**SCHOOL OF ACCOUNTING SCIENCES**

**DEPARTMENT OF FINANCIAL ACCOUNTING**

**ACCOUNTING COURSE FAC1502**

# TUTORIAL LETTER 201 FOR FAC1502
# SOLUTION ASSIGNMENT 01/1/2010
(FIRST SEMESTER)

Dear Student

Enclosed you will find the solution to assignment 01/1/2010.

It is in your own interest to work through the assignment in conjunction with the solution and your answer.

Refer to par 9 of tutorial letter 101/3/2010 for more information regarding the examination.The examination paper is a two-hour paper and consists of “long type” questions.

**TELEPHONE NUMBERS**

Please replace the telephone numbers listed in paragraph 3.2 of Tutorial Letter 101/3/2009 with the following list:

Dialing code for Pretoria - 012.

- **The telephone numbers of lecturers assigned to FAC1502:**

| | Tel nr | E-mail |
|---|---|---|
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**PLEASE NOTE**

We are available for telephone enquiries from 08:00 to 16:00 on weekdays.

**ANNEXURE A: TERMINOLOGY**

**ANNEXURE B: SOLUTION ASSIGNMENT 01/1/2010**
(FIRST SEMESTER)

## ANNEXURE A: TERMINOLOGY

Please note the following changes in accounting terminology over the past two years:

| Old terminology | New terminology |
|---|---|
| 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 |
| **Statement of financial position** | |
| Non-current liabilities | Non-current liabilities |
| Interest-bearing borrowings | Long-term borrowings |
| Current liabilities | Current liabilities |
| Short-term borrowings | Short-term borrowings |
| Current portion of long-term loan | Current portion of long-term borrowings |

The four categories of financial instruments, are: (see Textbook: p. 290-292)

1. A financial asset (or liability) at fair value through profit or loss
2. Held-to-maturity investment.
3. Loans and receivables.
4. Available-for-sale financial assets.

**ANNEXURE B:** **SOLUTION ASSIGNMENT 01/1/2010**
(FIRST SEMESTER)

1. **Option 5**:

   1 The policy of prudence implies that, if any uncertainty exists regarding the amount at which an element must be indicated, the one that will have the most unfavourable effect on the undertakings equity must be chosen. **Correct**
   2 The policy of materiality requires that all transactions and occurrences which have an essential bearing upon the nature and scope of the entity's activity should be disclosed. **Correct**
   3 According to the accrual principle, transactions must be recorded in the financial period in which they occur irrespective of when cash is received or paid. **Correct**
   4 The policy of consistency requires that a specific basis, method, procedure or approach once chosen should be maintained. **Correct**

2. **Option 4**: (b), (d)

   Refer to the following paragraphs in the Study Guide (SG) for more information on the statements:
   (a) SG paragraph 1.5
   (b) SG paragraph 3.2
   (c) SG paragraph 1.6.2
   (d) SG paragraph 6.4.2

3. **Option 4**:

   R1 440 = R(1 000 [=R4 000 ÷ 4] + 400 + 40)

4. **Option 3**:

| | | | **Dr R** | **Cr R** |
|---|---|---|---|---|
| 3 | Mar 31 | Settlement discount received<br>Purchases | 2 500 | <br>2 500 |

5. **Option 3**: -R7 000 [only transaction (b) effects the equity].

6. **Option 5**:

| | Assets | | = | Equity | | + | Liabilities | |
|---|---|---|---|---|---|---|---|---|
| | Debtors | Bank | | Capital | Profit | | Loans | Creditors |
| 5 | + 1 800 | - 6 000 | | - | + 1 800 | | - 3 600 | - 2 400 |

<u>Comment</u>:

| | |
|---|---|
| Bank was reduced with: | R |
| Loan (Instalment) | 3 600 |
| Creditor (PLA Services) | <u>2 400</u> |
| | <u>6 000</u> |

**ASSIGNMENT 1 (continued)**

7. **Option 2**: Accrued expenses

   Comment: R3 500 x 12 = R42 000; R3 500 is still due/outstanding).

8. **Option 3**: R45 000

Creditors control

| | | | | | |
|---|---|---|---|---|---|
| | | R | | | R |
| 28/2/09 | Bank | 41 040 | 31/1/09 | Balance | ^25 200 |
| | Balance | ^29 160 | | Purchases* | 45 000 |
| | | 70 200 | | | 70 200 |

*Balancing figure

Inventory

| | | | | | |
|---|---|---|---|---|---|
| | | R | | | R |
| 31/1/09 | Balance | ^30 000 | 31/1/09 | Cost of sales | 39 000 |
| | Purchases | 45 000 | 28/2/09 | Balance | ^36 000 |
| | | 75 000 | | | 75 000 |

Sales = Cost of sales + 20%
Sales = R39 000 + (39 000 x 20%)
= R46 800

Credit sales = 80% of total sales
Credit sales = 80% x R46 800
= R37 440

9. **Option 1**: R33 000

| Calculation: | R |
|---|---|
| Opening inventory | 30 000 |
| Purchases | 39 000 |
| | 69 000 |
| Less: Closing inventory | 36 000 |
| Cost of sales | 33 000 |

10. **Option 1**: R37 440

    Calculation: Refer to the calculation for question 8.

11. **Option 2**: (b), (e)

12. **Option 3**:

| | Assets = | Owner's equity + | Liability |
|---|---|---|---|
| 3 | + 8 600 | + 8 600 | 0 |

**<u>ASSIGNMENT 1</u> (continued)**

13. **Option 2**:

| | | | |
|---|---|---|---|
| | | **R** | **R** |
| 2 | Profit and loss | 85 000 | |
| | Trading account | | 85 000 |

14. **Option 3**: Insurance

15. **Option 3**: R31 075 (favourable – credit)

<u>Calculations</u>:
**NB** the entries as shown in this answer will not appear as such in a "proper" bank account. Only the totals of CRJ and CPJ will appear in the account.

Bank

| | | | | | |
|---|---|---|---|---|---|
| | | **R** | | | **R** |
| Balance | | 38 400 | Bank charges | | 1 875 |
| Rent | | 2 700 | Municipality | | 3 525 |
| Interest | | 375 | Balance | c/d | 36 075 |
| | | 41 475 | | | 41 475 |
| Balance | b/d | 36 075 | | | |

BANK RECONCILIATION STATEMENT: 30 APRIL 2009

| | | |
|---|---|---|
| | R | R |
| Debit balance (favourable): Bank account | 36 075 | |
| Debit: Cheques not yet paid | 14 880 | |
| Credit Deposit | | 19 880 |
| Credit (favourable) balance: Bank statement* | | 31 075 |
| | 50 955 | 50 955 |

*Balancing figure

16. **Option 5**:

17. **Option 4**: R113 307

Inventory account

| | | | | | |
|---|---|---|---|---|---|
| | | R | | | R |
| Balance | b/d | 40 000 | Credit sales | | 153 846 |
| Credit purchases | | 180 000 | Cash sales | | 115 385 |
| Cash purchases | | 162 500 | Purchases returns | | 1 500 |
| Sales returns | | 1 538 | Balance | c/d | 113 307 |
| | | 384 038 | | | 384 038 |
| Balance | b/d | 113 307 | | | |

**ASSIGNMENT 1 (continued)**

18. **Option 2**: R104 000

According to the matching principle income and costs which are directly incurred to produce the income, are brought into account in the same period.

| | R |
|---|---|
| Cost of sales | |
| Opening inventory | 25 000 |
| Plus: Purchases | 110 000 |
| Customs and excise duties | 1 000 |
| Carriage on purchases | 2 000 |
| | 138 000 |
| Less: Purchases returns | (3 000) |
| | 135 000 |
| Less: Inventory (30 April 2009) | (31 000) |
| Cost of sales | 104 000 |

19. **Option 2**: R32 240

Rent income

| 2008 | | R | 2009 | | R |
|---|---|---|---|---|---|
| May 1 | Accrued income | 2 000 | Apr 30 | Bank* | 32 240 |
| 2009 | | | | Accrued income | 4 320 |
| Apr 30 | Profit and loss | 34 560 | | | |
| | | 36 560 | | | 36 560 |

*Balancing figure
2 R34 560
3 R36 880 = R(4 320 + 34 560 – 2 000)
4 R38 880 = R(34 560 + 4 320)

20. **Option 1**: R48 000

Calculation:

| | R |
|---|---|
| Cost of sales | |
| Opening inventory (1 May 2008) | 12 500 |
| **Add:** Purchases (R137 500 – R25 000 – R3 500) | 109 000 |
| Customs and import duties | 2 500 |
| | 124 000 |
| **Less:** Closing inventory (30 April 2009) | (22 000) |
| Cost of sales | 102 000 |
| **Add:** Gross profit | 48 000 |
| Sales | 150 000 |

Gross profit on sales = 48 000