

FAC 1503

**ACCOUNTING
PRINCIPLES FOR
LAW PRACTITIONERS**

GENERAL ISSUES

- Textbook – 3rd edition
- Admission to exam: Submission of 1st assignment
- Year/examination mark:
 - Ass 1: 50% of 10%
 - Ass 2: 50% of 10%
 - If you obtain 60% for Ass 1 and 0% for Ass 2, your year mark will be 3%, your exam mark contribution must be 47/90 which is equal to an exam mark of 52% ($47 \div 0.9$ [OR] 52×0.9) to pass.
 - If you submitted both assignments but scored 0 in both, you will require an examination mark of 56% to pass.
 - Exam sub-minimum is 40%.

TERMINOLOGY

OLD

NEW

Mortgage loan	Mortgage
Set of financial statements	Complete set of financial statements
Enterprise	Entity
Income statement for the year ended....	Statement of comprehensive income for the year ended.....
Profit for the period	Total comprehensive income for the year
Balance sheet as at....	Statement of financial position as at
(Balance sheet – equity) Asset replacement reserve	(Statement of financial position – equity) Other components in equity (+note)
Total (column)	Total equity
Profit for the period	Total comprehensive income for the year

TERMINOLOGY

OLD

NEW

Partners profit share	Partners share of comprehensive income
Depreciation for the period	Depreciation for the year
Cash flow statement for the year ended....	Statement of cash flows for the year ended.....
Bad debts	Credit losses
Provision for bad debts	Allowance for credit losses
Discount allowed	Settlement discount granted
Discount received	Settlement discount received
Discount allowed cancelled	Settlement discount granted forfeited
Discount received cancelled	Settlement discount received forfeited
Trade and other receivables	Trade receivables
Long-term loans	Long-term borrowings

GOLDEN RULE 1

Accounting **CANNOT** be studied
by merely reading/memorising.

You need to practice,
practice, practice!!

FIELDS OF ACCOUNTING

- Financial accounting
 - the provision of financial information to mainly external parties
 - recording of transactions and the preparation of financial statements
- Management accounting
 - the provision of financial information to people within the entity
 - financial information for specific purposes.

THE ELEMENTS OF FINANCIAL STATEMENTS

- Elements by which the financial position is measured:
 - (1) Assets
 - (2) Liabilities
 - (3) Equity
- Elements that measure profitability (Profit or loss):
 - (4) Income
 - (5) Expenses

Definitions

- Assets

resources controlled - as a result of **past events** - **future economic benefits** expected to flow to the entity

- Liabilities

present obligations - from **past events** - **settlement** result in an **outflow** of resources from the entity

The financial position (Net asset value)

- Net asset value is the difference between:
the value of assets owned by an entity and the
liabilities it has incurred
- Equation:
ASSETS - LIABILITIES = NET ASSET VALUE
(EQUITY)
- Basic accounting equation (BAE):
$$A = E + L$$
$$E = A - L$$

The double-entry principle

- Every transaction affects two or more items in the BAE.
- Transaction must be recorded in such a way that the equation remains in balance.
- The dual effect which each transaction has on the elements of the BAE is the fundamental principle on which all entries in an accounting system are based.

The financial performance (result)

- The financial result - measured in terms of the profit or loss made over a specific period, normally a year.
- Profit - when the income it has earned is more than the expenditure it has incurred.
- The difference between the income and expenditure - profit or loss.
- Profit is the owner's reward for the capital invested and the entrepreneurial spirit shown.
- Profit therefore increases the equity.

THE ACCOUNTING PROCESS

(See SG p 62, for the accounting cycle)

- The accounting process starts once a transaction has taken place
- These transactions can either be income, or expenditure transactions.
- Each transaction has an effect on two or more items in the basic accounting equation (BAE), which is the basis of the double-entry principle.
- Therefore, transactions must be recorded in ledger accounts using the double-entry principle.
- After all ledger accounts have been balanced, a list of balances, called the trial balance, can be drawn.

THE DOUBLE-ENTRY PRINCIPLE

To make a double-entry you must:

- Think about the **effect** of the transaction **on the BAE**, thus how it is going to affect the financial position of the entity.
- Identify the **components (accounts)** which are involved.
- Determine the account(s) to be **debited** and **credited**.
- The amount(s) debited must be **equal** to the amount(s) credited.
- Indicate the **date** of the transaction.
- Indicate the **contra** ledger account.
- Indicate the **folio number** of the subsidiary journal.

Example 0.1 – Capital contributions

The owner of Mr Bean's Mini Service Station (MSS), Mr Bean, withdrew R130 000 from his own personal bank account and deposit it into Mr Bean's MSS bank account.

	GENERAL JOURNAL		ACCOUNTING EQUATION		
Date	ACCOUNT DEBITED	ACCOUNT CREDITED	A =	E +	L

Example 0.1 – Capital contributions

The owner of Mr Bean's Mini Service Station (MSS), Mr Bean, withdrew R130 000 from his own personal bank account and deposit it into Mr Bean's MSS bank account.

GENERAL JOURNAL			ACCOUNTING EQUATION		
Date	ACCOUNT DEBITED	ACCOUNT CREDITED	A =	E +	L
	Bank	Capital	+130 000	+130 000	

The general ledger (see p. 39 of study guide)

- Assets (eg Bank) increase on the Debit (Dr) side and decrease on the Credit (Cr) side of the account.
- Equity (eg Capital) and Liabilities (eg Creditors) increase on the credit (Cr) side and decrease on the debit (Dr) side of the account.
- Income (eg sales) increases equity and are credited (Cr) to the particular income account.
- Expenses (eg wages) decrease equity and are debited (Dr) to the particular expense account.

The trial balance

A trial balance is a **list of all the balances** brought down (b/d) from the accounts in the general ledger on a specific date.

Golden rules

- The balance “**brought down**” (b/d) must be used to prepare the **trial balance**.
- **Asset** and **expense accounts** have **debit** (Dr) balances brought down (b/d) and are entered on the **debit side** of the trial balance.
- **Equity** (capital), **liability** and **income** accounts have **credit** (Cr) balances brought down (b/d) and are entered on the **credit side** of the trial balance.

TRIAL BALANCE AS AT 28 FEBRUARY 20.1

	Dr	Cr
	R	R
Bank (asset)	54 200	
Equipment (asset)	100 000	
Furniture (asset)	2 000	
Debtors control (asset)	4 000	
Capital (equity)		130 000
Drawings (equity)	1 000	
Loan (liability)		25 000
Creditors control (liability)		200
Wages (expense)	800	
Advertisements (expense)	200	
Fees (income)		7 000
	162 200	162 200

Study guide, Revision Exercise 2, p.36

The following transactions during January 20.1 relate to F Fox, an attorney:

Date	Transactions	R
20.1 Jan 3	F Fox deposited as opening capital 20 000	20 000
	Paid rent for January 20.1	2 300
4	Bought law library on credit from Book Limited	24 000
5	Bought a computer for cash from Leo Limited	4 700
6	Provided services for cash	7 200
9	Debited D Dunn with fees for services rendered	8 318
10	Leo Limited repaired equipment on credit	100
13	F Fox drew a cheque for private use	1 234
18	F Fox received commission on a property transaction	1 350
29	Paid the following by cheque: (i) Salaries	8 350
	(ii) Leo Limited (on account)	100
30	Received payment from D Dunn on his account	1 500

Basic accounting equation

(Revision Exercise 2, p.36 in SG)

The following transactions during January 20.1 relate to F Fox, an attorney:

Date	Transactions	R
20.1 Jan 3	F Fox deposited as opening capital	20 000

Revision exercise 2, SG, p36 - Solution

[illegible]

Basic accounting equation

(Revision Exercise 2, p.36 in SG)

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Revision exercise 2, SG, p36 - Solution

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Revision exercise 2, SG, p36 - Solution

	GENERAL JOURNAL		ACCOUNTING EQUATION		
20.1 Jan	ACCOUNT DEBITED	ACCOUNT CREDITED	A =	E +	L
3	Bank	Capital	+ 20 000	+ 20 000	
	Rent paid	Bank	- 2 300	- 2 300	
4	Law Library	Creditors control (Book Ltd)	+ 24 000		+ 24 000
5	Comupter equipment	Bank	+ 4 700 - 4 700		
6	Bank	Services rendered	+ 7 200	+ 7 200	

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9	Debited D Dunn with fees for services rendered	8 318

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6	Bank	Services rendered	+ 7 200	+ 7 200	
9	Debitors control (D Dunn)	Services rendered	+ 8 318	+ 8 318	

Basic accounting equation

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9	Debitors control (D Dunn)	Services rendered	+ 8 318	+ 8 318	
10	Reperations	Creditors control (Leo Ltd)		- 100	+ 100

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10	Leo Limited repaired equipment on credit	100
13	F Fox drew a cheque for private use	1 234

Revision exercise 2, SG, p36 - Solution

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9	Debitors control (D Dunn)	Services rendered	+ 8 318	+ 8 318	
10	Reperations	Creditors control (Leo Ltd)		- 100	+ 100
13	Drawings (F Fox)	Bank	- 1 234	- 1 234	

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18	F Fox received commission on a property transaction	1 350

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10	Reperations	Creditors control (Leo Ltd)		- 100	+ 100
13	Drawings (F Fox)	Bank	- 1 234	- 1 234	
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Basic accounting equation (Revision Exercise 2, p.36 in SG)

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13	Drawings (F Fox)	Bank	- 1 234	- 1 234	
18	Bank	Commission income	+ 1 350	+ 1 350	
29	Salaries	Bank	- 8 350	- 8 350	
	Creditors (Leo Ltd)	Bank	- 100		- 100
30	Bank	Debtors (D Dunn)	- 1 500 + 1 500		

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY 20.1 for F Fox

ASSETS	Note	R
Non-current assets		28 700
Equipment		4 700
Library		24 000
Current assets		20 184
Trade receivables (debtors)		6 818
Cash and cash equivalents (bank)		13 366
Total assets		48 884
EQUITY AND LIABILITIES		
Total equity		24 884
Capital		24 884
Current liabilities		24 000
Trade and other payables (creditors)		24 000
Total equity and liabilities		48 884

Books of first entry- Journals

Types of journals:

Cash receipts journal & cash payments journal

- all cash transactions

Purchases journal & purchases return journal

- all credit purchases and returns of credit purchases of specifically goods/merchandise

(see NB on p 70 in SG)

Sales journal & sales return journal

- all credit sales and returns of credit sales of specifically goods/merchandise

(see NB on p 72 in SG)

General journal

- all credit transactions which is not goods/merchandise

SOURCE DOCUMENTS

Cash receipts journal

-cash register roll (CRR), duplicate receipts, duplicate cash invoices, duplicate deposit slips

Cash payments journal

- cheque counterfoils, debit notes, cash invoices, bank statement

Purchases journal & purchases return journal

-original invoices & original credit notes received

Sales journal & sales return journal

-Duplicate sales invoices & duplicate credit notes issued

VAT

- Tax levied by Govt on the **supply of goods and services**
- **Comprehensive tax** – virtually on all goods & services
- Current VAT rate – **14%**
- **Must register** as VAT-vendor if taxable supplies exceeded **R300 000/R1 000 000** in preceding 12 month period
- **Two** types of supplies:
 - **Taxable** supplies:
 - Standard rate (14%)
 - Zero rated (0%) - (Vendor may claim input VAT)
 - **Exempt** supplies (Vendor unable to claim input VAT):
eg. Brown bread, petrol & oil, financial services etc.

VAT

- **Output VAT – Input VAT = VAT payable** to SARS
- VAT on eg. **settlement discount received** when payment is made to creditors = Output VAT & **not** must not be deducted from Input VAT.
- Calculation of VAT on amount **excluding VAT**:
 - Amount without VAT R100
 - VAT (14%) + R 14
 - Amount VAT **inclusive** R114
- Calculation if amount was VAT **inclusive**:
 - Amount VAT inclusive R114
 - Calculation of VAT: $R114 \times (14 \div 114) = R14$
 - Amount without VAT R100

VAT example (SG Exercise 6.2, p 85 in SG)

The following information relates to Rundu Dealers (registered as a VAT vendor) who use the periodic inventory system:

(a) TRIAL BALANCE AS AT 28 FEBRUARY 20.4	Dr	Cr
Capital		177 150
Land and buildings	144 200	
Equipment	29 700	
Inventory - 1 November 20.3	19 200	
Bank	4 467	
W Wolf	1 583	
L Lion	770	
T Tiger		2 310
VAT Input	2 715	
VAT Output		2 925
Sales		86 400
Purchases	45 650	
Distribution, administration and other expenses	20 500	
	<u>268 785</u>	<u>268 785</u>

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales: - L Lion R2 280
- W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(b) TRANSACTIONS FOR MARCH 20.4

1 **Cash sales**, R15 504.

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12 Received an account from Stationers Ltd for the printing of documents, R684.

13 Credit sales: - L Lion R2 280

- W Wolf R1 140

14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.

21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.

23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.

28 Received a credit invoice from T Tiger for goods purchased, R14 535.

29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.

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(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input Dr	Settlement discount granted Dr	Sundry accounts		
									Amount	Fol	Details
			R	R	R	R	R	R	R		
1	Sales		15 504	13 600	1 904						
7	W Wolf		1 469			1 583	(14*)	(100)			
	L Lion		713			770	(7)	(50)			
14	O Old		285		35				250		Equipment
	Sales		6 840	6 000	840						
			24 811	19 600	2 779	2 353	(21)	(150)	250		
					L16		L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

1 Cash sales, R15 504.

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(a) TRIAL BALANCE AS AT 28 FEBRUARY 20.4

	Debit	Credit
	R	R
Capital		177 150
Land and buildings	144 200	
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Inventory — 1 November 20.3	19 200	
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VAT Input	2 715	
VAT Output		2 925
Sales		86 400
Purchases	45 650	
Distribution, administration and other expenses	20 500	
	268 785	268 785

(b) CASH PAYMENTS JOURNAL — MARCH 20.4

CPJ2

Date	Details	Fol	Bank	Purchases	Creditors	VAT Input	VAT Output	Settlement discount received	Sundry accounts		
							Cr		Amount	Fol	Details
			R	R	R	R	R	R	R		
5	T Tiger		2 196		2 310		(14*)	(100)			
23	C Cheetah		1 140			140			1 000		Carriage on purchases
29	Cash		5 746						5 746		Salaries and wages
	B Bam		7 980	7 000		980					
			17 062	7 000	2 310	1 120	(14)	(100)	6 746		
						L15	L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 **Received a cheque** from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales:
 - L Lion R2 280
 - W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(a) TRIAL BALANCE AS AT 28 FEBRUARY 20.4

	Debit	Credit
	R	R
Capital		177 150
Land and buildings	144 200	
Equipment	29 700	
Inventory — 1 November 20.3	19 200	
Bank	4 467	
W Wolf	1 583	
L Lion	770	
T Tiger		2 310
VAT Input	2 715	
VAT Output		2 925
Sales		86 400
Purchases	45 650	
Distribution, administration and other expenses	20 500	
	268 785	268 785

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input Dr	Settlement discount granted Dr	Sundry accounts		
									Amount	Fol	Details
1	Sales		R 15 504	R 13 600	R 1 904	R	R	R	R		
7	W Wolf		1 469			1 583	(14*)	(100)			
14	L Lion		713			770	(7)	(50)			
	O Old		285		35				250		Equipment
	Sales		6 840	6 000	840						
			24 811	19 600	2 779	2 353	(21)	(150)	250		
					L16		L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
- Received a cheque** from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales:
 - L Lion R2 280
 - W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(a) TRIAL BALANCE AS AT 28 FEBRUARY 20.4

	Debit	Credit
	R	R
Capital		177 150
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VAT Output		2 925
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Purchases	45 650	
Distribution, administration and other expenses	20 500	
	268 785	268 785

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input Dr	Settlement discount granted Dr	Sundry accounts		
									Amount	Fol	Details
1	Sales		R 15 504	R 13 600	R 1 904	R	R	R	R		
7	W Wolf		1 469			1 583	(14*)	(100)			
	L Lion		713			770	(7)	(50)			
14	O Old Sales		285		35				250		Equipment
			6 840	6 000	840						
			24 811	19 600	2 779	2 353	(21)	(150)	250		
					L16		L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 **Received an account** from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales:
 - L Lion R2 280
 - W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(g) GENERAL JOURNAL — MARCH 20.4

J2

Date	Detail	Fol	Debit	Credit
12	Printing		R 600	R
	VAT Input	L15	84	
	Stationers Ltd/Creditors control			684
	<i>Account received for printing</i>			

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 **Credit sales:** - L Lion R2 280
- W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(c) SALES JOURNAL — MARCH 20.4

SJ2

Date	Details	Fol	VAT Output	Sales	Debtors
13	L Lion W Wolf		R	R	R
			280	2 000	2 280
			140	1 000	1 140
			420	3 000	3 420
			L16		

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales: - L Lion R2 280
- W Wolf R1 140
- 14 **Sold an old computer** to O Old for R285 and **received his cheque** for the amount due. **Cash sales**, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input Dr	Settlement discount granted Dr	Sundry accounts		
									Amount	Fol	Details
1	Sales		R 15 504	R 13 600	R 1 904	R	R	R	R		
7	W Wolf		1 469			1 583	(14*)	(100)			
	L Lion		713			770	(7)	(50)			
14	O Old Sales		285 6 840		35 840				250		Equipment
			24 811	19 600	2 779	2 353	(21)	(150)	250		
					L16		L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales:
 - L Lion R2 280
 - W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 **Issued a credit note** to L Lion for an overcharge on the **invoice** of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(e) SALES RETURNS JOURNAL — MARCH 20.4

SRJ2

Date	Details	Fol	VAT Output	Sales returns	Debtors
21	L Lion		R 7	R 50	R 57
			7	50	57
			L16		

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
- 7 Received a cheque from W Wolf for R1 469 in full settlement of his account.
Received a cheque from L Lion for R713 and allowed R57 discount.
- 12 Received an account from Stationers Ltd for the printing of documents, R684.
- 13 Credit sales: - L Lion R2 280
- W Wolf R1 140
- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 **Paid C Cheetah by cheque** for carriage on **goods purchased**, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(b) CASH PAYMENTS JOURNAL — MARCH 20.4

CPJ2

Date	Details	Fol	Bank	Purchases	Creditors	VAT Input	VAT Output	Settlement discount received	Sundry accounts		
							Cr		Amount	Fol	Details
5	T Tiger		R 2 196	R	R 2 310	R	R (14*)	R (100)	R		
23	C Cheetah		1 140			140			1 000		Carriage on purchases
29	Cash		5 746						5 746		Salaries and wages
	B Bam		7 980	7 000		980					
			17 062	7 000	2 310	1 120	(14)	(100)	6 746		
						L15	L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
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- 13 Credit sales: - L Lion R2 280
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- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
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(d) PURCHASES JOURNAL — MARCH 20.4

PJ2

Date	Details	Fol	VAT Input	Purchases	Creditors
28	T Tiger		R	R	R
			1 785	12 750	14 535
			1 785	12 750	14 535
			L15		

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
- 5 Paid the account of T Tiger by cheque after deducting R114 discount.
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- 13 Credit sales: - L Lion R2 280
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- 14 Sold an old computer to O Old for R285 and received his cheque for the amount due. Cash sales, R6 840.
- 21 Issued a credit note to L Lion for an overcharge on the invoice of the 13th, R57.
- 23 Paid C Cheetah by cheque for carriage on goods purchased, R1 140.
- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 **Issued cheques** for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 Issued a debit note to T Tiger for goods returned to him, R798.

(b) CASH PAYMENTS JOURNAL — MARCH 20.4

CPJ2

Date	Details	Fol	Bank	Purchases	Creditors	VAT Input	VAT Output	Settlement discount received	Sundry accounts		
							Cr		Amount	Fol	Details
5	T Tiger		R	R	R	R	R	R	R		
23	C Cheetah		2 196		2 310	140	(14*)	(100)	1 000		Carriage on purchases
29	Cash		5 746						5 746		Salaries and wages
	B Bam		7 980	7 000		980					
			17 062	7 000	2 310	1 120	(14)	(100)	6 746		
						L15	L15				

* Discount includes 14% VAT therefore

$$\frac{R114}{1} \times \frac{14}{114} = R14$$

(b) TRANSACTIONS FOR MARCH 20.4

- 1 Cash sales, R15 504.
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- 28 Received a credit invoice from T Tiger for goods purchased, R14 535.
- 29 Issued cheques for salaries and wages, R5 746 and for purchases from B Bam R7 980.
- 30 **Issued a debit note** to T Tiger for goods returned to him, R798.

(f) PURCHASES RETURNS JOURNAL — MARCH 20.4

PRJ2

Date	Details	Fol	VAT Input	Purchases returns	Creditors
30	T Tiger		R	R	R
			98	700	798
			98	700	798
			L15		

Solution: SG, Exercise 6.2

Dr		VAT Input		Cr	
20.4			R	20.4	R
Mar 1	Balance	b/d	2 715	Mar 31	Creditors control
31	Bank (C=140 + B=980)	CPJ2	1 120		(Tiger goods return)
	Debtors control				VAT control (Balance)
	(W=14 + L=7)	CPJ3	21		
	Creditors control (Tiger)	PJ2	1 785		
	Creditors control (Print)	J2	84		
			5 725		5 725

Dr		VAT Output		Cr	
20.4			R	20.4	R
Mar 31	Debtors control			Mar 1	Balance
	(Lion overcharge corrected)			31	Bank (Cash sales)
	VAT control (Balance)	SRJ2	7		Debtors control (
		J2	6 131		Cr sales: L=280 + W=140)
					Creditors control
					(Tiger discount on payment)
			6 138		6 138

Bank Reconciliation

- **Bank statement** – received from the bank – shows transactions that occurred during month
- **Bank reconciliation**
Ascertain that the bank account in books corresponds to bank statement
- **Balances**

<u>Favourable</u>	(debit on <u>bank account</u>) (credit on <u>bank statement</u>)
<u>Unfavourable</u>	(debit on <u>bank statement</u>) (credit on <u>bank account</u>)

What to enter where?

Items on bank statement not in journals

- If entry on **debit** side of bank statement – enter in **cash payments journal**
- If entry on **credit** side of bank statement – enter in **cash receipts journal**
- Except if **error** – correct on bank reconciliation statement

What to enter where?

Items in journals not on bank statement

- If entry in **cash receipts journal** – enter on **credit side** of bank reconciliation statement
- If entry in **cash payment journal** – enter on **debit** side of bank reconciliation statement
- Except if **error** – correct in journal
- - If **error** in **cash receipts journal** enter in either cash receipts or cash payments journal
- - If **error** in **cash payment journal** enter in either cash receipts or cash payments journal

EXAMPLE

The following information was obtained from the accounting records of Basson Traders

1. **Bank reconciliation statement as at 31 May 20.7**

	R	R
Credit balance per bank statement		2 731,20
Deposit not yet credited by the bank		6480,80
Cheques not yet presented for payment:		
No 090 – dated 17/12/20.6 (Donations)	1 200,00	
No 168 – dated 28/05/20.7 (P Mbeki)	860,00	
No 170 – dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00

2. Totals of the bank columns in the cash journals at 30 June 20.7

- **Cash receipts** journal, R20 000,00
- **Cash payments** journal, R20 054,00

Cash receipts journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054



3.1 At 30 June 20.7 the bank statement showed a favorable balance of R7 630,00

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630

The following information was obtained from the accounting records of Basson Traders

1. **Bank reconciliation statement as at 31 May 20.7**


	R	R
Credit balance per bank statement		2 731,20
Deposit not yet credited by the bank		6480,80
Cheques not yet presented for payment:		
No 090 – dated 17/12/20.6 (Donations)	1 200,00	
No 168 – dated 28/05/20.7 (P Mbeki)	860,00	
No 170 – dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00

The following information was obtained from the accounting records of Basson Traders

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No 168 – dated 28/05/20.7 (P Mbeki)	860,00	
No 170 – dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00

Dr		Bank			Cr
1	Balance	2 650			



3.2 **Cheque no 090** was issued in favour of the Red Cross on 17 December 20.6 as a donation. On 30 June 20.7 it was decided to **cancel** this cheque and **replace** it with cheque no 221. No entries have yet been made.

The following information was obtained from the accounting records of Basson Traders

1. **Bank reconciliation statement as at 31 May 20.7**

	R	R
Credit balance per bank statement		2 731,20
Deposit not yet credited by the bank		6480,80
Cheques not yet presented for payment:		
No 090 – dated 17/12/20.6 (Donations)	1 200,00	
No 168 – dated 28/05/20.7 (P Mbeki)	860,00	
No 170 – dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00

Cash receipts journal - June 20.7


<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000
	Donation (Red Cross)	1 200
	cheque <u>no 090</u> out dated	

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross) cheque <u>no 221</u>	1 200

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630
Cheques not yet presented for payment:		
No 221 – dated 30/06/20.7 (Donations)	1 200	



3.3 Of the **cheques outstanding** at 31 May 20.7, only cheque no **170** was presented for **payment**

EXAMPLE

The following information was obtained from the accounting records of Basson Traders

1. **Bank reconciliation statement as at 31 May 20.7**

	R	R
Credit balance per bank statement		2 731,20
Deposit not yet credited by the bank		6 480,80
Cheques not yet presented for payment:		
— No 090 — dated 17/12/20.6 (Donations)	1 200,00	
No 168 – dated 28/05/20.7 (P Mbeki)	860,00	
— No 170 — dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630
Cheques not yet presented for payment:		
No 221 – dated 30/06/20.7 (Donations)	1 200	
No 168 – dated 28/05/20.7 (P Mbeki)	860	

4.1 The following items appeared **only** on the **bank statement**:

- cheque book, R96,00
- ledger fees, R14,00;
- cash handling fees, R16,00;
- interest on credit (favorable) balance, R50,00.

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126

Cash receipts journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000
	Donation (Red Cross)	1 200
	Interest income	50



4.2 The following items appeared **only** on the **bank statement**:

- Deposit of R6 480,80 on 1 June 20.7.

The following information was obtained from the accounting records of Basson Traders

1. **Bank reconciliation statement as at 31 May 20.7**

	R	R
Credit balance per bank statement		2 731,20
Deposit not yet credited by the bank		6480,80
Cheques not yet presented for payment:		
—No 090—dated 17/12/20.6 (Donations)	1 200,00	
—No 168—dated 28/05/20.7 (P Mbeki)	860,00	
—No 170—dated 29/05/20.7 (BA Traders)	4 502,00	
Debit balance per bank account	2 650,00	
	9 212,00	9 212,00



4.2 The following items appeared **only** on the **bank statement**:

- A **stop order** for R2 000,00 representing the payment on the mortgage loan from Africa Bank.

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000



4.2 The following items appeared **only** on the **bank statement**:

- A stop order in favour of Fix-it Motors, being an installment on a motor vehicle, R1 700,00.

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Creditors control/Fix-it Motors	1 700

- Cheque no195 in favour of Handy Wholesalers, a creditor, was correctly issued for R1 578,00. However, on the counterfoil it was recorded as R1 758,00 and recorded in the **cash payments** journal as such. The amount on the **bank statement is correct.**

Cash receipts journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000
	Donation (Red Cross)	1 200
	Interest income	50
	Creditors control/Handy Wholesalers	180

- An **unpaid cheque** for R500,00. This cheque was previously received from S Steward in settlement of his account of R530,00. The cheque was marked “R/D – insufficient funds”.

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Creditors control/Fix-it Motors	1 700
	Debtors control/ S Steward (R/D)	500

(The cheque is cancelled in the cash payments journal and the discount in the general journal)

- A **deposit** by a debtor, Y York, for R4 500,00. On investigation it was found that the account of Y York had previously been written off as irrecoverable.

Cash receipts journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000
	Donation (Red Cross)	1 200
	Interest income	50
	Creditors control/Handy Wholesalers	180
	Credit losses recovered	4 500

- An **unpaid cheque** for R780,00 received from a debtor, Estcourt Traders dated 24 July 20.7 in payment of this account. The bank returned the cheque on 30 June 20.7 marked “post-dated”.

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Creditors control/Fix-it Motors	1 700
	Debtors control/S Steward (R/D)	500
	Debtors control/Escourt Traders	780

5. **The following items did not appear on the bank statement:**

5.1 Deposit on 30 June 20.7, R3 850,00

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630
Deposit not yet credited by the bank		3 850
Cheques not yet presented for payment:		
No 221 – dated 20/06/20.7 (Swift Suppliers)	3 532	
No 168 – dated 28/05/20.7 (P Mbeki)	860	

5.2 **Cheques** that did not appear on the

- No 211, R3 532,00 dated 20/06/20.7 to Swift Suppliers
- No 216, R3 668,00 dated 28/06/20.7 for Water and electricity
- ~~No 221, R1 200,00 dated 30/06/20.7 to the Red Cross~~

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630
Deposit not yet credited by the bank		3 850
Cheques not yet presented for payment:		
No 221 – dated 30/06/20.7 (Donations)	1 200	
No 168 – dated 28/05/20.7 (P Mbeki)	860	
No 211 – dated 20/06/20.7 (Swift Suppliers)	3 532	
No 216 – dated 28/05/20.7 (Municipality)	3 668	

Cash receipts journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Bank</u>
30	Total	20 000
	Donation (Red Cross)	1 200
	Interest income	50
	Creditors control/Handy Wholesalers	180
	Credit losses recovered	4 500
		<hr/>
		25 930
		=====

Cash payments journal - June 20.7

<u>Date</u>	<u>Details</u>	<u>Amount</u>
30	Total	20 054
	Donation (Red Cross)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Creditors control/Fix-it Motors	1 700
	Debtors control/S Steward (R/D)	500
	Debtors control/Escourt Traders	<u>780</u>
		26 360

Bank account

Dr	Bank				Cr
1	Balance	2 650	30	Total payments	26 360
30	Total receipts	25 930		Balance c/d	2 220
		28 850 =====			28 580 =====
1	Balance b/d	2 220			

Bank reconciliation statement as at 30 June 20.7

	R	R
Credit balance per bank statement		7 630
Deposit not yet credited by the bank		3 850
Cheques not yet presented for payment:		
No 221 – dated 30/06/20.7 (Donations)	1 200	
No 168 – dated 28/05/20.7 (P Mbeki)	860	
No 211 – dated 20/06/20.7 (Swift Suppliers)	3 532	
No 216 – dated 28/05/20.7 (Municipality)	3 668	
Debit balance per bank account	2 220	
	11 480	11 480