text{ days}}}$$

A company's average payable period tells how long it takes a company to pay its invoices from trade creditors, such as suppliers.

#### **4.5 Acid Test Ratio**

Formulae:  $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

$$= \frac{336\,925 - 107\,175}{67\,000}$$

$$= \underline{\underline{1.38:1}}$$

A stringent indicator that determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test ratio is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets.

#### **4.6 Solvency Ratio**

Formulae:  $= \frac{\text{Total Assets}}{\text{Total Liabilities}}$

$$= \frac{601\,925}{(150\,000 + 167\,000)}$$

$$= \underline{\underline{1.90:1}}$$

**Solvency ratio** is one of the various ratios used to measure the ability of a company to meet its long term debts. Moreover, the solvency ratio quantifies the size of a company's after tax income, not counting non-cash depreciation expenses, as contrasted to the total debt obligations of the firm. Also, it provides an assessment of the likelihood of a company to continue congregating its debt obligations.

**QUESTION 5 (18 marks) (21 minutes)**

Commence this question on a new (separate) page.

Question 5 consists of unrelated questions.

**5.1**

List 5 items that should be included in a written partnership agreement.

(5)

**5.2**

List six (6) of the different type of transactions that may be encountered in an attorney's practice.

(5)

**5.3**

Briefly explain the term "trust money" and provide two (2) examples thereof.

(4)

**5.4**

Describe three (3) requirements that must be adhered to before transferring money from the trust to the business account in an attorney's practice.

(3)

[18]

---

**QUESTION 5 (18 marks)**

**5.1 Any 5 options (one mark each)**

- The names of the different partners
- The purpose and scope of the partnership
- The capital contributions expected from the partners
- The duties and limitations of the respective partners
- The method to be followed to settle disputes
- The rules to be applied in the withdrawal of partnership funds
- The formula to be applied in the distribution of profits or losses
- Provisions to be made for the possible dissolution of the firm or termination of a partner's interest
- The admission of new partners
- Modification of the terms of agreement

(5)

**5.2 Any 6 options (one mark each)**

- Cash received on behalf of clients which must be held in trust or according to their express instructions
- Cash received from a client as payment of fees which they were charged, and for expenses incurred on their behalf
- Trust money paid to clients, or the rightful recipients, after fees and expenses rightfully due to the attorneys have been deducted
- Expenses paid on behalf of clients which must subsequently be recovered from such clients
- Payment of general office expenses and personal withdrawals
- Charging of fees for services rendered
- Transfer of money from the trust bank account to the business bank account
- Transactions with correspondents

(6)

**5.3** Trust money 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.

**Any 2 options (one mark each)**

- 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 purchases transactions
- Money to be refunded to a nominated person
- Transfer of money from the business bank account to the trust bank account

(4)

**5.4 Any 3 options (one mark each)**

- The client should owe money to the practice on his business account and funds should simultaneously be available on his trust account in order to do the transfer
- If the amount owing on the client's business account exceeds the amount available on his trust account, the amount transferred is limited to the amount available on the client's trust creditors account.
- When the amount available on the client's trust creditors account exceeds the amount owing on the client's business account, the amount transferred is limited to the amount owing on the client's business account.
- The client should give the necessary consent that funds be transferred from his trust creditors account to his business account. The trust funds may not be transferred if they were earmarked for and the specific purpose, e.g. a deposit for the transfer duties relating to a property transaction may not be used to cover

(3)  
[18]



## MAY-JUNE 2011

### **QUESTION 1 (16 marks) (15 minutes)**

Commence this question on a new (separate) page.

The following transactions occurred in JT Traders for January 2011. The perpetual stock method is in use. Ignore any VAT implications on applicable transactions.

- 1 The owner increased his capital contribution by depositing an additional R50 000 into the entity's current bank account
- 2 Stationery was purchased on credit from XYZ Stationers for R6 000
- 3 Goods to the value of R6 800 were sold on credit. The cost price is R5 440
- 4 The water and electricity account of R1 000 was paid with a business cheque
- 5 A debtor paid R500 in part settlement of his account
- 6 Paid XYZ Stationers, a creditor, R1 800 with a business cheque
- 7 A tenant paid R4 500 for renting a part of the premises and a receipt was issued to her

#### **REQUIRED:**

For each of the transactions listed above, indicate the effect of the transaction on the accounting equation

Use a + sign and a – sign to indicate an increase or a decrease in the elements of the accounting equation. You must also indicate the amount of the increase or the decrease

Prepare a table with the format indicated in the example below and analyse the above transactions accordingly

Where applicable assume that the bank balance is positive

e.g. Paid R4 500 for furniture with a business cheque.

No	Assets	=	Equity	+	Liabilities
e.g.	+ R4 500			0	0
	- R4 500				

[16]

### **SOLUTION 1: THE ACCOUNTING EQUATION**

NO	Assets =	Equity +	Liabilities
1	+R50 000	+R50 000	
2		-R6000	+R6000
3	-R5440 +R6800	+R1360	
4	-R1000	R1000	
5	-R500 +R500		
6	-R1800		-R1800
7	+R4500	+R4500	

1. This transaction increases the asset bank by R50 000 and the capital contribution by the owner, represented by equity is increased by R50 000.
2. Stationery is an expense which reduces profits, which in turn reduces equity by R6000. The liabilities are increased by R6000 due to the money owed to XYZ stationers.
3. The asset stock is reduced by the value of the goods sold at cost R5440. The asset of debtors is increased by R6800, the selling price of the goods sold as this represents the amount owed by the debtor. The equity is increased by R1360, the profit on the sale of goods. This is the difference between the selling price and the cost price:

$$\begin{aligned}\text{Profit} &= \text{selling price} - \text{cost price} \\ &= 6800 - 5440 \\ &= 1360\end{aligned}$$

Profit increases equity by R1360.

4. The water and electricity is an expense which reduces profit by R1000. This will reduce equity by the same amount. The money in the bank, which is an asset, is also reduced by R1000, the amount paid for water and electricity.
5. The bank asset is increased by R500, which is the amount received by R500 as the debtor now owes us R500 lesser due to the settlement made.
6. The bank asset is reduced by R1800. The money paid to XYZ Stationers and the liability (creditor – XYZ Stationers) is reduced by the same amount as the business will now be owing R1800 lesser.
7. The asset bank is increased by R4500, which is the amount received from the tenant. The income rent receivable is increased by the same amount. This increases profit resulting in an increase in equity of the given amount.

**QUESTION 2 (10 marks)(12 minutes)**

Commence this question on a new (separate) page.

The following information was obtained from the records of XYZ Limited for the first quarter of year 2011

Date		Rand per unit	Numbers of units	Total value of transaction
01 January	Opening inventory	15	15 000	R 225 000
30 January	Purchases	25	25 000	625 000
03 February	Sales		20 000	700 000
10 March	Purchases	30	10 000	300 000
31 March	Sales		13 000	455 000

**REQUIRED:**

Calculate the value of cost of sales and closing inventory assuming the entity uses the following Perpetual inventory system on the FIFO (First in First out) method

**[10]**

**QUESTION 2: INVENTORY**

Date	Purchases	Sales	Balance	
2011 January 1			15 000 @ 15	225 000
30	25 000 @ 25 = 625 000		15 000 @ 15 = 25 000 @ 25 =	225 000 625 000 <b>850 000</b>
February 3		15 000 @ 15 = 225 000	20 000 @ 25 =	500 000
		5 000 @ 25 = 125 000		
March 10	10 000 @ 30 = 300 000		20 000 @ 25 = 10 000 @ 30 =	500 000 300 000 <b>800 000</b>
March 31		13 000 @ 25 = 325 000	7 000 @ 25 = 10 000 @ 30 =	175 000 300 000 <b>475 000</b>

**Cost of Sales Valuation**

15 000 @ 15 =

225 000

5000@25=	125 000
13 000@ 25=	325 000
	<u><b>R675 000</b></u>

**Closing inventory**

7000@25=	175 000
10 000@30=	300 000
	<u><b>R475 000</b></u>

**NOTES**

- FIFO (First in First Out) is a method of stock valuation in which it is assumed that the first items in inventory to be bought are the first ones to be sold. In order in which they are bought or manufactured.
- On 03 February, the business sold 20 000 units. 15 000 of these units will come from the opening inventory whilst the remaining 5000 units (20 000 – 15 000) will be out of the inventory purchased on 30 January.
- On 31 March the stock sold is part of the 25 000 units purchased on January.
- Stock is removed from inventory at cost price.
- The value of the cost of sales is calculated by adding up all the stock removed from our books through the sales column. It represents the cost of the goods that have been sold.
- All purchases increase our balance whilst all sales reduce our balance.
- The closing stock is the balance at the end of our inventory cost sheet.

**QUESTION 3 (25 marks)(30 minutes)**

Commence this question on a new (separate) page.

You are given the following information for PG Traders for the month ended 31 January 2011:

**1 Bank reconciliation statement as at 31 December 2010:**

	Debit	Credit
	R	R
Credit balance as per bank statement		10 000
Credit outstanding deposits		5 000
Debit outstanding cheques		
212	1 500	
221	900	
223	2 000	
Debit balance as per bank account	10 600	
	15 000	15 000

- 2 The bank statement had a favourable balance of R12 000 on 31 January 2011
- 3 The total for the cash receipts journal was R10 200 and the total for the cash payments journal was R9 800 on 31 January 2011 before the bank statement was received
- 4 After a comparison of the bank statement with the bank reconciliation statement as at 31 December 2010 and the cash journals for January 2011 the following was noted
  - a) A deposit for R5 000 appeared on 3 January 2011 in the bank statement only
  - b) The following cheques appeared in the bank statement only
 

cheque no 223	R2 000
cheque no 212	R1 500
  - c) Bank charges for the month of January 2011 were R150
  - d) A cheque for R700 which was previously received from a debtor was dishonoured due to insufficient funds in his account and therefore returned by the bank
  - e) A client deposited R6 000 directly into the entity's bank account
- 5 The following items appeared in the cash journals only
  - a) A deposit on 29 January 2011 for R6 500
  - b) Cheque
 

no 230	R1 000
no 234	R450

**REQUIRED:**

- 3 1 Complete the cash receipts journal and the cash payments journal for January 2011 (Details and bank column only) (7)
  - 3 2 Prepare the properly balanced/closed off bank account for January 2011 in the general ledger of PG Traders (8)
  - 3 3 Prepare the bank reconciliation statement as at 31 January 2011 (10)
- [25]**

### **SOLUTION 3**

#### **BANK RECONCILIATION**

#### **PG TRADERS**

##### **Cash receipts Journal - January 2011**

<b>Date</b>	<b>Details</b>	
<b>2011</b>		
<b>Jan 31</b>	Provisional Total	10200
	Direct Deposit	6000
		<b>16 200</b>

	Cash Payments Journal – January 2011	
<b>Jan 31</b>	Provisional Total	9800
	Bank charges	150
	Dishonoured cheque	700
		<b>10650</b>

##### **3.2 Bank Account**

Balance b/d	10 600	Total Payments	10650
Total Receipts	16 200	Balance c/d	16150
	<b>26 800</b>		<b>26800</b>
Balance b/d	16150		

##### **3.3 Bank Reconciliation Statement as at 31 January 2011**

Balance as per bank statement		12 000
Outstanding deposits		6500
Outstanding cheques:230	1000	
234	450	
221	900	
Balance as per bank account	16150	
	<b>18 500</b>	<b>18 500</b>

#### **Notes**

- 4(a) The deposit of R5000 appearing on the bank statement only is the one referred to as outstanding deposits in the bank reconciliation statement as at 31 December 2010. This means it was already entered in the December 2010 cash Receipts Journal but was cleared by the bank during January 2011. Therefore, no more entry is required as both parties have now updated the deposit.

- (b) Cheque No. 223 (R2000) and cheque No. 212 (R1500) appearing on the bank statement only are part of the outstanding cheques in the bank reconciliation statement as at 31 December 2010. These are cheques drawn by the business in December 2010 and entered in the business cash payments Journal during the same period. The bank only cleared them during the current month. As both parties have now updated these entries, there are no more entries required.
  - (c) Bank charges will normally be appearing on the bank statement only, without a corresponding entry in the cash payments journal. These should be updated in the business books by being entered in the cash payments journal.
  - (d) A dishonoured cheque is a cheque rejected by the bank which had been deposited by the business.  
It can be rejected because it had been improperly filled in, e.g. different specimen signature, differences between amount in words and amount in figures or maybe the client who gave us the cheque has insufficient funds in his bank account. The bank usually learns from the bank statement the rejection of the cheque. As the business had recorded the cheque in the cash Receipts Journal when it initially received the cheque it now has to reverse this entry by recording it in the cash payments Journal.
  - (e) A direct deposit of R6000 will have been entered in the bank statement but there will be no corresponding record in the business books. This needs to be recorded in the business books by being entered under the cash Receipts Journal.
- 5(a) the outstanding deposit on 29 January 2011 for R6 500 represents deposits made by the business into the bank but which have not yet been entered or might not have been cleared by the bank at the end of the month. As a result, they will be appearing in the business books but they will not be appearing in the bank statement. We therefore add them to the credit of the bank statement in the bank reconciliation statement as they increase our bank balance. Any amounts outstanding in the previous month reconciliation which are not yet appearing on the bank statement should also be included. In this case, there aren't any.
- (b) Cheque No. 230 (R1000) and cheque No. 234 (R450) are unpresented or outstanding cheques. These are cheques drawn by the business and entered in the cash payments Journal but the beneficiaries have not yet cashed or banked their cheques. As a result, they are not yet appearing on the bank statement. They become reconciling items in the bank reconciliation statement for this month together with cheque No. 221 outstanding from the previous' month reconciliation statement as it is still outstanding since it did not appear in this month's bank statement. These will be entered on the debit side of our bank reconciliation as they reduce the amount in the bank.

**QUESTION 4 (28 marks)(33 minutes)**

Commence this question on a new (separate) page.

The following transactions took place in AD Traders for February 2011. Assume that VAT is calculated at 10% on all transactions where applicable.

**Transactions:**

- 01 Bought postage stamps for R150, cash Payment was authorised by petty cash voucher no 006
- 04 The owner, L James, increased his capital contribution with a direct deposit of R10 000 into the entity's current bank account Issued receipt no 228
- 07 Bought stationery from YZ Stationers for R3 300 and paid with cheque no 176  
Paid the City Council for water and electricity which amounted to R2 750 with cheque no 177
- 08 The total cash sales as per cash register roll no 31 were R6 600  
Sold goods on credit to J Singh Issued invoice no 151 for R3 500
- 09 Bought furniture on credit from CVR Furnishers for R10 000 Received invoice no CVR19
- 11 Drew a cash cheque no 178 to pay for wages of R5 000
- 14 The total cash sales as per cash register roll no 32 were R16 500  
Received a cheque from P Ngcobo in payment of his account of R4 000 and a settlement discount of R440 was granted to him on this payment Issued receipt no 229
- 18 Drew a cash cheque no 179 to pay for wages of R5 000
- 23 Received R6 050 from a tenant, Mr K Smith for part of the building sublet and issued receipt no 050
- 25 Paid CVR Furnishers per cheque no 180, R9 450 after receiving a settlement discount of R550 Received receipt no 632 from CVR Furnishers

**REQUIRED:**

- 4.1 Complete the cash receipts journal of AD Traders for February 2011, using the format provided below:**

**AD Traders**

**Cash receipts journal - February 2011**

**CRJ02**

Doc no	Day	Details	Fol	Bank	Sales	VAT output	Debtors	Settlement discount granted (Dr)	VAT Input (Dr)	Sundry accounts		
										Amount	Fol	Details
				R	R	R	R	R	R	R		

**(14½)**



**QUESTION 4 (continued)**

**4.2 Complete the cash payments journal of AD Traders for February 2011, using the format provided below:**

**AD Traders**

**Cash payments journal – February 2011**

**CPJ02**

Doc no	Day	Details	Fol	Bank	Creditors	Settlement discount received (Cr)	Wages	Vat input	VAT output (Cr)	Sundry accounts		
										Amount	Fol	Details
				R	R	R	R	R	R	R		

**(13½)  
[28]**

**SOLUTION 4: CASH JOURNALS**

**AD TRADERS**

**CASH RECEIPTS JOURNAL – FEBRUARY 2011 (KJ02)**

Doc No.	Day	Details	Fol	Bank	Sales	VAT Output	Debtors	Settlement Discount Granted (DR)	VAT Input (DR)	sundry Accounts		
										Amount	Fol	Details
<b>228</b>	<b>2011 Feb4</b>	<b>L. James</b>		R	R	R	R	R	R	R	B1	Capital
				10000						10 000		
CRR31	8	Sales		6600	6000 <sup>1</sup>	600 <sup>1</sup>						
CRR32	14	Sales		16500	15000 <sup>2</sup>	1500 <sup>2</sup>						
229	14	P. Ngcobo	04	3560			4000	400 <sup>3</sup>	(40) <sup>3</sup>			
050	23	K. Smith		6050		550 <sup>4</sup>				5500 <sup>4</sup>	N1	Rent Income
				<b>42710</b>	<b>21000</b>	<b>2650</b>	<b>4000</b>	<b>400</b>	<b>(40)</b>	<b>15500</b>		
				B2	N2	B3	B4	N3	B4			

$$1. \text{ VAT } 10\% \text{ of Sales (excluding VAT)} = \frac{10\%}{110\%} \times 6600 = 600$$

$$\text{Sales} = 6600 - 600 = 6000$$

$$2. \text{ VAT } 16500 \times \frac{10}{110} = 1500$$

$$\text{Sales} = 16500 - 1500 = 15\ 000$$

3. VAT on settlement discount  $\frac{10}{110} \times 440 = 40$

Settlement discount  $440 - 40 = 400$

4. VAT  $6050 \times \frac{10}{110} = 550$

Sales  $6050 - 550 = 5500$

- The cash receipts Journal records all receipts of money made by the business during the period.
- VAT belongs to SARS, as a result the business transactions should be recorded under VAT. All VAT amounts received on behalf of SARS are entered under the VAT output. These amounts should be paid to SARS at the end of the period.
- VAT on settlement discount should be entered under the VAT input as a negative. This represents the VAT that had been charged when the goods were sold and the VAT will no longer be received. This should then be reversed.
- The VAT calculation is determined as follows:

	%
Values excluding VAT	100
VAT	10
Values including VAT	<u>110</u>

- Credit sales of goods are not entered in the cash Receipts Journal as no money is received at this stage. An entry will only be affected at the time when the debtors pay to the business.

## 4.2

### Cash Payments Journal - February 2011

Doc No.	Day	Details	Fol	Bank	creditors	Settlement Discount received (CR)	Wages	VAT Input	VAT Output (CR)	sundry Accounts		
				R	R	R	R			Amount	Fol	Details
176	2011 Feb 7	YZ Stationers		3300				300 <sup>1</sup>	R	3000 <sup>1</sup>	N4	Stationery
177		City council		2750				250 <sup>2</sup>		2500 <sup>2</sup>	N5	Water and electricity
178	11	cash		5000			5000					
179	18	cash		5000			5000					
180	25	CVR Furnishers		9450	10000 <sup>3</sup>	500 <sup>3</sup>			(50) <sup>3</sup>			

				25500	10000	500	10000	550	(50)	5500		
				B2	B2	N6	N7	B4	B3			

1. VAT  $\frac{10}{110} \times 3300 = 300$     Sundry Accounts  $3300 - 300 = 3000$
2. VAT  $\frac{10}{110} \times 2750 = 250$     Sundry Accounts  $2750 - 250 = 2500$
3. Creditors amount =  $9450 + 550 = 10\ 000$
4. VAT Output =  $\frac{10}{110} \times 550 = 50$

Settlement discount received =  $550 - 50 = 500$

- The cash payments Journal records all payments made on a cash basis. The total amount paid is entered in the bank column. The payment excluding VAT is entered in the relevant column and the VAT is entered on the VAT input column.
- The purchase of postage stamps on the 01<sup>st</sup> of February is not entered in the Cash Payments Journal as it is entered in the Petty Cash Book as it was made through a petty cash voucher.
- A Petty Cash Book is opened in addition to the Cash Payments Journal to avoid congesting the Cash Payments Journal. The Petty Cash Journal is used to record payments of small amounts such as the purchase of teas, cobra, little quantities of stationery, postage and stamps, etc.
- The purchase of furniture on credit done on the 11<sup>th</sup> of February 2011 is not entered as no cash was involved. It will be entered in the General Journal.
- An entry will only be made in the cash payments Journal when we settle the debit.
- VAT is not calculated or chargeable on wages.

**QUESTION 5 (21 marks)(30 minutes)**

Commence this question on a new (separate) page.

**PG Traders**

**Pre-adjustment trial balance as at 28 February 2011**

		Debit	Credit
		R	R
<b>Financial position section</b>			
Capital	B1		619 900
Drawings	B2	12 000	
Vehicles	B3	125 000	
Accumulated depreciation Vehicles	B4		25 000
Trading inventory	B5	350 000	
Debtors control	B6	65 000	
Creditors control	B7		90 000
Long term loan AB Bank(10% p a)	B8		360 000
Bank	B9	700 000	
Petty cash	B10	1 000	
<b>Nominal accounts section</b>			
Sales	N1		950 000
Cost of sales	N2	760 000	
Debtors allowances	N3	650	
Rental income	N4		48 000
Wages and salaries	N5	12 000	
Interest on loan	N6	33 000	
Telephone expenses	N7	2 500	
Credit losses	N8	1 600	
Settlement discount received	N9		1 700
Insurance	N10	13 350	
Settlement discount granted	N11	500	
Water and electricity	N12	3 000	
Sundry expenses	N13	15 000	
		2 094 600	2 094 600

**Additional Information:**

- 1 According to the physical inventory count, the following was on hand at 28 February 2011  
Inventory, R300 000
- 2 Depreciation must be provided on vehicles at 20% per annum using the reducing (diminishing)  
balance method
- 3 Mrs J Johnson's account of R800 must be written off as irrecoverable
- 4 The insurance premium was prepaid from 1 March 2011 to 31 May 2011
- 5 The long term loan was negotiated on 1 March 2010

**REQUIRED:**

Prepare a statement of comprehensive income of PG Traders for the year ended 28 February 2011

**[21]**

**N.B. Show all your calculations.**

## **SOLUTION 5**

### **PG Traders**

#### **Statement of Comprehensive Income for the year ended 28 February 2011**

Revenue (950 000-500)	949500
Cost of Sales	808300
Inventory – opening	350000
Purchases (760 000 - 1700)	758300
Inventory - closing	300000
Gross profit	141200
Other Income	48000
Rental Income	
expenses	189200
Administration, Distribution and other expenses	(56230)
Debtors and Allowances	650
Wages and salaries	12000
Telephone expenses	36000
Credit losses (1600 +800)	2500
Insurance $13350 \times \frac{12}{15}$	2400
Water and electricity	10680
Sundry expenses	3000
Depreciation on vehicles $20\% \times (125\ 000 - 25\ 000)$	15000
Finance charges	20000
Interest on loan ( $10\% \times 360\ 000$ )	(36000)
Profit for the year	36000
Other comprehensive income	96970
Total comprehensive income	96970

- Before the preparation of the Statement of Comprehensive Income, the amount of inventory in the pre- adjustment trial balance is the opening inventory and the closing inventory appears under adjustments.
- The reducing balance method of depreciation applies the depreciation rate on the carrying amount of the non-current assets, that is Percentage x (Cost – Accumulated Depreciation).
- The Accumulated Depreciation is the summary of all the depreciation provided in prior years.
- However, the straight line method of depreciation is calculated on cost: Percentage x cost.
- Settlement discount granted is deducted from sales whilst settlement discount received is deducted from purchases.
- J. Johnson's account which should be written off is supposed to be added to the credit losses.

- Insurance premium was prepaid from 01 March 2011 to 31 May 2011 (a prepayment of three months). This means the insurance recorded is for 15 months (12+3). We only need insurance for the year (12 months).
- To get this amount we multiply insurance paid by  $\frac{12}{15}$ .
- The interest on loan is calculated on the amount of loan which is  $10\% \times 360\,000 = 36\,000$ . This means the interest was underpaid by  $(36\,000 - 33\,000) = 3\,000$ .
- The interest in the trial balance is the actual interest paid. The accrued interest will then be shown under expenses payable, current liabilities in the statement of financial position.

***OCTOBER 2011- NOVEMBER 2011***

**QUESTION 1 (18 marks) (22 minutes)**

Commence this question on a new (separate page)

The following transactions took place at Letjatjana Traders during December 2010:

**Transactions**

- 10 Letjatjana Traders paid the telephone account of R250 with a business cheque
- 11 Received interest on fixed deposit of R1 500 from UNI Bank
- 15 Sold goods to Mr Sekole for R9 000 and received his payment
- 20 The owner took goods to the value of R2 000 (cost price) for his own personal use
- 25 Letjatjana Traders purchased goods valued at R70 000 and paid with a business cheque

**N.B** The entity uses the perpetual inventory system with a mark-up percentage of 20% on cost

**Required:**

Prepare a table in the format below. Analyse the above transactions by indicating what **account** must be **debited** and what **account** must be **credited** in the general ledger, as well as the effect of each transaction on the accounting equation. Use a "+" sign and "-" sign to indicate an **increase** or a **decrease** in the elements of the accounting equation. VAT can be ignored. Where applicable assume that the bank balance is positive.

**Example:** Purchased inventory on credit for R10 000

Transaction	General ledger		A =	E +	L
	Account debited	Account credited			
e.g.	Inventory	Creditors control	+ R10 000	0	+R10 000

**[18]**

**SOLUTION 1**



**Letjatjana Traders – December 2010**

Transaction	General Ledger		A =	E +	L
	Account debited	Account credited			
December 10 2010	Telephone	Bank	-R250	-R250	-
11	Fixed Deposit/Bank	Interest Received	+R1500	+R1500	
15	Bank Cost of Sales	Sales Inventory	+R9000 -R7500	+R9000 -R7500	
20	Drawings	Inventory	-R2000	-R2000	
25	Inventory	Bank	-R70000 +R70000		

December 10 Telephone account an expense is debited, which reduces equity by R250. Bank (an asset) is reduced by the amount of the cheque paid R250.

December 11 Interest Received) income) is increased by R1500, thereby increasing equity by the same amount.  
The asset bank or fixed deposit is increased. It is debited in the bank account if the interest is credited to our business day to day bank account and it is credited to the Fixed Deposit if it is credited to the fixed deposit account.

December 15 There will be two effects under the perpetual inventory system:

- (a) The sale (revenue) is increased by R9000, which increases equity by R9000. The asset bank is increased also by R9000, the amount of the cheque received.
- (b) The goods sold are removed from the asset inventory at cost price (see below) R7500 which reduces assets and they are added or debited to cost of sales (R7500) which reduces equity by the same amount.

**Calculation of cost**

Sales (120%)	9000
Cost of Sales ( $\frac{100}{120} \times 9000$ )	7500
Gross Profit ( $\frac{20}{120} \times 9000$ or $\frac{20}{100} \times 7500$ )	<u>1500</u>

December 20 Drawings are increased by R2000 which reduces equity by the same amount. Inventory is also reduced by R2000, which reduces assets by R2000. Drawings increases are debited in the drawings account and credited to the inventory account (reduction in assets).

December 25

The inventory (asset) is increased by the goods bought R70 000, therefore the inventory account is debited.  
Since the goods were paid for by cheque, the asset bank is reduced by R70 000, therefore the bank account is credited,

**QUESTION 2 (30 marks)(36 minutes)**

**Commence this question on a new (separate page)**

On 1 December 2010 R Kekana opened a haberdashery shop, Kekana Traders and is registered as a VAT vendor (the applicable VAT rate is 14%) The periodic inventory system and control accounts are in use The following transactions took place during January 2011

**- Duplicate receipt**

No 0003		Date 3 January 2011	
Received from R Kekana			
		R	c
Amount			
Rand	Sixty thousand rand only		
Cent	None	60 000	00
For	Capital contribution by the owner (cheque)	Kekana Traders	
Signature	V Kgobe		

**- Duplicate deposit slip**

<b>Positive Bank Limited</b>		<b>Cheque Account Deposit Slip</b>	
<b>Positiewe Bank Beperk</b>		<b>Tjekrekeningdepositostroke</b>	
Credit Krediteer	Acc no Rek nr	Date Datum	
	5 0 0 0 - 7 2 4 4 9 6	3 January 2011	
Name/Naam Kekana Traders			
Bank notes	Banknote		
Nickel	Nikkel		
Bronze	Brons		
Money and postal orders	Poswissels en posorders		
SUBTOTAL/SUBTOTAAL			
	Drawer's name Trekker se naam	Bank	Branch no Taknr
1	R Kekana	Positive Bank Limited	50-00-00
2			
3			
4			
5			
6			
7			
		<b>Total/Totaal</b>	60 000 00
<p>Cheques etc, as above, for collection to be available as cash when paid While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques etc collected</p> <p>Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreels tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/ rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie</p>			<p>* For bank use</p> <p>* Vir bank gebruik</p>
Deposited by/Gedeponeer deur V Kgobe			

**[TURN OVER]**

**QUESTION 2 (continued)**

On 7 January 2011 the total cash sales as per cash register roll number 5 were R28 530,80. The amount of R28 530,80 includes credit card payments to the value of R12 320,15.

**- Duplicate deposit slip**

<b>Positive Bank Limited</b>										<b>Cheque Account Deposit Slip</b>									
<b>Positiewe Bank Beperk</b>										<b>Tjekrekeningdepositostroke</b>									
Credit Krediteer	Acc no Rek nr	5	0	0	0	-	7	2	4	4	9	6	Date Datum	7 January 2011					
Name/Naam <i>Kekana Traders</i>																			
Bank notes				Banknote								16 020 00							
Nickel				Nikkel								190 00							
Bronze				Brons								65							
Money and postal orders				Poswissels en posorders															
SUBTOTAL/SUBTOTAAL												16 210 65							
Drawer's name Trekker se naam		Bank		Branch no Taknr															
1																			
2																			
3																			
4																			
5																			
6																			
7																			
<b>Total/Totaal</b>												16 210 65							
<p>Cheques etc, as above, for collection to be available as cash when paid. While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques etc collected.</p> <p>Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees. Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreels tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/ rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie.</p>												<p>* For bank use</p> <p>* Vir bank gebruik</p>							
Deposited by/Gedeponeer deur <i>V Kgobe</i>																			

[TURN OVER]

**QUESTION 2 (continued)**

- **Original tax invoice**

MEGA COTTON MATERIALS				
433 Church street Pretoria Tel (012) 335-6955 E-mail accounts@Megacotton.co.za			P O Box 3333 PRETORIA 0001 Fax (012) 335-6965	
			VAT registration number 6910416681	
<b>Date</b> 10 January 2011		<b>TAX INVOICE</b>		<b>No</b> 5369
<b>To</b> Kekana Traders			Payment method Cheque/debit card Cash Credit card Account	
<b>Code</b>	<b>Description</b>	<b>Qty</b>	<b>Unit price (R)</b>	<b>Total price (R)</b>
FLCT1550	Floral cotton material	500 m	12,99	6 495-00
PLCT2556	Plain cotton material	1 000 m	9,99	9 990-00
<b>Subtotal</b>				16 485-00
<b>VAT @ 14%</b>				2 307-90
<b>Total</b>				18 792-90
<b>Amount tendered</b>				0-00
<b>Amount due</b>				18 792-90
<b>E &amp; OE</b>				

**[TURN OVER]**

**QUESTION 2 (continued)**

- **Original tax invoice**

<b>SILKS LTD</b>				
201 Nelson Mandela Drive Pretoria Tel (012) 335-6955		VAT registration number 7511417285		P O Box 2231 PRETORIA 0001 Fax (012) 333-7253
<b>Date</b>	11 January 2011	<b>TAX INVOICE</b>		<b>No</b> BP0013
<b>To</b>	Cash	<b>Payment method</b> <b>Cheque/debit card</b> Cash Credit card Account		
<b>Code</b>	<b>Description</b>	<b>Qty</b>	<b>Unit price (R)</b>	<b>Total price (R)</b>
PSLP2600	Pure silk fabrics -10% discount  VAT @ 14%	600 m	39,99	23 994-00 (2 399-40) 21 594-60 3 023-24
<b>Invoice total</b>				24 617-84
<b>Amount tendered</b>				24 617-84
<b>Change</b>				0-00
<b>Vat included at 14%</b>				3 023-24
<b>E &amp; OE</b>				

Date	11/01/2011
To	Silks Ltd
For	Merchandise
Balance	R
Deposit	R
Subtotal	R
This cheque	R24 617-84
Balance	R
0019	

[TURN OVER]

**QUESTION 2 (continued)**

**- Original credit note**

MEGA COTTON MATERIALS				
433 Church street Pretoria Tel (012) 335-6955 E-mail accounts@Megacotton.co.za			P O Box 3333 PRETORIA 0001 Fax (012) 335-6965	
			VAT registration number 6910416681	
<b>Date</b> 13 January 2011		<b>CREDIT NOTE</b>		<b>No</b> CN1153
<b>To</b> Kekana Traders 399 Hope Drive Pretoria				
<b>Product no</b>	<b>Description</b>	<b>Qty</b>	<b>Unit price (R)</b>	<b>Amount credited (R)</b>
FLCT1550	Floral cotton material	50 m	12,99	649-50
<b>Total</b>				649-50
<b>VAT @ 14%</b>				90-93
<b>Total credit due</b>				740-43
<b>E &amp; OE</b>				

Date	14/01/2011
To	Telkom
For	Telephone
Balance	R
Deposit	R
Subtotal	R
This cheque	R435-80
Balance	R
0020	

Date	14/01/2011
To	Cash
For	Wages
Balance	R
Deposit	R
Subtotal	R
This cheque	R530-00
Balance	R
0021	

[TURN OVER]

**QUESTION 2 (continued)**

**- Duplicate receipt**

No 0004	Date 17 January 2011
Received from P Rapoo	
	<b>R c</b>
Amount Rand Three thousand six hundred rand only	
Cent None	3 600 00
For Rent income (cheque)	<b>Kekana Traders</b>
Signature V Kgobe	

Date	19/01/2011
To	Cash
For	R Kekana (owner)
Balance	R
Deposit	R
Subtotal	R
This cheque	R1 500-00
Balance	R
0022	

**- Original receipt**

No 9350	Date 20 January 2011
Received from Kekana Traders	
	<b>R c</b>
Amount Rand Eighteen thousand and fifty-two rand	
Cent Forty-seven cents	18 052 47
For Cheque – R16 247,22 Settlement discount – R 1 805,25	<b>MEGA COTTON MATERIALS</b>
Signature S Khan	

Date	20/01/2011
To	Mega Cotton Materials
For	Account
Balance	R
Deposit	R
Subtotal	R
This cheque	R16 247-22
Balance	R
0023	

[TURN OVER]



**QUESTION 2 (continued)**

On 21 January 2011 the total cash sales as per cash register roll number 6 were R28 936,40 The amount of R28 936,40 includes credit card payments to the value of R12 636,40

**- Duplicate deposit slip**

<b>Positive Bank Limited</b>										<b>Cheque Account Deposit Slip</b>																
<b>Positiewe Bank Beperk</b>										<b>Tjekrekeningdepositostrokie</b>																
Credit		Acc no																		Date						
Krediteer		Rek nr		5	0	0	0	-	7	2	4	4	9	6	Datum		21 January 2011									
Name/Naam		Kekana Traders																								
Bank notes		Banknote																16 000		00						
Nickel		Nikkel																300		00						
Bronze		Brons																								
Money and postal orders		Poswissels en posorders																								
SUBTOTAL/SUBTOTAAL																		16 300		00						
Drawer's name		Bank		Branch no																						
Trekker se naam				Taknr																						
1	P Rapoo	Big Bank Ltd		48-10-00		3 600 00																				
2																										
3																										
4																										
5																										
6																										
7																										
Total/Totaal																		19 900		00						
<p>Cheques etc, as above, for collection to be available as cash when paid While acting in good faith and exercising responsible care, the Bank will not accept responsibility for ensuring that depositors/ account holders have lawful title to cheques etc collected</p> <p>Tjeks ens, soos bo, ingehandig vir invordering wat na betaling as kontant beskikbaar sal wees Alhoewel die Bank in goeie trou handel en alle redelike voorsorgmaatreels tref, sal die Bank nie die verantwoordelikheid aanvaar om te verseker dat deposante/ rekeninghouers regmatige titel op ingevorderde tjeks, ens het nie</p>																		<p>* For bank use</p> <p>* Vir bank gebruik</p>								
Deposited by/Gedeponeer deur V Kgobe																										

Date	24/01/2011
To	Municipality
For	- Water and electricity, R3 100-00 - Rates and taxes, R500-00
Balance	R
Deposit	R
Subtotal	R
This cheque	R3 600-00
Balance	R
0024	

[TURN OVER]

**QUESTION 2 (continued)**

Date	25/01/2011
To	V Kgobe
For	Salary
Balance	R
Deposit	R
Subtotal	R
This cheque	R8 500-00
Balance	R
0025	

Date	28/01/2011
To	Cash
For	Wages
Balance	R
Deposit	R
Subtotal	R
This cheque	R530-00
Balance	R
0026	

**Required**

Record the above transactions in the following subsidiary journals of Kekana Traders for January 2011

- 2.1 Cash receipts journal (analysis columns for analysis of receipts, bank, sales, VAT output, debtors, settlement discount granted [Dr], VAT input [Dr] and sundry accounts) (10)
- 2.2 Cash payments journal (analysis columns for bank, purchases, creditors, settlement discount received [Cr], wages, VAT input, VAT output [Cr] and sundry accounts) (17)
- 2.3 Purchases journal (analysis columns for VAT input, purchases and creditors) (1½)
- 2.4 Purchases returns journal (analysis columns for VAT input, purchases returns and creditors) (1½)

**Note.** You don't have to close off the journals at the end of the month.  
Show all your calculations

[30]

## **SOLUTION 2**

Kekana Traders

Cash – Receipts Journal – January 2011

Document No.	Date	Details	Folio	Bank	Sales	VAT Output	Debitors	Settlement Discount Granted	VAT Input	Sundry Accounts		
										Amount	Folio	Details
0003	2011 Jan 3	R. Kekana		60000						60000	B1	Capital
CRRRS	7	Sales: Credit Card		12320.15	10807.15 <sup>1</sup>	1513 <sup>1</sup>						
		cash		16210.65	14219.87 <sup>2</sup>	1990.78 <sup>2</sup>						
0004	21	R. Papo		3600.00		442.11 <sup>3</sup>				3157.89 <sup>3</sup>	N1	Rent Receivable
C12126	21	Sales: credit card		12636.40	11084.56 <sup>4</sup>	1551.844						
		cash		16300	14298.25 <sup>4</sup>	2001.75 <sup>5</sup>						
				1210676.20	50409.83	7499.48				63157.89		
				B2	N2	B3						

2.1 The totals and references have only been included for illustrative purposes because they were not required on the question.

Given values including VAT, values excluding VAT are found by multiplying total by  $\frac{100}{114}$  if VAT is 14%. The VAT element is thus  $\frac{14}{114}$  of value including VAT. Capital does not have VAT.

The Cash Receipts Journal records all cash received. The cheque for Rent from Rapoo is only entered in this Journal on the date of deposit.

$$(1) \text{ Sales} = \frac{100}{114} \times 12320.15 = 10807.15$$

$$\text{VAT Output} = \frac{14}{114} \times 12320.15 = 1513$$

$$(2) \text{ Sales (cash)} = \frac{100}{114} \times 16210.65 = 14219.87$$

$$\text{VAT Output} = \frac{14}{114} \times 16210.65 = 1990.78$$

$$(3) \text{ VAT Output} = \frac{14}{114} \times 3600 = 442.11$$

$$\text{Sundry accounts (Rent)} = \frac{100}{114} \times 3600 = 3157.89$$

$$(4) \text{ Sales (credit card)} = \frac{100}{114} \times 12636.40 = 11084.56$$

$$\text{VAT Output} = \frac{14}{114} \times 12636.40 = 1551.84$$

$$(5) \text{ Sales (cash)} = \frac{100}{114} \times 16300 = 14298.25$$

$$\text{VAT Output} = \frac{14}{114} \times 16300 = 2001.75$$

All items without created columns are entered under sundry accounts.

## 2.2 cash payment journal – January 2011

Cheque no	Date	Details	Folio	Bank	Purchases	Creditors	Settlement Discount Received (cr)	wages	VAT Input	VAT Output(cr)	Sundry Accounts		
0019	2011 Jan 11	Siks Ltd <sup>1</sup>		24617.84	21594.60				3023.24				
0020	14	Telkom		435.80					53.52 <sup>2</sup>		382.28 <sup>2</sup>	N3	Telephone Expenses
0021	14	Wages - cash		530.00 <sup>3</sup>				530.00			1500.00	B4	Drawings
0022	19	R. Kekana(cash)		1500.00 <sup>3</sup>									
0023	20	Mega cotton materials	CL1	16247.22 <sup>4</sup>		18052.47 <sup>4</sup>	(1583.55)			(221.70)			
0024	24	Municipality		3600.00					380.70 <sup>5</sup>		2719.30	N4	Water & electricity Rates and taxes
	24										500	N5	salaries
0025	25	V. Kgobe		8500 <sup>3</sup>							8500	N6	
0026	28	Wages-cash		530.00 <sup>3</sup>									
				<b>55960.86</b>	<b>21594.60</b>	<b>18052.47</b>	<b>(1583.55)</b>	<b>1060</b>	<b>3457.46</b>	<b>(221.70)</b>	<b>13601.59</b>		
				B2	N7	B5	N8	N9	B6	B4			

1. Figures extracted from invoice. The invoice is entered net of the 10% trade discount.

$$2. \text{VAT Input} = \frac{14}{114} \times 435.80 = 53.52$$

$$\text{Sundry (Telephone expenses)} = \frac{100}{114} \times 435.80 = 382.28$$

3. Wages, Drawings and Salaries are not VAT chargeable. Wages and salaries are subject to PAYE against the employee and the employer then pays withholding tax to SARS.
4. On settlement of an account, no VAT input is charged on amount settled VAT will already have been effected on purchase on credit in the purchases journal. The credit column is entered with the gross amount including discount to record the amount because the business will pay the total amount including VAT to the supplier.
  - The amounts entered were captured directly from the invoice, which is the source document for credit purchases.
  - The method of payment on the invoice, shown as account, indicates that this is a credit purchase.
  - Closing entries and totals were only done for illustrative purposes only as this was not required by the question.

### 2.3 Purchases Journal – January 2011

Invoice No.	Date	Details	Foil	VAT Input	Purchases	Creditors
5369	Jan 10 2011	Mega Cotton Materials	CLI	2307.90	16485.00	18792.90
				B6	N7	B5

- In this journal we record all purchases made on credit. Goods bought from Silks Ltd were for cash that is why they were not included here; this is shown by the mode of payment on invoice (cheque).
- The VAT upon purchase is entered in the VAT Input. In Purchases is entered net of VAT. Creditors will be entered gross of VAT

### 2.4

### Purchases Returns Journal – January 2011

Credit Note No.	Date	Details	Folio	VAT Input	Purchases returns	Creditors
CN1153	2011 Jan 13	Mega Cotton Materials	CLI	90.93	649.50	740.43
				B6	N10	B5

- The credit note no. can be the one from the supplier or it can be generated internally.
- The VAT amount goes to the credit side of the VAT input account as this reverses the VAT input amount originally charged when the goods were purchased.
- The Purchases returns will be entered net of VAT.
- The Creditors will be entered gross of VAT because the original debit was credited to the creditors account gross of VAT.

- The amounts entered have been extracted directly from the credit note on the question settled. The VAT on the settlement discount is then reversed as the entity will no longer receive this from debtor. This is calculated as follows:

Gross settlement discount (as per receipt) 1805

$$\text{VAT} \quad \frac{14}{114} \times 1805 = 221.70$$

$$\text{Settlement discount} \quad \frac{100}{114} \times 1805 = 1583.55$$

These are shown in brackets as they represent credits as opposed to other payments in this journal which are debits.

$$\begin{array}{l} 5. \text{ VAT Input} \quad \text{Gross water} \quad 3100 \\ \quad \quad \quad \text{VAT Input} \quad \frac{14}{114} \times 3100 = 380.70 \end{array}$$

$$\text{Water and Electricity} \quad \frac{100}{114} \times 3100 = 2719.30$$

- The Cash Receipts Journal records all payments made from the business bank account.
- The references in the folio and the totals are only entered for illustrative purposes but they were not part of the answer.

**QUESTION 3 (11 marks)(13 minutes)**

Commence this question on a new (separate page).

The following information was obtained from the records of Cool Limited for the year ended 28 February 2011

	R
Inventory (1 March 2010)	149 500
Sales	750 000
Purchases	540 000
Sales returns	1 500
Purchases returns	2 000
Freight charges on purchases	650
Freight charges on sales	1 700
Settlement discount granted	350

A physical inventory count on 28 February 2011 indicated that inventory on hand amounted to R400 000

**Required**

Use the information provided to calculate the gross profit/loss of Cool Limited for the year ended 28 February 2011. The entity uses the periodic inventory control system

**[11]**

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**SOLUTION 3  
CALCULATION OF GROSS PROFIT**



## Cool Limited

### Trading Account for the year ended 28 February 2011

Revenue (750 000 – 1500 350)	748150
Cost of Sales	(288150)
Opening Inventory (1 March 2010)	149500
Purchases (540 000 – 2000)	538 000
Freight charges on purchases	650
Closing Inventory (28 February 2011)	(400 000)
<b>Gross Profit</b>	<b>460 000</b>

### NOTES

- Sales returns and settlement Discounts granted are subtracted from sales to arrive at the revenue for the period.
- Purchases returns and settlement discounts received (if any) are deducted from purchases to arrive at net purchases.
- In the calculation of cost of sales, we have to add all the costs of putting the goods into a saleable condition such as carriage on purchases, insurance on purchases, freight on purchases, import duty on purchases etc.
- Closing inventory is deducted from cost of sales as this represents goods bought but which will only be sold in future periods.
- Opening inventory is added to cost of sales as this represents goods bought in previous period but sold in current period assuming first in first out method of stock.
- Gross profit of calculated in the Trading account.
- Freight on sales, carriage on sales, insurance on sales is not included in the Trading Account. These are only included with other Administrative, Distributive and Other Expenses when we are preparing the statement of Comprehensive Income.

**QUESTION 4 (22 marks)(26 minutes)**

Commence this question on a new (separate page)

The following information for April 2011 relates to NP Glassworks

<b>Bank Statement of NP Glassworks for April 2011</b> <b>Address 21 Third Road; Durban, 4000</b>				
Date	Details	Debit R	Credit R	Balance R
01/04/2011	Balance			7 000,00(Cr)
04/04/2011	Cheque no 1651	2 500,00		4 500,00(Cr)
	Deposit		15 000,00	19 500,00(Cr)
07/04/2011	Deposit		30 000,00	49 500,00(Cr)
08/04/2011	Cheque no 1653	1 000,00		48 500,00(Cr)
	Cheque no 1654	650,00		47 850,00(Cr)
12/04/2011	Deposit		6 000,00	53 850,00(Cr)
	Unpaid cheque	500,00		53 350,00(Cr)
15/04/2011	Deposit		650,00	54 000,00(Cr)
	Cheque no 1656	6 000,00		48 000,00(Cr)
18/04/2011	Direct deposit Mrs A Ngcobo		2 000,00	50 000,00(Cr)
21/04/2011	Cheque no 1657	250,00		49 750,00(Cr)
29/04/2011	Service fees	300,00		49 450,00(Cr)
	Debit order WM Insurers	3 500 00		45 950,00(Cr)
	Interest		459,50	46 409,50(Cr)

**NP GLASSWORKS**

**CASH RECEIPTS JOURNAL (BANK COLUMN ONLY)-APRIL 2011** CRJ04

Day	Details	Analysis R	Bank R
04/04/2011	Cash sales	15 000,00	15 000,00
07/04/2011	Cash sales	30 000,00	30 000,00
12/04/2011	Mr K Thomas	6 000,00	6 000,00
15/04/2011	Cash sales	650,00	650,00
29/04/2011	Cash sales	10 000,00	10 000,00
	Miss M Meyer	4000,00	14 000,00
			65 650,00

**NP GLASSWORKS**

**CASH PAYMENTS JOURNAL (BANK COLUMN ONLY) – APRIL 2011** CPJ04

Cheque No	Day	Name of Payee	Bank R
1651	04	DBN Municipality	2 500,00
1652	06	AKR Wholesalers	1 900,00
1653	08	Mr R Maverick	1 000,00
1654		Cash	650,00
1655	13	PR Stationers	1 500,00
1656	15	HS Vehicles	6 000,00
1657	21	Cash	250,00
1658	29	Mrs V Khumalo	2 000,00
			15 800,00

[TURN OVER]

**QUESTION 4 (continued)**

**Additional information**

- a) The 'unpaid cheque' for R500,00 which was originally received from Miss K Moodley was dishonoured due to insufficient funds in her bank account
- b) NP Glassworks sublets part of its building to Mrs A Ngcobo who pays the monthly rental via online banking

**Required.**

- 4 1 Complete the cash receipts journal and the cash payments journal for April 2011  
(Details and bank column only) (7)
  - 4 2 Prepare the properly balanced/closed off bank account for April 2011 in the general ledger of  
NP Glassworks (5)
  - 4 3 Prepare the bank reconciliation statement as at 30 April 2011 (10)
- [22]**

**SOLUTION 4**  
**BANK RECONCILIATION STATEMENT**  
**N.P GLASS WORKS**

4.1

**Cash Receipts Journal – April 2011**

Details	Bank
	<b>R</b>
Cash Sales	15000
Cash Sales	30000
Mr. K. Thomas	6000
Cash Sales	650
Cash Sales	
Miss M. Meyer	14000
Mrs. A. Ngcobo (Direct Deposit : Rent Received)	2000
Interest Received	459.50
	<b>68109.50</b>

### Cash Payments Journal – April 2011

DBN Municipality	2500
AKR Wholesalers	1900
Mr. R. Maverick	1000
Cash	650
P R Stationers	1500
H S Vehicles	6000
Cash	250
Mrs. V. Khumalo	2000
Miss K. Moodley Dishonoured cheque	500
Bank charges	300
VM Insurers (Debit Order)	3500
	<b>20 100</b>

4.2

### Bank Account

		R			R
2011 April 30	Balance b/d	7000	2011 April 30	Total Payments	20100
	Total Receipts	68109.50	30	Balance c/d	55009.50
		75109.50			75109.50
May 1	Balance b/d	55009.50			

### 4.3 Bank Reconciliation Statement as at 30 April 2011

	Debit	Credit
Balance as per bank statement		46409.50
Outstanding Deposit		14000
Outstanding cheques 1652	1900	
1655	1500	
1658	2000	
Balance as per bank account	55009.50	
	<b>60409.50</b>	<b>60409.50</b>

Steps in preparing the bank reconciliation statement:

- Compare the Cash Receipts Journal to the credit side of the bank statement.  
Tick the items appearing on both.

- (b) Compare the cash Payments Journal to the debit side of the bank statement.  
Tick the items appearing on both.
- (c) Update the cash receipts Journal by entering all items still unticked on the credit side of the bank statement and also correct mistakes if any. In this the items remaining were:
- (i) Direct Deposit R2000 from Mrs. A. Ngcobo. This means the client paid directly into our bank account. As a result, the bank entered the deposit on the statement but the business had not yet entered the receipt as there was no proof of payment. Since the proof is now there as shown by the entry on the bank statement, the entry can now be made in our Cash Receipts Journal.
  - (ii) Interest of R459.50. Usually most business only verifies the accurate amount of interest from the bank statement. The interest will be appearing on the statement but not the Cash Receipts Journal. The Cash Receipts is no
  - (iii) W updated with the interest.
- (d) Update the cash Payments Journal by entering all items still unticked on the debit side of the bank statement and also correct mistakes if any. In this case, the items remaining were:
- (i) Dishonoured cheque from Miss K. Moodley, R500. When the cheque was first received, it was entered in the Cash Receipts Journal. Since the cheque is no longer be payable by the bank due to insufficient funds, it has to be reversed by entering in the cash Payments Journal. A reversal of an entry originally entered in the Cash Receipts Journal is done by entering the correction in the Cash Payments Journal and vice – versa.
  - (ii) Bank charges (service fees) are usually accurately verified by the business at the end of the month from the bank statement. This is when the bank will make the correction.
  - (iii) VM Insurers (Debit Order) represents deductions made directly from the business bank account upon instruction in favour of our suppliers. The business will get proof that the deduction for the agreed period has been done from the bank statement. This is when the entry is made in the business books.
- (e) Close off the bank account. We start with the bank balance at the beginning of the month. This is usually obtained from the previous month's bank reconciliation statement or previous month's bank account. In this question, this was not given,

so the assumption is that it was the same as the opening balance on the bank statement.

- (f) Prepare the bank reconciliation statement. All items not ticked in the cash receipts journal and the cash payments journal are the ones that are used in preparing this statement. In this case we had the following:
- (i) Outstanding Deposit 14000. These are amounts deposited by the business but not yet credited by the bank.  
This may be due to the bank clearing process or system breakdown at the bank. In the reconciliation, these should be credited as if they have been cleared.
  - (ii) Outstanding cheques (1652, 1655, 1658). These are cheques drawn by the bank but unfortunately the beneficiaries have not yet presented the cheques to the bank or they are still passing through the clearing process or it might also be due to bank system breakdowns. As these reduce the amount in the bank, these should be debited in the bank reconciliation.

**NB:** The reconciliation starts with the closing balance as it appears on the bank statement and it ends with the bank account balance as it appears on the bank account after updating all the cash journals.

The cash receipts journal corresponds to the credit side of the bank statement whilst the cash payments journal corresponds to the debit side of the bank statement.

**QUESTION 5 (19 marks)(23 minutes)**

**Commence this question on a new (separate) page**

Trionics Business Solutions is a business that sells electronic equipment. The entity is not registered as a VAT vendor. The financial year-end of Trionics Business Solutions is 28 February of each year. The following trial balance was extracted from the financial records of Trionics Business Solutions:

**TRIONICS BUSINESS SOLUTIONS  
PRE-ADJUSTMENT TRIAL BALANCE AS AT 28 FEBRUARY 2011**

	Debit	Credit
	R	R
<b>Financial position section</b>		
Capital		320 000
Drawings	20 000	
Land and buildings	500 000	
Mortgage loan		400 000
Vehicles at cost price	200 000	
Equipment at cost price	50 000	
Accumulated depreciation: Vehicles		80 000
Accumulated depreciation: Equipment		9 500
Inventory	67 500	
Debtors control	19 500	
Creditors control		41 000
Allowance for credit losses		800
Accrued expenses		1 500
Bank	10 000	
Petty cash	6 000	
Total comprehensive income for the year		20 200
	873 000	873 000

**Additional information**

- a) The mortgage loan with interest at 9% per annum is repayable over a period of 20 years. The capital that will be repaid from 1 March 2011 to 28 February 2012 amounted to R20 000. No interest was due at the end of the financial year.

**Required.**

Prepare a statement of financial position for the year ended 28 February 2011. Comparative figures are **not** required. The notes to the statement of financial position are **not** required. **(19)**

**Note:** Show all your calculations clearly.

**[19]**

**Total 100**

## SOLUTION 5

### STATEMENT OF FINANCIAL POSITION

<b>ASSETS</b>	660500
<b>NON-CURRENT ASSETS (calculation 1)</b>	<b>660500</b>
<b>CURRENT ASSETS</b>	<b>102200</b>
Inventory	67500
Trade and other Receivables (19500-800)	18700
Cash and cash equivalents (calculation 2)	16000
	<b>762700</b>
<b>EQUITY AND LIABILITIES</b>	
Equity (calculation 3)	320200
<b>LIABILITIES</b>	<b>442500</b>
<b>NON-CURRENT LIABILITIES</b>	<b>380000</b>
Mortgage loan (400000-20 000)	<b>380000</b>
<b>CURRENT LIABILITIES</b>	<b>62500</b>
Trade and other payables (calculation 4)	42500
Current Portion of Mortgage loan	20000
	<b>762700</b>

#### Calculation 1 Non – Current Assets

	Land and Buildings	Vehicles	Equipment	Total
Cost	500000	200 000	50 000	750000
Accumulated Depreciation	-	80 000	9500	89500
	<b>500000</b>	<b>120 000</b>	<b>40500</b>	<b>660 500</b>

#### Calculation 2

Cash and Cash Equivalents

Bank	10 000
Petty cash	6000
	<b>16 000</b>

This also includes cash and cash float if they are on the question

Calculation 3 Equity

Statement of changes in Equity for the year ended 28 February



2011

Opening balance	320 000
Total Comprehensive Income for year	20 200
Drawings	(20 000)
	<u>320 200</u>

This was not required on the question but has been presented for illustrative purposes.

Calculation for Trade and other Payables

Trade creditors	41 000
Accrued Expenses	1 500
	<u>42 500</u>

If interest on mortgage was still owing it was also going to be included here.

### EXTRA NOTES

The Allowance for credit losses is deducted from debtors.

Part of the mortgage loan which will be repaid from March 2011 to 28 February 2012 (R20 000) goes under current liabilities as it is due within one year.

The remainder of the loan due after more than one (R400 000 – R20 000 = R380 000) is a non – current liability.

***MAY-JUNE 2012***

**QUESTION 1 (28 marks) (34 minutes)**

**Commence this question on a new (separate) page.**

On 1 March 2012, Mrs Rose started a business as a florist. The entity is not registered as a VAT vendor and keeps a periodic inventory system. The following transactions took place during the first month of business:

**Transactions**

March	1	Mrs Rose deposited R50 000 in the business's bank account as opening capital
	2	The entity bought a delivery vehicle on credit for R150 000. To finance this vehicle, Finance Bank approved a loan to the value of R150 000 at 10% interest per annum. It is repayable in 60 monthly instalments of R3 187. The first payment is due on 1 April 2012.
	3	Purchased equipment from Gardenhouse and paid by cheque, R12 000
	4	Purchased flowers for cash, R5 000
	6	Cash sales, R7 500
	8	Purchased flowers for cash, R8 000
	10	Credit card sales, R2 500 and cash sales R7 500
	15	Purchased flowers on account from Mr Elkins, R15 000
	20	Credit card sales, R8 000 and cash sales, R12 000
	22	Paid R3 000 to the municipality for water and electricity consumed
	28	Paid wages, R4 000
	30	Paid R6 000 on the account from Mrs Elkins
	31	Inventory on hand amounted to R2 000

**REQUIRED:**

Prepare the appropriate general ledger accounts for March 2012 which reflect the above transactions in the books of Rose Florist if the periodic inventory control system is in use. You are required to **ONLY** balance and close off the bank account.

**NOTE: Ignore any VAT implication on applicable transactions.**

**[28]**

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**SOLUTION 1 General Ledger Accounts**

# Rose Florist General Ledger March 2012

## Capital Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				2012 Mar 1	Bank	CRT1	50000

## Bank Account

2012 Mar 2	Capital	CRJI	50000	2012 Mar 2	Delivery Vehicle		150000
6	Loan-Finance Bank		150000	3	Equipment		12000
10	Sales		7500	4	Purchases		5000
20	Sales (2500+7500)		10000	8	Purchases		8000
	Sales(8000+12000)		20000	22	Water and electricity		3000
				28	wages		4000
				30	Creditor : Mrs Elkins		6000
				30	Balance	c/d	49500
			<b>237500</b>				<b>237500</b>
April 1	Balance	b/d	49500				

## Loan: Finance Bank

**B3**

				2012 Mar 2	Bank	CRJ1	150000
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## Delivery Vehicle

**B4**

2012 Mar 2	Bank	CPJ1	150000				
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## Equipment

**B5**

2012 Mar 3	Bank	CPJ1	12000				

## Purchases

**N1**

2012 Mar	Bank	CPJ1	5000				
	Bank Creditors	CPJ1	8000				
		CPJ1	15000				

Sales							
<b>N2</b>							
				2012 Mar	Bank	CRJ1	7500
					Bank	CRJ1	10000
					Bank	CRJ1	20000

### Creditors control

**B6**

2012 Mar 30	Bank	CPJ1	6000	2012 Mar 15	Purchases	PJ1	15000
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### Water and Electricity

**N3**

2012 Mar 22	Bank	CPJ1	3000				
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### Wages

**N4**

2012 Mar 28	Bank	CPJ1	4000				
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### Inventory

**B7**

Mar 31	Trading Account	GJ1	2000				
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### NOTES

- Assets, Expenses and Drawings increase on the debit side whilst they decrease on the credit side.
- Equity (capital), Liabilities and Income increase on the credit side and they decrease on the debit side.
- In the periodic inventory system, during the period, sales are only entered in the sales account whilst purchases go only to the purchases account without making adjustments to the cost of sales. Trading stock is then entered in the stock account at the end of the period on the debit side as this is an asset. In other words, the stock account and cost of sales are not continuously updated. This is done when the perpetual inventory system is in use.
- In a general ledger account, the details in the account to be debited will be the name of the account with the corresponding credit entry and vice-versa e.g. when Mrs. Rose

introduced Capital on March 1, in the Bank Account, the details will be Capital and in the Capital Account, the details will be Bank.

- There was no need to balance all the other accounts except the bank account.
- The interest and the monthly installment are not yet accounted for as they only fall due after the month of March.
- On March 2, the entity received a loan from Finance Bank which they immediately paid for the delivery vehicle, hence the two entries in the bank account.

**QUESTION 2 (23 marks) (25 minutes)**

**Commence this question on a new (separate) page.**

The following transactions, at 14% VAT inclusive, took place at Big Builders for December 2011

**December**

- 3 Purchased merchandise for R8 778 on credit from Lion Ltd Received invoice no AD 25  
Sold trading inventory on credit to White Birdie Issued invoice no 173 for R13 110
- 11 Sold goods on credit to Brown Eagle Issued invoice no 174 for R4 332
- 12 Issued credit note no 122 to White Birdie for an overcharge of R228 on 3 December 2011
- 18 Purchased roof tiles on credit from Penguin Ltd Received invoice no 352 for R28 500
- 20 Returned damaged roof tiles to Penguin Ltd Received credit note no 97 for R1 710
- 23 Received damaged goods returned by Brown Eagle and issued credit note no 123 for R342

**Required:**

Record the above transactions in the following subsidiary journals of Big Builders for December 2011

- 2 1 Sales journal (analysis columns for Doc no, Day, Details, Fol, VAT output, Sales and Debtors) (6½)
- 2 2 Purchases journal (analysis columns for Doc no, Day, Details, Fol, VAT input, Purchases and Creditors) (6½)
- 2 3 Sales returns journal (analysis columns for Doc no, Day, Details, Fol, VAT output, Sales returns and Debtors) (6½)
- 2 4 Purchases returns journal (analysis columns for Doc no, Day, Details, Fol, VAT input, Purchases returns and Creditors) (3½)

**NOTE: You don't have to close the journals off  
Show all your calculations**

**[23]**

## SOLUTION 2 JOURNALS

### BIG BUILDERS

#### 2.1 Sales Journal, December 2011

Doc No.	Day	Details	Folio	VAT Output	Sales	Debtors
173	2011 Dec 3	White Birdie	DL1	1610 <sup>1</sup>	11500 <sup>1</sup>	13110
174	11	Brown Eagle	DL2	532 <sup>2</sup>	3800 <sup>2</sup>	4332
				2142	15300	17442
				B1	N1	B2

1. Sales including VAT = 13110

$$\text{VAT} = \frac{14}{114} \times 13110 = 1610$$

$$\text{Sales} \frac{100}{114} \times 13110 = 11500$$

$$(ii) \quad \text{VAT} = \frac{14}{114} \times 4332 = 532$$

$$\text{Sales} \frac{100}{114} \times 4332 = 3800$$

**NB:** The adjustment factor to calculate VAT is  $\frac{14}{114}$  whilst for accounting sales net of VAT is  $\frac{100}{114}$  where we are given the invoice inclusive of VAT.

In this journal, only credit sales are recorded. The debtors are entered VAT inclusive as they pay to us including VAT.

References have only been included for illustrative purposes.

## 2.2 Purchases Journal: December 2011

Doc No.	Day	Details	Folio	VAT Input	Purchases	Creditors
AD25	Dec 3	Lion Ltd	CL1	1078 <sup>1</sup>	7700 <sup>1</sup>	8778
352	18	Penquin Ltd	CL2	3500 <sup>2</sup>	25000 <sup>2</sup>	28500
				4578	32700	37278
				B3	N2	B4

Adjustment factors same as above

$$1. \text{ VAT} = \frac{14}{114} \times 8778 = 1078$$

$$\text{Purchases} = \frac{100}{114} \times 8778 = 11500$$

$$2. \text{ VAT} = \frac{14}{114} \times 28500 = 3500$$

$$\text{Purchases} = \frac{100}{114} \times 28500 = 25000$$

- The purchases are entered net of VAT or VAT exclusive.
- The creditors are entered VAT inclusive or gross of VAT because the business pays to the creditor the total amount which includes VAT.
- Only credit purchases are included in this journal.
- The folio refers to the personal account of the supplier to which the credit purchases will be posted.

## 2.3 Sales Returns Journal – December 2011

Doc No.	Day	Details	Folio	VAT Output	Sales Returns	Debtors
122	2011 Dec 12	White Birdie	DL1	28 <sup>1</sup>	200 <sup>1</sup>	228
123	23	Brown Eagle	DL2	42 <sup>2</sup>	300 <sup>2</sup>	342
				70	500	570
				B1	N3	B2



1. Adjustment factors same as above:

$$\text{VAT} = \frac{14}{114} \times 228 = 28$$

$$\text{Sales returns} = \frac{100}{114} \times 228 = 200$$

2.  $\text{VAT} = \frac{14}{114} \times 342 = 42$

$$\text{Sales returns} = \frac{100}{114} \times 342 = 300$$

- This Journal records all returns or reductions in our customer's invoices that might be caused by errors or other concessions.
- The sales returns are recorded exclusive of VAT as they had been done in sales when the original sale took place. The debtors are recorded inclusive of VAT as they were charged to debtors at this amount at the time of sale.
- References and closing off has been done only for illustrative purposes as this was not a question requirement.

#### 2.4 Purchases Returns Journal – December 2011

Doc No.	Day	Details	Folio	VAT Input	Purchases Returns	Creditors
97	2011 Dec 20	Penquin Ltd	CL2	210 <sup>1</sup>	1500 <sup>1</sup>	1710
				B3	N4	B4

1. Adjustments factor same as above.

$$\text{VAT} = \frac{14}{100} \times 1710 = 210$$

$$\text{Purchases returns} = \frac{100}{114} \times 1710 = 1500$$

- In this journal we record returns to our suppliers, allowances from suppliers or reductions made due to errors or other reasons done after the date of purchase.
- The Purchases Returns is recorded exclusive of VAT as the goods had been recorded in purchases exclusive of VAT.
- The Creditors is recorded inclusive of VAT as the original debit on the date of purchase had been recorded in the creditors account inclusive of VAT.

- Closing off and folio referencing was only done for illustrative purposes as this was not part of the question.

**QUESTION 3 (28 marks) (36 minutes)**

**Commence this question on a new (separate) page.**

Mrs T Smith, the owner of TS Stores, supplies you with the following information for the month ended at 31 January 2012

- 1 The bank account in the general ledger of TS Stores had a favourable balance of R4 250 on 31 January 2012 and the bank statement of TS Stores had a credit balance of R15 000 on 31 January 2012. On 31 January 2012, before any of the under-mentioned transactions were taken into account, the cash receipts journal had a total of R19 750 and the cash payments journal had a total of R9 000 in their respective bank columns
- 2 The above difference in the bank balances of the general ledger and the bank statement of TS Stores can be attributed to the following differences that were noted when the cash journals and the bank statement of TS Stores for January 2012 were compared
  - a) A direct deposit of R7 000 was made by Mrs P Thomas, a client of TS Stores on 15 January 2012
  - b) The following cheques were not presented for payment during January 2012

	R
cheque no 071	3 900
cheque no 079	1 000
cheque no 081	500
cheque no 082	4 000

- c) A client, Mr K Govender's, cheque of R2 500 was dishonoured due to insufficient funds in his bank account and was returned by the bank marked "R/D"
  - d) The bookkeeper of TS Stores only deposited the money received from cash sales made on 29 and 30 of January 2012 for R22 725 on 1 February 2012
  - e) A debit order of R3 000 for the payment of the monthly water and electricity consumed to the local municipality did not appear in the cash payments journal of TS Stores
  - f) A cheque deposit of R1 500 was erroneously credited by the bank to the account of TS Stores
  - g) Bank charges for the month were R175
  - h) A tenant of TS Stores, Mr S Samuels, deposited R4 000 directly into the business's bank account
- 3 A post dated cheque dated 28 February 2012 for R6 500 was issued to Mr M Khumalo, (cheque no 083)

**Required**

- 3.1 Complete the cash receipts journal and the cash payments journal of TS Stores for January 2012 (Details and bank column only) (7)
  - 3.2 Prepare the properly balanced/closed off bank account for January 2012 in the general ledger of TS Stores (7)
  - 3.3 Prepare the bank reconciliation statement for TS Stores as at 31 January 2012 (14)
- [28]**

### SOLUTION 3: BANK RECONCILIATION STATEMENTS

#### 3.1 TS Stores

##### CASH RECEIPTS JOURNAL: January 2012

Details	Bank
Provisional total	19750
Mrs. P. Thomas (direct deposit)	7000
Mr. S. Samuels (direct deposit)	4000
<b>Total Receipts</b>	<b>30750</b>

##### Cash Payments Journal - January 2012

Details	Bank
Provisional total	9000
K. Govender: Dishonoured cheque	2500
Municipality(debit order water and electricity)	3000
Bank charges	175
<b>Total Payments</b>	<b>14675</b>

#### 3.2

Bank Account					
2012	Balance b/d	4250	2012	Total payments	14675
Jan 1			Jan 31		
31	Total Receipts	30750	31	Balance c/d	20325
		<b>35000</b>			<b>35000</b>
Feb 1	Balance b/d	20325			

#### 3.3 Bank Reconciliation Statement as at 31 January 2012

	Debit	Credit
Bank as per bank statement		15000
Outstanding cheques:071	3900	
079	1000	
081	500	
083	6500	
082	4000	
Outstanding deposit		22725
Bank error-wrong deposit	1500	
Balance as per bank account	20325	
	<b>37725</b>	<b>37725</b>

#### NOTES

- The assumption made is that the bank balance given was the one at the beginning of the month (1 January 2012 since the Cash Receipts Journal (CRJ) and the Cash Payments Journal (CPJ) had not yet been updated.
- A direct deposit of R7000 made by Mrs. P. Thomas means that it only appeared in the bank statement. The business only noted this transaction upon obtaining the bank statement. This is entered in the CRJ to update it. The same applies to the R4000 deposited by a tenant S. Samuels.

The cheques	071	R3900
	079	R1000
	081	R500
	082	4000

- Were paid out by the business but the beneficiaries have not yet cashed or banked the cheques. These should be deducted from the bank balance in the reconciliation statement. The same applies to the post dated cheque issued to Mr. M. Khumalo for R6500. It is in the CPJ but will only be cashed or banked as from the 28<sup>th</sup> of February 2012.
- Mr. K. Govender's dishonoured cheque (R2500) should be entered in the CPJ. When we received it, the business recorded it in the CRJ but now this cheque can no longer be payable by the bank since K. Govender does not have sufficient funds in his account. To reverse an entry previously made in the account. To reverse an entry previously made in the CRJ, we enter it in the CRJ and vice versa since the two journals are two sides of the same coin, the bank account.
- The amounts deposited on, February 2012 (R22 725) should be added to our bank balance in the reconciliation statement because it represents an outstanding cheque.
- It will have been recorded in the CRJ but will not be on the bank statement.
- The debit order of R3000 for water and electricity paid to the municipality represents an amount directly paid to our creditors by our bank upon instruction.
- The business can only verify that the transfer will have been made from the bank statement. This should then be entered in the CPJ to update it.

- The bank charges can only be accurately verified from the bank statement. These will be appearing on the bank statement but not on the CPJ. As they represent a charge against our bank account, these should be updated by being entered in the CPJ.
- The cheque erroneously credited by the bank to the business bank account should be debited in the bank reconciliation to correct the error since the error was made in the bank statement and not in the business' books. It should be debited to reverse the wrong credit.

**QUESTION 4 (21 marks) (25 minutes)**

Commence this question on a new (separate) page.

The following balances and totals appeared in the books of Nkome Traders at 28 February 2011 (the end of the entity's accounting period)

**Balances and totals at 28 February 2011**

	R
Capital	87 450
Drawings	3 750
Land and buildings (at cost price)	80 000
Equipment (at cost price)	40 000
Vehicles (at cost price)	60 000
Accumulated depreciation Equipment (1 March 2010)	8 000
Accumulated depreciation Vehicles (1 March 2010)	15 000
Inventory (1 March 2010)	10 200
Debtors control	13 800
Bank (Dr)	12 600
Creditors control	6 600
Sales	246 860
Sales returns	1 200
Purchases	109 000
Purchases returns	800
Settlement discount granted	420
Water and electricity	10 450
Telephone expenses	5 040
Salaries	20 400
Stationery	2 350
Rental income	4 500

**Additional information.**

- 1 A physical inventory count showed the value of closing inventory to be R9 550 at 28 February 2011
- 2 An outstanding debt of R500 is irrecoverable and must be written off
- 3 Depreciation must be provided as follows  
Equipment 10% per annum according to the straight-line method  
Vehicles 20% per annum according to the diminishing balance method
- 4 The amount paid for water and electricity excludes an amount of R950 still payable for February 2011
- 5 The entity rented an office in their building to a lawyer for R1 500 per month. The lawyer took occupation on 2 January 2011 and paid an amount of R4 500, being the rent for January, February and March 2011

**Required.**

Prepare the following final accounts in the general ledger of Nkome Traders

- 4 1 The trading account to calculate the gross profit/loss for the year ended 28 February 2011 (8)
- 4 2 The profit or loss account to calculate the net profit/loss for the year ended 28 February 2011 (13)

**NOTE: Show all your calculations.**

**[21]**

**Total: 100**

## SOLUTION 4: FINAL ACCOUNTS

### 4.1 Nkome Traders

#### Trading Account for the year ended 28 February 2011

Revenue (246860-1200-420)	245240
Cost of sales	(108850)
Inventory (1 March 2010)	10200
Purchases (109000-800)	108200
Closing Inventory – 28 February 2011	9550
<b>Gross Profit</b>	<b>136390</b>

### Notes

The sales returns and the settlement discount granted are deducted from sales. In the same way, the purchases returns and the settlement discount received (if any) are deducted from purchases.

#### 4.2 The Statement of Profit/Loss and Other Comprehensive Income for the year ended 28 February 2012

Gross Profit	136390
Other Income	3000
Rental Income ( $4500 \times \frac{2}{3}$ )	3000
Expenses	139390
<b>Administration , Distribution and Other Expenses</b>	<b>(52690)</b>
Water and Electricity(10450+950)	11400
Telephone expenses	5040
Salaries	20400
Stationery	2350
Credit Losses	500
Depreciation (calculation 1)	13000
Net Profit for the year	86700
Other Comprehensive Income	-
<b>Total Comprehensive Income</b>	<b>86700</b>

#### Calculation 1 Depreciation

Equipment (10% x 40 000)	4000
Vehicles 20% x (60 000 – 15000)	9000
	<b>13000</b>



## Notes

- The R500 irrecoverable amount which must be written off represents an expense, credit losses.
- Depreciation on equipment on a straight line basis is calculated by applying the percentage (10%) on the cost of the equipment.
- The reducing balance method used on vehicles applies the percentage 20% on the carrying amount (cost – accumulated depreciation).
- The accruals must always be added to incomes or expenses in our profit statements. As they represent expenses or incomes for the current period not yet received or paid. Normally in the trial balance. The amounts will be the actual amounts paid or received excluding accruals but including prepayments if any prepayments (if any) should be deducted from the relevant expenses or incomes. In this case water and electricity accrual of R950 should be added to the relevant expense.
- The rental for March 2011 falls outside the year end (February 2011), therefore it should be deducted from the income of the current year. According to the matching concept of accounting it will only be recognized in the profit statements for the following period.

***MAY-JUNE 2012***

**QUESTION 1** (21 marks) (25 minutes)

**Commence this question on a new (separate) page.**

The following transactions for March 2012 pertain to AA Supermarket. The entity applies a periodic inventory system and is not registered as a VAT vendor.

2012

- March 2 The owner, R Ngcobo, transferred his personal vehicle, with a value of R82 000, to the entity.
- 5 Purchased inventory on credit from F Osman for R1 200.
- 8 A debtor, B Gani who owed R2 000, was declared insolvent by the North Gauteng High Court. His account must be written off as irrecoverable.
- 10 The owner, R Ngcobo, drew a cash cheque of R4 000. He gave the R4 000 as a gift to his son for obtaining his LLB-degree.
- 22 An office chair worth R1 200 was purchased on 1 March 2012. The bookkeeper incorrectly posted the amount to the equipment account instead of the office furniture account. Correct the incorrect entry.
- 28 Received R1 100 from P Heyns in full settlement of his account of R1 250.

**REQUIRED:**

Analyse the above transactions of AA Supermarket in tabular format as follows:

Date	Account to be debited	Account to be credited	Effect on the basic accounting equation		
			Assets	Equity	Liabilities
Example      1 March - Paid the monthly rental by cheque, R2 000					
Mar 1	Rent expense	Bank	R - 2 000	R - 2 000	R

- NB:**
- 1 The columns in respect of the accounting equation must **NOT** be totalled.
  - 2 Each amount **MUST** be preceded by a plus sign (+) for an increase or a minus sign (–) for a decrease.
  - 3 Show all calculations.

[21]

## SOLUTION

	Account debited	Account credited	Assets	Equity	Liabilities
<i>* Student may start with "Account credited" first!</i>			R	R	R
2	Vehicle ^ / Motor vehicle ^ / Vehicle <b>expense</b> x	Capital ^	+ ^ 82 000 ^	+ ^ 82 000 ^	
5	Purchases ^ / Purchased inventory x	F Osman ^ / Creditors control ^		- ^ 1 200 ^	+ ^ 1 200 ^
8	Credit losses ^ / Bad debts ^ / Irrecoverable debts ^	B Gani ^ / Debtors control ^	- ^ 2 000 ^	- ^ 2 000 ^	
10	Drawings ^ / Withdrawals ^ / Cash withdrawals x	Bank ^	- ^ 4 000 ^	- ^ 4 000 ^	
22	Office furniture ^ / Furniture ^ / Purchase office furniture x	Equipment ^	+ ^ 1 200 ^ - ^ 1 200 ^		
28	Bank ^	P Heyns ^ / Debtors control ^	+ ^ 1 100 ^ - ^ 1 100 ^		
	Settlement discount <b>granted</b> ^ / Discount allowed ^	P Heyns ^ / Debtors control ^	- ^ 150 ^	- ^ 150 ^	
<b>OR</b>	Bank ^		+ ^ 1 100 ^		
	Settlement discount <b>granted</b> ^ / Discount	P Heyns ✓ / Debtors	- ✓ 1 250	- ^ 150 ^	

	allowed ^	control ✓ * Only ✓ mark if amount is +/- 1 250 in one of the columns	✓		
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(21)

08/03/2012

**QUESTION 2** (20 marks) (24 minutes)

**Commence this question on a new (separate) page.**

The following information pertains to DC Traders

- |   |  |          |
|---|--|----------|
| 1 | Balances   | <b>R</b> |
|   | Bank account in the general ledger (favourable) 01/03/2012 | 1 752    |
|   | Bank statement (unfavourable) 31/03/2012                   | 432      |
| 2 | Subtotals 31/03/2012                                       |          |
|   | Cash receipts journal - bank column                        | 24 480   |
|   | Cash payments journal - bank column                        | 22 815   |
- 3 On comparing the cash journals with the bank statement for March 2012 the following was revealed
- 3 1 A debtor, P Pinto, paid R600 directly into the bank account of DC Traders
- 3 2 The bank erroneously debited DC Trader's account with a cheque amounting to R1 450, drawn by another client of the bank
- 3 3 A cheque for R218, received on 17 March 2012 from E Eysele, a debtor, was returned by the bank on 28 March 2012 due to an error on the cheque
- 3 4 The following transactions appeared on the debit side of the bank statement and were not yet recorded in the cash journals
- service fees, R45
  - interest on bank overdraft, R32
- 3 5 A debit order for the monthly office rent of R3 800, payable to AP Office Ltd, appeared on the bank statement but not in the relevant cash journal
- 3 6 Sales of R1 184 entered into the cash receipts journal on 31 March 2012 was only deposited on 4 April 2012
- 3 7 The following cheques were not yet presented to the bank for payment
- no 218 – dated 25/08/2011 to BB Ltd, a creditor, R430
  - no 380 – dated 17/03/2012 to Telecom for the telephone account, R1 100
  - no 394 – dated 23/03/2012 to Rio Stationers for paper purchased, R750

**REQUIRED**

- 2 1 Prepare the cash receipts and cash payments journals of DC Traders, **bank columns only**, at 31 March 2012 Start with the totals provided (8)
- 2 2 Prepare the bank account in the general ledger of DC Traders, properly balanced, at 31 March 2012 (5)
- 2 3 Prepare the bank reconciliation statement of DC Traders as at 31 March 2012 Begin with the balance as per bank statement (7)
- [20]



## **SOLUTION 2** (20 marks)

### **2.1 Cash journals**

#### **Cash receipts journal - March 2012**

Date	Details	Bank
31	Subtotal / Balance / Total ^ Debtors control / P Pinto ^ Creditors control / BB Ltd ^	R 24 480 ^ 600 ^ 430 ^ <u>25 510</u>

#### **Cash payments journal - March 2012**

Date	Details	Bank
31	Subtotal / Balance Total ^ Debtors control / E Eysele ^ Service fees / Bank charges ^ <b>OR</b> Bank charges ^ (45 ^ + 32 x) <b>Interest</b> on bank overdraft ^ Rent expense ^	R 22 815 ^ 218 ^ 45 ^ 77 x 32 ^ 3 800 ^ <u>26 910</u>

(8)

### **2.2**

**Dr**

**Bank**

<b>Cr</b>					
2012 Mar 1	Balance	R 1 752 ^	2012 Mar 3	Total payments ^ /	R 26 910
31	b/d ^	25 510	1	CPJ	☒
	Total receipts ^ /	☒		Payments ^	
	CRJ			Balance / Bal	352
	Receipts ^			c/d ^	☒
		<u>27 262</u>			<u>27 262</u>
Apr 1	Balance / Bal	352 ☒			
	b/d ^				

(5)



## 2.3

### Bank reconciliation statement – 31 March 2012

	Debit	Credit
	R	R
Debit balance per bank statement	432 ✓	
Deposit not yet credited		1 184 ✓
Cheques not yet presented for payment:		
<b>no 380</b> - dated 17/03/2012 (Telecom)	1 100 ✓	
^	750 ✓	
<b>no 394</b> - dated 23/03/2012 (Rio Stationery)		1 450 ✓
^	352 ☑	
Correction - incorrect cheque		
Debit balance per bank account		
	2 634	2 634

(7)

[20]

**QUESTION 3** (20 marks) (24 minutes)

**Commence this question on a new (separate) page.**

The following information pertains to Zama Traders. The entity uses the periodic inventory system and is not registered as a VAT vendor.

Transactions for March 2012

- March 5 Issued an invoice to N Passin for merchandise to the value of R1 300 sold to him
- 7 Cash sales of trading inventory, R560
- 10 Received an invoice from Style Furnishers for an office desk purchased, R1 330
- 17 Issued a cheque for R1 500 to Compute Traders, a trade creditor, as part payment of the entity's account
- 20 Cashed a cheque for R2 500, for monthly wages of R2 000. The balance was for the owners own use
- 21 Rendered services to A Prince and received his payment of R350
- 24 Issued a receipt to G Ramayeni for R850, for a payment received on his account
- 26 Purchased merchandise on credit from SS Traders, R2 140
- 31 Paid the water and electricity account of R1 755 by means of an electronic transfer to Electric Meter Readers

**REQUIRED:**

- 3.1 Enter the above transactions in the following journals of Zama Traders for March 2012
- 3.1.1 Cash receipts journal. Make provision for the following columns: day, details, bank, sales, services rendered and debtors control. Total only the debtors control column. (3)
- 3.1.2 Cash payments journal. Make provision for the following columns: day, details, bank, creditors control, purchases and sundry accounts. Total only the creditors control column. (5)
- 3.1.3 Sales journal. Make provision for the following columns: day, details, sales and debtors control. Total only the debtors control column. (1)
- 3.1.4 Purchases journal. Make provision for the following columns: day, details, purchases and creditors control. Total only the creditors control column. (1)
- 3.1.5 General journal. (2)
- 3.2 Open the debtors- and creditors control accounts in the general ledger of Zama Traders (Opening balances: Debtors control, R4 650 and Creditors control, R2 550) and post the applicable totals from the journals done for March 2012 to them. Properly balance the accounts at 31 March 2012. (8)
- [20]

**NB:** Show all calculations

### **SOLUTION 3 (20 marks)**

#### **3.1 ZAMA TRADERS - Journals**

##### **3.1.1 Cash receipts journal – March 2012**

###### **CRJ**

Day	Details	Bank	Sales	Debtors control	Services rendered
		R	R	R	
9	Sales	560 ^	560 ^		
21	A Prince	350 ^			350 ^
24	G Ramayeni	850 ^		850 ^	

(3)

##### **3.1.2 Cash payments journal – March 2012**

###### **CPJ**

Day	Details	Bank	Creditors Control	Purchases	Sundry accounts	
					Amount	Details
		R	R	R	R	
17	Compute Traders	1 500 ^	1 500 ^			
20	Cash	2 500 ^			2 000 ^	Wages ^
					500 ^	Drawings ^
31	Electric	1 755 ^			1 755 ^	Water and electricity ^

(5)

##### **3.1.3 Sales journal – March 2012**

**SJ**

Day	Details	Sales	Debtors control
		R	R
5	N Passin	1 300 ^	1 300 ^

(1)

### 3.1.4 Purchases journal – March 2012

PJ

Day	Details	Purchases	Creditors control
		R	R
26	SS Traders	2 140 ^	2 140 ^

(1)

### 3.1.5 General journal – March 2012

GJ

			Debit	Credit
2012 March	10	Furniture ^ / Office furniture ^ Creditors control / Style Furnishers ^	R 1 330 ^	R 1 330 ^

(2)

### 3.2 ZAMA TRADERS – General ledger

Dr

Debtors control

Cr					
2012 Mar 1	Balance / Bal b/d @	R 4 650 1 300 ^	2012 Mar31	Bank ^ CRJ	R 850 ^
31	Sales ^ SJ			Balance / Bal c/d ^	5 100 ⊠
		5 950			5 950
Apr 1	Balance b/d ^	5 100 ⊠			

(4)

@ = Amount was given in question

**Dr**

**Cr**

**Creditors control**

2012 Mar31	Bank ^ CPJ Balance / Bal c/d ^	R 1 500 ^ 3 190 ⊠	2012 Mar 1 31	Balance / Bal b/d @ Purchases ^ PJ Furniture ^ GJ	R 2 550 2 140 ^ 1 330 ^
		4 690			4 690
			Apr 1	Balance / Bal b/d ^	3 190 ⊠

**MAX = (4)**

**@ = Amount was given in question**

**[20]**

**QUESTION 4** (19 marks) (23 minutes)

Commence this question on a new (separate) page.

PC Manufacturers, a manufacturing entity, has applied for a loan from a bank to finance the purchase of a factory building. The bank manager has requested certain financial ratios as part of the information required to determine whether PC Manufacturers is legible for a loan.

**PC MANUFACTURERS**

**ABBREVIATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2012**

	R
Revenue	214 040
Cost of sales	(53 280)
Inventory (01/03/2011)	22 700
Purchases (All on credit)	61 600
Inventory (29/02/2012)	(31 020)
<b>Gross profit</b>	160 760
Distribution, administrative and other expenses	(109 760)
Finance costs	(6 000)
<b>Profit for the year</b>	45 000
Other comprehensive income for the year	–
<b>Profit/Total comprehensive income for the year</b>	45 000

**PC MANUFACTURERS**

**STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2012**

ASSETS	R
<b>Non-current assets</b>	247 300
Property plant and equipment	247 300
<b>Current assets</b>	63 700
Inventories	24 000
Trade and other receivables	36 500
Prepayments	3 200
<b>Total assets</b>	311 000
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	214 600
Capital	214 600
<b>Total liabilities</b>	96 400
<b>Non-current liabilities</b>	72 000
Long-term borrowings (Mortgage)	72 000
<b>Current liabilities</b>	24 400
Trade and other payables	21 700
Other financial liabilities (Bank overdraft)	2 700
<b>Total equity and liabilities</b>	311 000

[TURN OVER]

**QUESTION 4** (continued)

**REQUIRED.**

**Note: All the formulas must be given and round answers off to 2 decimals.**

Calculate the following ratios at 29 February 2012

- |     |  |      |
|-----|--|------|
| 4 1 | Gross profit percentage                | (3½) |
| 4 2 | Profit for the year percentage         | (3½) |
| 4 3 | Return on assets (profit for the year) | (3½) |
| 4 4 | Inventory holding period               | (4½) |
| 4 5 | Acid test ratio                        | (4)  |

**NB:** Show all calculations [19]

**SOLUTION 4** (19 marks)

**4.1 Gross profit percentage:**

$$\begin{aligned}
 & \frac{\text{Gross profit}^{\wedge}}{\text{Sales}^{\wedge}} \times 100^{\wedge} \\
 = & \frac{\text{R160 760}^{\wedge}}{\text{R214 040}^{\wedge}} \times \frac{100}{1} \\
 = & 75,11\% \checkmark
 \end{aligned}$$

**(3½)**

**4.2 Profit for the year percentage**

$$\begin{aligned}
 & \frac{\text{Profit before tax}^{\wedge} / \text{Profit}^{\wedge}}{\text{Sales}^{\wedge}} \times 100^{\wedge} \\
 = & \frac{\text{R45 000}^{\wedge}}{\text{R214 040}^{\wedge}} \times \frac{100}{1} \\
 = & 21,02\% \checkmark
 \end{aligned}$$

**(3½)**

### 4.3 Return on assets (profit for the year)

$$\begin{aligned}
 &= \frac{\text{Profit before interest \& tax}^\wedge}{\text{Total assets / assets}^\wedge} \times 100^\wedge \\
 &= \frac{45\,000^\wedge}{311\,000^\wedge} \times \frac{100}{1} \\
 &= 14,47\% \quad \checkmark
 \end{aligned}$$

(3½)

### 4.4 Inventory holding period

$$\begin{aligned}
 &= \frac{\text{Average inventory}^\wedge}{\text{Cost of sales}^\wedge} \times \frac{356}{1}^\wedge \\
 &= \frac{(22\,700^\wedge + 31\,020^\wedge) / 2}{53\,280^\wedge} \times \frac{365}{1} \\
 &[\text{OR}] \quad \frac{26\,860 \checkmark \boxtimes}{53\,280^\wedge} \\
 &= 184,01 \text{ days} \quad \checkmark
 \end{aligned}$$

(4½)

### 4.6 Asset test ratio

$$\begin{aligned}
 &\frac{\text{Current assets}^\wedge - \text{Inventory}^\wedge}{\text{Current liabilities}^\wedge} \\
 &= \frac{39\,700 \checkmark}{24\,400^\wedge} \quad [\text{OR}] \quad (63\,700^\wedge - 24\,000^\wedge) \quad [\text{OR}] \quad (36\,500^\wedge + 3\,200^\wedge) \\
 &= 1,63 : 1 \quad \checkmark
 \end{aligned}$$

(4)

[19]



**QUESTION 5 (18 marks)**

**5.1**

(a) Trust Cash Receipts Journal — November 2011

TCRJ

Date	Details	Fol	Trust creditors	Bank
1	<b>A Meyer</b> (trust creditor) ^	TCL	R 3 450 ^	R 3 450 ^
2	<b>E Ndlovu</b> (trust creditor) ^	TCL	7 650 ^	7 650 ^

**(3)**

(b) Trust Cash Payments Journal — November 2011

TCPJ

Date	Details	Fol	Trust creditors	Bank
4	<b>G Herald</b> (trust creditor) ^	TCL	R 1 100 ^	R 1 100 ^
10	<b>S Smith</b> (trust creditor) ^	TCL	862 ^	862 ^

**(3)**

(c) Fees Journal — November 2011

FJ

Date	Details	Fol	Dr	Cr
19	<b>L Hudson</b> (client) ^	CL	R 245 ^	R <b>OR</b> 245
25	<b>P Zitha</b> (client) ^	CL	2 450 ^	2 450

**(2)**

]

## 5.2

5.2.1 Name four (4) requirements that should be met before a transfer is made from the trust to the business account.

- The **client should owe an amount to the practice on his business account** ^ and **funds should simultaneously be available on his trust account** ^ in order to do the transfer.
- **If the amount owing on the client's business account exceeds the amount available on his trust account** ^ the amount transferred is limited to the amount available on his client's trust creditors account. ^ / limited to the lesser amount ^
- **When the amount available on the client's trust creditors account exceeds the amount owing on the client's business account** ^ the amount transferred is limited to the amount owing on the client's business account. ^
- **The client should give the necessary consent** ^ that funds be transferred from his trust creditor's account to his client business account. ^ . / The trust funds may not be transferred if they were earmarked for another specific purpose. ✓

(4)

5.2.2 Name four (4) factors that should be taken into account when the partners of a law practice determine the compensation system for the partners.

**Any 4 ✓**

- hours billed / time spent
- fees collected / fees charged
- new business generated / business brought in
- associates or support staff supervised
- capital contributions
- years of practice / experience
- management responsibilities / duties of managers

(4)

(c) Explain the term "trust money".

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.** ✓

(2)

(d) Briefly explain how the characteristic of a legal personality relates to an incorporated company.

- Separate legal entity. ✓
- **Directors are jointly and severely responsible for debts ^ to the amount of their investment in the company's shares ^**

(2)

[12]

**OCTOBER- NOVEMBER 2012**

**QUESTION 1 (20 marks) (24 minutes)**

**Commence this question on a new (separate page).**

Mr P Naidoo runs a business, General Traders. He is not registered for VAT. The periodic inventory system and control accounts are in use. The following transactions took place during June 2012:

**June**

- 3 Purchased goods to the value of R12 000 on credit from Masemola Ltd
- 5 Paid carriage, on the goods purchased on 3 June 2012, R300 with a business cheque
- 8 Sold goods on credit to Mr Ferguson, R5 600
- 13 Issued a credit note to Mr Ferguson for damaged goods returned by him, R400
- 17 Bought stationery for office use and paid with a business cheque, R200
- 21 Mr P Naidoo took goods to the value of R720 for his own personal use
- 23 Mr Ferguson paid R5 100 by cheque on his account. Settlement discount granted to him on this payment amounted to R100
- 25 Received a cheque from T Modise for rent for a part of the building, R1 500
- 28 Paid the City Council for water and electricity by cheque, R1 320

**Required:**

For each of the transactions listed above, indicate the effect of the transaction on the accounting equation. Use a "+" sign and a "-" sign to indicate an increase or a decrease in the elements of the accounting equation. You must also indicate the amount of the increase or the decrease.

Prepare a table with the format indicated in the example below and analyse the above transactions accordingly.

Where applicable assume that the bank balance is positive.

e.g. Paid R4 500 for furniture with a business cheque.

No	Assets	=	Equity	+	Liabilities
e.g.	+ R4 500			0	0
	- R4 500				

**[20]**

### **SOLUTION 1**

NO.	ASSETS =	EQUITY +	LIABILITIES
2012 June 3		-12000	+12 000
5	-300	-300	
8	+5600	+5600	
13	-400	-400	
17	-200	-200	
21		+720 -720	
23	-5200 +5100	-100	
25	+1500	+1500	
28	-1320	-1320	

### **NOTES**

- June 3 Purchases reduces equity by R12 000. Since the purchase was on credit, the liability increase (creditors) by R12 000.
- June 5 Assets (bank) reduced by R300 and the expense of carriage inwards increases cost of sales which also reduces equity by R300.
- June 8 Sales increases profit, thereby increasing equity by R5600 and since the sale was on credit, and debtors also increase by R5600.
- June 13 this increases sales returns which reduce profits by R400 and the debtor (asset) is also reduced by R400.
- June 17 this increases stationery (expense) by R200 which reduced profit, hence equity by R200. The cheque paid for the expense reduces asset (bank) by R200.
- June 21 this increases drawings, hence reducing equity by R720 and it also reduces purchases by R20, thereby increasing equity by R720.
- June 23 the bank reduces by R5100 (asset) and the debtors reduce by the total amount settled (5100+100) = R5200. The equity also reduces by R100, settlement discount granted.
- June 25 the bank increases by R1500 (assets) and the income rent received, which also increase equity, is increased by R1500.
- June 28 The expense, water and electricity reduces equity by R1320 whilst the cheque reduces the asset bank by R1320.

**QUESTION 2 (35 marks) (42 minutes)**

**Commence this question on a new (separate page).**

The following transactions took place in Maponya Traders for June 2012. Maponya Traders is registered as a VAT vendor (the applicable VAT rate is 14%). The periodic inventory system and control accounts are in use in the entity.

**Transactions:**

- 6 Mr Kekana was declared insolvent and his outstanding account of R2 200,00 must be written off as irrecoverable.
- 7 Mr ZK Legodi's account of R3 330,00 was five months overdue and interest was charged at 10% per annum.
- 8 It was found that repairs done to the delivery vehicle for R800,00 was incorrectly debited to the stationery account. This error must be corrected.
- 9 Paid for printing done by ZK Printers, R2 200,00, by cheque no 19.
- 10 The owner, J Maponya, increased his capital contribution with R15 000,00. Issued receipt no 101 to him.
- 11 Purchased cleaning material from TP Cleaners for R1 500,00 and paid with cheque no 20.
- 12 The total cash sales as per cash register roll no 15 amounted to R7 800,00.
- 13 Purchased merchandise from GD Traders for R8 000,00 and paid by cheque no 21.
- 14 Drew cash cheque (no 22) for R2 500,00 to pay the week's wages.
- 15 Received a cheque from D Maluleka in payment of his account of R5 600,00. Issued receipt no 104.
- 16 Issued cheque no 23 for R7 000,00 to settle the account of BP Suppliers.
- 17 The total cash sales as per cash register roll no 16 amounted to R9 800,00.

**Required:**

Record the above transactions in the following subsidiary journals of Maponya Traders for June 2012.

- |     |   |       |
|-----|---|-------|
| 2.1 | Cash receipts journal (analysis columns for analysis of receipts, bank, sales, VAT output, debtors and sundry accounts) | (11½) |
| 2.2 | Cash payments journals (analysis columns for bank, purchases, creditors, wages, VAT input and sundry accounts)          | (12)  |
| 2.3 | General journal   | (11½) |

**Note:** You don't have to close off the journals at the end of the month.  
Show all your calculation.

**[35]**

## SOLUTION 2

### Maponya Traders

#### Cash Receipts Journal – June 2012

Document No.	Day	Details	Folio	Bank	Sales	VAT Output	Debtors	Sundry Accounts		
								Amount	Folio	Details
2012 101	June 10	J. Maponya	DL1	15000				15000	B1	Capital
CRR15	12	Sales		7800	6842 <sup>1</sup>	958 <sup>1</sup>				
104	15	D. Maluleka	DL2	5600			5600			
CRR16	17	Sales		9800	8596 <sup>2</sup>	1204 <sup>2</sup>				
				<u>38200</u>	<u>15438</u>	<u>2162</u>	<u>5600</u>	<u>15000</u>		
				B2	N1	B3	B4			

(i)  $\text{Sales} = \frac{100}{114} \times 7800 = 6842$

(ii)

$\text{VAT Output} = \frac{14}{114} \times 7800 = 958$

The amount to be transferred to sales is that excluding VAT.

The VAT part is included under VAT output.

(iii)  $\text{Sales} = \frac{100}{114} \times 9800 = 8596$

$\text{VAT Output} = \frac{14}{114} \times 9800 = 1204$

- There is no VAT when a customer settles an account. The VAT will already have been subtracted when the sale was done.
- There was no need to close off the Journal. This was only included for illustration purposes.

### Maponya Traders

#### Cash Payments Journal – June 2012

Cheque No.	Day	Details	Folio	Bank	Purchases	Creditors	Wages	VAT Input	Sundry Accounts		
									Amount	Folio	Details
19	2012 June 9	Z.K. Printers		2200				270 <sup>1</sup>	1930 <sup>1</sup>	N2	Stationery & Printing
20	11	T.P. Cleaners		1500				184 <sup>2</sup>	1316 <sup>2</sup>	N3	Cleaning materials
21	13	G.D. Traders		8000	7018 <sup>4</sup>			982 <sup>4</sup>			

22	14	cash	2500		7000	2500			
23	16	B. P. Suppliers	7000						
			<b>21200</b>	<b>7018</b>	<b>7000</b>	<b>2500</b>	<b>1436</b>	<b>3246</b>	
			B2	N4	B5	N5	B6		

$$1. \text{ VAT Input} = \frac{14}{114} \times 2200 = 270$$

$$\text{Stationery} = \frac{100}{114} \times 2200 = 1930$$

$$2. \text{ VAT Input} = \frac{14}{114} \times 1500 = 184$$

$$\text{Cleaning Materials} = \frac{100}{114} \times 1500 = 1316$$

$$3. \text{ VAT} = \frac{14}{114} \times 8000 = 982$$

$$\text{Purchases} = \frac{100}{114} \times 8000 = 7018$$

- There is no VAT on wages and when we settle accounts to our creditors.
- The closing off and referencing in folios was not required but they have been included for illustrative purposes.

## Maponya Traders General Journal – June 2012

Date	Details	Folio	Debit	Credit
2012 June 6	Credit losses ( $2200 \times \frac{100}{114}$ )		1930	
	VAT Input ( $2200 \times \frac{14}{114}$ )		270	
	Debtor, K, Kekana written off as irrecoverable after being declared insolvent			2200
June 7	Debtor: Z. K. Legodi VAT Input ( $3300 \times \frac{10}{100} \times \frac{14}{114}$ )		330	
	VAT Input ( $3300 \times \frac{10}{100} \times \frac{14}{114}$ )			41



	Interest receivable $(3300 \times \% \times \frac{100}{114})$			289
	Interest of 10% charged on Z.K. Legodi's outstanding b balance totaling 3300			
June 8	Repairs to Delivery Vehicle		800	
	Stationery			800
	Correction of repairs to delivery vehicle that had been wrongly debited to stationery			

**QUESTION 3 (22 marks) (26 minutes)**

Commence this question on a new (separate page).

Miss A Sunday provides you with the following information regarding her business, AS Uniforms, for the month ended 31 August 2012

**1 AS UNIFORMS**

**BANK RECONCILIATION STATEMENT AS AT 31 JULY 2012**

	Debit	Credit
	R	R
Debit balance as per bank statement	12 000	
Credit outstanding deposits		15 000
Debit outstanding cheques 910	1 700	
915	950	
917	670	
Credit balance as per bank account		320
	15 320	15 320

2 The totals in the cash receipts journal and the cash payments journal for the month ended 31 August 2012 is R16 900 and R9 000 respectively

3 When Miss A Sunday compared her cash receipts journal and cash payments journal for the month ended 31 August 2012 with her bank statement for the month ended 31 August 2012, she noted the following differences

a) A deposit for R15 000 appeared in the bank statement only

b) The following cheques appeared in the bank statement only

	R
cheque no 910	1 700
cheque no 917	670

c) The following cheques only appeared in the cash payments journal for the month ended 31 August 2012

	R
cheque no 925	750
cheque no 928	1 000
cheque no 931	4 300

d) A deposit made by Miss A Sunday on 31 August 2012 for R10 500 did not appear in the bank statement

e) Miss A Sunday sublets part of her building to Mr T Mickey for R3 500 per month Mr T Mickey pays his rent every month via a direct deposit into the bank account of AS Uniforms

f) The following debit orders appeared in the bank statement only

- A debit order in favour of RS Insurers for R3 300 which is the monthly insurance premium
- A debit order in favour of VAL Cars for R2 500 which is the monthly repayment for the delivery vehicle

g) A school, ARK Schools, ordered uniforms to the value of R5 000 and paid via a direct deposit into the bank account of AS Uniforms

h) Bank charges for the month amounted to R300

i) Interest on the bank overdraft amounted to R90

**[TURN OVER]**

**QUESTION 3 (continued)**

- j) The cheque of Mr E Summer for R700 was dishonoured due to insufficient funds in his bank account
- k) The bank statement showed a favourable balance of R5 690

**Required:**

- 3 1 Complete the cash receipts journal and the cash payments journal of AS Uniforms for August 2012 (Details and bank column only ) (9)
- 3.2 Prepare the bank account for August 2012 in the general ledger of AS Uniforms This account must be properly balanced at the end of the month (4)
- 3 3 Prepare the bank reconciliation statement as at 31 August 2012 (9)
- [22]**

**SOLUTION 3**

**AS Uniforms**

**3.1 Cash Receipts Journal – August 2012**

Date	Details	Bank
2012	Provisional Total	16900
Aug		
31		
	T. Mickey (Direct Deposit)	3500
	ARK Schools (Debit order)	5000
	<b>Total receipts</b>	<b>25400</b>

**3.1 Cash – Payments Journal – August 2012**

2012	Provisional Total	9000
Aug		
31		
	RS Insurers (Insurance Debit order)	3300
	VAL Cars (Debit	2500
	Bank charges	300
	Interest on overdraft	90
	Dishonoured cheque	700
	<b>Total Payments</b>	<b>15890</b>

**3.2**

		<b><u>Bank Account</u></b>		
2012	Total Receipts	25400	2012	Balance b/d
Aug 31			Aug 1	
			31	Total Payments
				15890

2012 Sept	Balance b/d	25400	Balance c/d	9190
1		9190		25400

### 3.3 Bank Reconciliation Statement as at 31 August 2012

	Debit	Credit
	R	R
Balance as per bank statement		5690
Credit outstanding deposits		10500
Debit outstanding cheques: 915	950	
925	750	
928	1000	
931	4300	
	16190	16190

- a. The deposit of R15 000 appearing in the bank statement only is the outstanding deposit as shown in the July reconciliation. Therefore, it appeared in the July cash receipts journal. There is no need for more entries.
- b. The cheques (910 and 917) for R1700 and R670 respectively are the outstanding cheques in the July bank statement. This means they appeared in the cash payments journal for August, therefore, no more entries are required.  
Cheque 915 appearing in the July 2012 reconciliation is still outstanding since it did not appear in August's bank statement. It should therefore appear again in this month's reconciliation as a deduction. It means the beneficiary has not yet presented the cheque to the bank. This also applies to cheques no. 925, 928 and 931 which are appearing on the cash payments journal only as on note c of the question.
- d. The deposit of 10 500 represents an uncleared deposit which should be added to the credit of the reconciliation statement. These are amounts deposited by the business but not yet entered by the bank.
- e. The deposit by T. Mickey on note (e) and the one by ARK Schools were directly deposited in the bank account. This means they appear in the bank statement but they do not appear in our cash receipts journal. They should then be entered in the cash receipts journal to update it.
- f. Debit orders are instructions given to the bank to deduct specified amounts. These appear in the bank statement but do not appear in the cash payments journal. They should be entered in cash payments journal to update it.
- g. Bank charges and interest on bank overdraft will have been deducted from our account in the bank statement but will not be appearing in the cash payments journal. These should be entered in the cash payments journal to update it.
- h. The dishonoured cheque will be appearing in the bank statement but not in the business' books. When this cheque was initially received, it was entered in the cash Receipts Journal. To reverse it, it should be entered in the Cash Payments Journal.
- k. The new favourable balance of R5690 should be used when doing the bank reconciliation statement. Since it's favorable, it appears on the credit side.

**QUESTION 4 (23 marks) (28 minutes)**

Commence this question on a new (separate page).

Jobbies is an internet business that advertises jobs. The entity is registered as a VAT vendor. The financial year end of Jobbies is the end of February every year. The following totals and balances were extracted from the financial records of Jobbies.

**JOBBIES INTERNET ADVERTISING**

**EXTRACT OF TOTALS AND BALANCES AS AT 28 FEBRUARY 2012**

	Debit amount	Credit amount
	R	R
<b>Financial position section</b>		
Capital	-	300 000
Drawings	100 000	-
Land and buildings	450 000	-
Long-term loan	-	350 000
Software at cost price	50 000	-
Computer equipment at cost price	66 000	-
Debtors control	50 000	-
Creditors control	-	75 000
Bank	-	21 000
Petty cash	5 000	-
<b>Nominal accounts section</b>		
Revenue from advertising	-	522 000
Internet access costs (cost of sales)	300 000	-
Advertising expenses	50 000	-
Interest on long-term loan	28 000	-
Salaries	120 000	-
Insurance	44 000	-
Stationery	5 000	-

**Additional information:**

- a) Depreciation needs to be provided for on
  - software at 25% on the straight-line method and
  - computer equipment at 33,3% on the straight-line method
- b) This is the first year of trading with the business starting up on 1 March 2011

**Required:**

- 4 1 Prepare a statement of profit or loss and other comprehensive income for Jobbies Internet Advertising for the year ended 28 February 2012 (13)
- 4 2 Prepare a statement of changes in equity for Jobbies Internet Advertising for the year ended 28 February 2012 (5)
- 4 3 Calculate the non-current asset amount that will be shown in the statement of financial position for Jobbies Internet Advertising as at 28 February 2012 (5)

[23]

**Total: 100**

#### SOLUTION 4

#### JOBBIES Internet Advertising

#### Statement of Profit or Loss and Other Comprehensive Income for the year ended 28 February 2012

Revenue	522 000
Gross Profit	300 000
Expenses	222 000
Administration, Distribution and Other Costs	(253500)
Advertising expenses	50000
Salaries	120000
Insurance	44000
Stationery	5000
Depreciation: software (50 000 x 25%)	12500
Computer Equipment (66000 x 33.3%)	22 000
Finance charges	(28000)
Interest on Long – term loan	28000
Loss for the year	(59500)
Other comprehensive Income	-
Total Comprehensive Income	(59 500)

#### 4.2 Statement of changes in Equity for the year ended 28 February 2012

Opening Balance	-
Capital Contribution	300000
Total Comprehensive Income	(59500)
Drawings	100000
<b>Balance at end of year</b>	<b>140500</b>

#### 4.3 Property Plant and Equipment

	Land and Buildings	Software	Computer Equipment	Total
Balance at beginning of year cost	-	-	-	-
Accumulated Depreciation	-	-	-	-
Additions	450000	50000	66000	566000
Depreciation	-	(12500)	(22000)	(34500)
Balance at end of year cost	450000	37500	44000	531500
Accumulated Depreciation	-	50000	66000	566000
	-	12500	22000	34500

***MAY-JUNE 2013***

**QUESTION 1 (18 marks) (21 minutes)**

**Commence this question on a new (separate) page.**

Mr T Moleleng runs a small stationery business, Everydayneeds Traders. The entity is not registered as a VAT vendor and uses a perpetual (continuous) inventory control system. A mark-up percentage of 20% on cost is applicable. The following transactions by Everydayneeds Traders took place during January 2013.

**2013**

**January**

- 4 Purchased stationery for resale from Large Wholesalers, on credit, R5 000
- 10 Paid the carriage on purchases for the stationery purchased on 4 January 2013, with a business cheque, R62
- 12 Purchased stationery (receipt books) to be used by the entity and paid with a business cheque, R120
- 14 Cash sales of merchandise, R2 040
- 15 Paid Everydayneeds Traders' telephone account of R250 with a business cheque

**REQUIRED:**

Prepare a table in the format below. Analyse the above transactions by indicating **what account** must be **debited** and **what account** must be **credited** in the general ledger. Also indicate the effect of each transaction on the accounting equation by using a "+" sign to indicate an increase and a "-" sign to indicate a **decrease**. Where applicable, assume that the bank balance is positive.

**Example:** The owner took stationery to the value of R150 (cost price) for his own personal use

Transaction	General ledger		A =	E +	L
	Account debited	Account credited			
e.g.	Drawings	Inventory	- R150	- R150	-

[18]

**SOLUTION 1: ACCOUNTING EQUATION**



Everyday needs Traders					
Transaction	General Ledger		A	E+	L
	Account debited	Account credited			
2012 Jan 4	Inventory	Creditor control/ Large wholesalers	+R5000		+R5000
10	Creditors control	Bank	-R62		-R62
12	Stationery	bank	-R120	-R120	
14	Bank	Sales	+R2040	+R2040	
	Cost of sales	inventory	-R1700 <sup>1</sup>	- R1700 <sup>1</sup>	
15	Telephone	Bank	-R250	-R250	
	Expenses				

### Calculation 1

Selling Price = 2040, Mark up on cost 20%

cost	100%
Mark up	20%
sales	<u>120%</u>

$$\text{Cost of goods sold} = \frac{100}{120} \times R2040 = R1700$$

### NOTES

- a. In the perpetual inventory system, movements in inventory are updated in the inventory account as they happen. The purchase is debited in the inventory account on the date of purchase. This will increase assets by R5000. Since the purchase was on credit, it will also increase creditors by R5000 which adds our liabilities by the same amount.
  - The carriage on purchases in a perpetual inventory account is added as part of costs of purchases in the inventory account when they are incurred.
  - Since the costs are incurred on the 4<sup>th</sup> of January 2010 and this was merely a settlement of the carriage costs, we debit the Creditors with R62 to reduce our liabilities by the same amount. Bank will also be reduced by the same amount, hence reducing assets.

**NB:** The assumption is that the carriage costs had been properly accounted for when they were incurred or they were included as part of the costs of purchases. If not a further entry is required as follows:

	Account to be debited	Account to be credited	Assets =	Liabilities +	Equity
Jun 4	Inventory	creditors	+R62	+R62	

- Jan 12      this stationery is for use by the business, therefore it does not fall under (inventory) purchases but under stationery (an expense). This should be debited to stationery expense, which reduces profits and hence equity by R120. This also reduces bank, hence assets by the same amount. The bank account is then credited.
- Jan 14      Sales in a perpetual inventory system have got two-fold effect.
- (i)      Sales are recorded at selling price by debited bank, thereby increasing assets by R2040 and they are credited at selling price to the sales account, thereby increasing profits, hence equity by the same amount.
  - (ii)      The goods sold are removed from inventory and transferred to cost of sales. This is done by debited cost of sales by the cost price (see calculation 1 R1700. This reduces profits, hence equity by the same amount. The removal from inventory results in a crediting of the inventory account. This reduces inventory, which is an asset by R1700.
- (iii) Jan 15      This increases expenses by R250, which reduces profits by the same amount, hence also reducing equity by R250. The transaction also reduces bank by R250 since this was paid by cheque. This results in credit in the bank account which reduces assets by R250. The expenses are debited by R250.

**QUESTION 2 (30 marks) (36 minutes)**

Commence this question on a new (separate) page.

Joe Blob runs a property development business, Big Builders. The entity is registered as a VAT vendor and uses a periodic inventory control system. The following cash transactions by Big Builders took place during March 2013:

**BIG BUILDERS**

**CASH RECEIPTS JOURNAL – MARCH 2013**

CRJ 01

Doc no	Day	Details	Fol	Bank	Debtors	Settlement discount granted	VAT input	VAT output	Sundry accounts		
									Amount	Fol	Details
R01	3	Joe Blob		R	R	R	R	R	R		
R02	11	Fish Takeaways		20 000					20 000		Capital
				5 700				700	5 000		Rental
R03	30	Housing Development		20 000	20 570	(500)	(70)				income
				45 700	20 570	(500)	(70)	700	25 000		

**BIG BUILDERS**

**CASH PAYMENTS JOURNAL – MARCH 2013**

CPJ 01

Doc no	Day	Details	Fol	Bank	Purchases	Creditors	Settlement discount received	Wages	Vat input	Vat output	Sundry accounts		
											Amount	Fol	Details
173	3	Cash		R	R	R							
174	11	Buildaway		700				700					
175	15	ME Builders		1 140	1 000				140				
176	30	Cash		10 000		10 285	(250)			(35)			
				700				700					
				12 540	1 000	10 285	(250)	1 400	140	(35)			

On 1 March 2013 the balances of the debtors control account and the creditors control account in the general ledger were R30 000 and R15 000 respectively.

**REQUIRED:**

Open the necessary ledger accounts in the general ledger of Big Builders and post the amounts in the above cash receipts journal and cash payments journal to the general ledger of Big Builders for March 2013.

Properly balance/close off the bank account for March 2013 in the general ledger of Big Builders.

[30]

## SOLUTION 2: JOURNAL AND GENERAL LEDGER

### BIG BUILDERS

#### General Ledger – March 2013

Bank Account					
2013	Total Receipts CRJ	45700	2013	Total Payments	12540
Mar 31			Mar 31	CPJ	
			31	Balance c/d	33160
		<b>45700</b>			<b>45700</b>
		33160			
Debtors Control Account					
2013	Balance b/d	30000	2013	Bank and Discount	20570
Mar 1			Mar 30		
Settlement Discount Granted					
2013 Mar	Debtors control	500			
30	CRJ				
VAT Input					
2013 Mar	Debtors control CRJ	70			
30					
30	Bank CPJ	140			
VAT Output					
			2013	Bank CRJ	1638
			Marc 30		
			30	Creditors control	35
				CPJ	
Capital					
			2013	Bank CRJ	20000
			Mar 3		
Purchases					
2013 Mar	Bank CPJ	1000			
31					

Creditors control			
2013 Mar 31	Bank and discounts CPJ	10285	
2013 Mar 1	Balance b/d		15000
Settlement Discount Received			
		2013 Mar 31	Creditors control
			250
Wages account			
2013 Mar 31	Bank CPJ	700	

**QUESTION 3 (24 marks) (29 minutes)**

**Commence this question on a new (separate) page.**

PG Traders appoints you as a bookkeeper. Your first task as a bookkeeper is to compare the cash journals of January 2013 with the current month's bank statement and to prepare a bank reconciliation statement.

Whilst doing the above you noted the following differences between the current month's bank statement and cash journals:

- 1 On 31 January 2013, before any of the under mentioned transactions were taken into account, the cash receipts journal had a total of R27 500 and the cash payments journal had a total of R13 750 in their respective bank columns.
- 2 The bank account in the general ledger of PG Traders had a favourable balance of R14 500 on 31 January 2013.
- 3 The bank statement of PG Traders had an unfavourable balance of R11 700 on 31 January 2013.
- 4 A client of PG Traders from Cape Town, Mr S Stevens, deposited R15 000 directly into PG Traders' bank account.
- 5 Due to the balance on the bank statement of PG Traders' being unfavourable, the bank charged interest of R350.
- 6 A cheque of R1 720 was received from Mrs K Osman, a client of PG Traders. The amount was entered in the cash receipts journal and the cheque was deposited into the entities bank account. The cheque was however dishonoured due to insufficient funds in her account and was returned by the bank marked "R/D".
- 7 The following cheques did not appear on the bank statement of PG Traders:
 

	R
Cheque number 1213	1 800
Cheque number 1218	350
Cheque number 1220	2 700
Cheque number 1221	3 100
- 8 The owner Mr P Govender increased his capital contribution by depositing R25 000 directly into the bank account of PG Traders.
- 9 Two deposits of R60 000 and R26 410 respectively did not appear on the bank statement of PG Traders as the previous bookkeeper did not deposit it in the bank account. It was deposited on 4 February 2013.
- 10 The bank charges for the month were R170.
- 11 The following cheques were listed as outstanding cheques on the December 2012 bank reconciliation statement:
 

	R
Cheque number 1207	750
Cheque number 1208	1 000
Cheque number 1210	600

Cheque numbers 1208 and 1210 have now appeared on the January 2013 bank statement.  
Cheque number 1207 is however still outstanding.

**REQUIRED.**

- 3.1 Complete the cash receipts journal and the cash payments journal of PG Traders for January 2013. (Show only the details and bank column) (7)
  - 3.2 Prepare the bank account for January 2013 in the general ledger of PG Traders. Properly close off the bank account at the end of the month. (6)
  - 3.3 Prepare the bank reconciliation statement of PG Traders as at 31 January 2013. (11)
- [24]**

### SOLUTION 3

#### 3.1 Cash Receipts Journal - January 2013

Details	Bank
Provisional Total	27500
S. Stevens (Direct Deposit)	15000
P. Govender (Capital : Direct Deposit)	25000
Total Receipts	67500

#### Cash Payments Journal – January 2013

Provisional Total	13750
Interest on overdraft	350
Osman (Dishonoured cheque)	1720
Bank charges	170
Total Payments	15990

#### 3.2

##### Bank Account

2013	Balance b/d	14500	2013	Total Payments	15990
Jan 1			Jan 31		
31	Total Receipts	67500	31	Balance c/d	66010
		<b>82000</b>			<b>82000</b>
Feb 1	Balance b/d	66010			

#### 3.3 Bank Reconciliation Statement as at 31 January 2013

	Debit	Credit
Balance as per bank statement	11700	
Outstanding cheques: 1213	1800	
1218	350	
1220	2700	
1221	3100	
1207	750	
Outstanding deposits (60000+26410)		86410
Balance as per bank account	66010	
	<b>86410</b>	<b>86410</b>

For notes refer to Question 4, October November 2011

**QUESTION 4 (28 marks) (34 minutes)**

**Commence this question on a new (separate) page.**

The following balances and totals appeared in the accounting records of PureSurprise Traders as at 28 February 2013, the end of the entity's accounting period

	<b>R</b>
Capital	97 500
Drawings	30 450
Land and buildings	107 826
Equipment	60 000
Vehicles	30 000
Accumulated depreciation Equipment (1 March 2012)	6 000
Accumulated depreciation Vehicles (1 March 2012)	10 800
Debtors control	15 000
Bank (Dr)	14 350
Creditors control	5 500
Cost of sales	200 000
Sales returns	1 500
Settlement discount granted	600
Water and electricity	7 500
Telephone expenses	5 000
Salaries	21 000
Insurance	11 050
Stationery	2 500
Rental income	45 500
Advertising	8 524

**Additional information**

- 1 The following transactions were included in the above balances
- 1 1 PureSurprise Traders applies a mark-up of 75% on cost to determine their selling prices
- 1 2 The entity charged rental of R3 500 per month for the year
- 1 3 The insurance account includes an amount of R850, which is the insurance premium for the month of March 2013
- 2 Depreciation must still be provided for
  - Equipment 10% according to the straight-line method
  - Vehicles 20% according to the reducing balance method
 No equipment or vehicles were purchased or sold during the current financial year

**REQUIRED:**

- 4 1 Calculate the revenue (sales) amount of PureSurprise Traders for the year ended 28 February 2013 (3½)
- 4 2 Prepare the statement of profit or loss and other comprehensive income of PureSurprise Traders for the year ended 28 February 2013 (24½)

Show all your calculations

**[28]**

**TOTAL: 100**



**SOLUTION 4:**

**4.1 Statement of Profit or Loss and Other Comprehensive Income**

	<b>R</b>
Revenue (200 000 + 150000)	350 000
Cost of Sales	200 000
<b>Gross Profit (75% x 200 000)</b>	<b>150 000</b>
	<b>R</b>
Sales (balancing figure)	352100
Settlement discount granted	(600)
Sales returns	(1500)
Revenue (from above)	<b>350 000</b>

Sales gross of returns and settlement discount discounts = R352100.

Revenue net of returns and settlement discounts = R350 000

**4.2 Statement of Profit or Loss and Other Comprehensive Income of Pure Surprise Traders for the year ended 28 February 2013**

Gross Profit (from 4.1)	150000
Other Income	42000
Rental Income (3500 x 12)	42000
	192000
<b>Expenses</b>	
<b>Administration, Distribution and Other Expenses</b>	<b>(64564)</b>
Water and electricity	7500
Telephone	5000
Salaries	21000
Insurance (11050-850)	10200
Stationery	2500
Advertising	8524
Depreciation (calculation 1)	9840
Profit for the year	127436
Other comprehensive Income	-
<b>Total comprehensive income</b>	<b>127436</b>

**Calculation 1 Depreciation**

Equipment (10% x 60 000) =	6000
Vehicles (20% x 30 000 - 10 800) =	3840

Total

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**9840**

### **Notes**

See Question 4, May – June 2012