FAC1503

FINANCIAL ACCOUNTING PRINCIPLES FOR LAW PRACTITIONERS

October/November 2017

Duration 2 Hours 100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

[TURN OVER]
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This paper consists of 9 (NINE) pages

PLEASE NOTE:

1. Ensure that you are writing the correct examination paper
2. Ensure that you are handed the correct examination answer book (BLUE) by the invigilator
3. This paper consists of 5 (FIVE) questions
4. All questions must be answered
5. Basic calculations, where applicable, must be shown
6. Each question attempted must be commenced on a new (separate) page
7. Write legibly in blue or black ink

PROPOSED TIME-TABLE
(Avoid deviating from this)

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

[TURN OVER]
QUESTION 1 (19 marks) (23 minutes)

Commence this question on a new (separate) page.

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

Transactions by Express Services and Suppliers for April 2017:

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

REQUIRED:

Open the following subsidiary journals for the month ended 30 April 2017 in the accounting records of Express Services and Suppliers and record the above transactions in the relevant subsidiary journals:

(a) Cash receipts journal  Make provision for the following columns: date, details, bank, sales, trade receivables control, services rendered, VAT output, and sundry accounts. Do not total the columns. 5½

(b) Cash payments journal  Make provision for the following columns: date, details, bank, purchases, trade payables control, VAT input and sundry accounts. Do not total the columns. 5½

(c) Sales journal  Make provision for the following columns: date, details, sales, VAT output and trade receivables control. Do not total the columns. 4

(d) Purchases journal  Make provision for the following columns: date, details, purchases, VAT input and trade payables control. Do not total the columns. 4

[19]
**QUESTION 2 (19 marks)(23 minutes)**

Commence this question on a new (separate) page

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

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

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

**REQUIRED.**

<table>
<thead>
<tr>
<th>Date</th>
<th>Account to be debited</th>
<th>Account to be credited</th>
<th>Effect on the basic accounting equation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R</td>
</tr>
<tr>
<td><strong>Example</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb 4</td>
<td>Paid the monthly telephone account of the entity with a cheque for R 4 200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Telephone</td>
<td>Bank</td>
<td>- 4 200</td>
</tr>
</tbody>
</table>

**Marks**

[19]

**Please note**

The columns in respect of the accounting equation must **not** be totalled

Each amount **must** be preceded by a plus sign (+) for an increase or a minus sign (-) for a decrease, to indicate an increase or a decrease in the element of the accounting equation

Show all calculations
QUESTION 3 (19 marks)(23 minutes)

Commence this question on a new (separate) page

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

1. Balances and totals at the end of April 2017
   - Bank statement, R1 956 (favourable)
   - Cash receipts journal, R10 062
   - Cash payments journal, R12 570

2. The previous month’s bank reconciliation statement was extracted from the accounting records of Phakathi Traders

RUNWAY TRAILERS
Bank reconciliation statement as at 31 March 2017

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

3. A comparison of the above bank reconciliation and the bank statement with the cash journals for April 2017 revealed the following

3.1 The bank statement for April 2017 reflected the following items which do not appear in the cash journals
   - Correction of the error in the amount of a deposit, R840
   - Deposit credited, R1 200
   - Cheque no 894, R833
   - Dishonoured cheque from S Sweaters, R350
   - Cheque book costs, R102 and service fees, R175
   - Debit order for the monthly insurance premium, R803
   - Direct deposit for rent received from a sub-tenant, R971
   - A deposit made by another client of the bank erroneously credited on Runway Traders bank statement, R4 268

3.2 The following items appear only in the cash journals, but not on the bank statement
   - Deposits not yet recorded by the bank, R6 215
   - Cheque no 903 issued to SM Saltiel on 3 April 2017, R3 929

3.3 Cheque no 804 was issued to Silinde Pre-school Centre as a donation. The pre-school centre has since closed down

[TURN OVER]
**QUESTION 3** (continued)

**REQUIRED:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete the following in the accounting records of Runway Traders at 30 April 2017</td>
<td></td>
</tr>
<tr>
<td>(a) Cash receipts and cash payments journals (bank columns only), properly totalled, on 30 April 2017</td>
<td>7½</td>
</tr>
<tr>
<td>(b) The bank account in the general ledger, properly balanced, on 30 April 2017</td>
<td>5</td>
</tr>
<tr>
<td>(c) The bank reconciliation statement, properly balanced, on 30 April 2017</td>
<td>6½</td>
</tr>
<tr>
<td></td>
<td>[19]</td>
</tr>
</tbody>
</table>
QUESTION 4 (27 marks)(32 minutes)

Commence this question on a new (separate) page

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

<table>
<thead>
<tr>
<th>TRIAL BALANCE OF RADEBE ATTORNEYS ON 31 JULY 2017</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business bank</td>
<td>R 8 000</td>
<td>R 8 000</td>
</tr>
<tr>
<td>Trust bank</td>
<td>R 9 500</td>
<td>R 9 500</td>
</tr>
<tr>
<td>Trust creditors control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Nyati</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M Mentz</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clients control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Nyati</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M Mentz</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>R 40 000</td>
<td>R 40 000</td>
</tr>
<tr>
<td>Law library</td>
<td>R 10 000</td>
<td>R 10 000</td>
</tr>
<tr>
<td>Sheriff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stationery on hand</td>
<td>R 1 000</td>
<td>R 1 000</td>
</tr>
<tr>
<td>70 400</td>
<td>70 400</td>
<td></td>
</tr>
</tbody>
</table>

Additional information

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

<table>
<thead>
<tr>
<th>Trust cash receipts journal</th>
<th>R 5 000</th>
<th>Trust cash payments journal</th>
<th>R 5 800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust creditors</td>
<td></td>
<td>Trust creditors</td>
<td></td>
</tr>
<tr>
<td>M Mentz</td>
<td>R 2 000</td>
<td>N Nyati</td>
<td>R 4 000</td>
</tr>
<tr>
<td>N Nyati</td>
<td>R 3 000</td>
<td>M Mentz</td>
<td>R 1 800</td>
</tr>
<tr>
<td>Bank</td>
<td>R 5 000</td>
<td>Bank</td>
<td>R 5 800</td>
</tr>
</tbody>
</table>

   | Business cash payments journal |   | Fees journal |   |
   |--------------------------------|   |--------------|---|
   | Sundries                       | R 4 500 | Clients control | R 4 100 |
   | Bank                           | R 4 500 | N Nyati       | R 2 600 |
   |                                |         | M Mentz       | R 1 500 |
   |                                |         | Fees          | R 4 100 |

2. R2 800 of the R6 000 opening balance on the account of Mrs N Nyati in the trust creditors ledger is specifically earmarked for transfer duties payable once the property is transferred to Mrs N Nyati. Mr Radebe expects that the property will be transferred during the second week of September 2017.
QUESTION 4 (continued)

REQUIRED:

PART A

Open the following ledger accounts in the general ledger of Radebe Attorneys as at 31 August 2017 and post the subsidiary journals in additional information 1 above, to these ledger accounts:

(i) Trust bank
(ii) Business bank
(iii) Clients control
(iv) Trust creditors control
(v) Fees

Please note:
All accounts must be properly balanced on 31 August 2017.
Commence the general ledger accounts with the opening balances as given in the trial balance above.

Prepare all the general ledger accounts in the format illustrated below.

<table>
<thead>
<tr>
<th>Dr</th>
<th>Relevant account name (e.g. Trust bank)</th>
<th>Cr</th>
</tr>
</thead>
</table>

PART B

Calculate, for each trust creditor, the amount that should be transferred from the trust bank account to the business bank account on 31 August 2017, after all the information given in the question have been taken into account.

Please note
Show all calculations

[TURN OVER]
QUESTION 5 (16 marks)(19 minutes)

Commence this question on a new (separate) page

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

HOLMES TRADERS LTD

ABBREVIATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDDED 30 JUNE 2017

\[
\begin{array}{lrr}
\text{R} \\
\text{Revenue} & 1\ 600\ 000 \\
\text{Cost of sales} & (782\ 250) \\
\text{Inventory (01/07/2016)} & 212\ 600 \\
\text{Purchases} & 860\ 000 \\
\text{Inventory (30/06/2017)} & (290\ 350) \\
\text{Gross profit} & 817\ 750 \\
\text{Other income} & 18\ 510 \\
\text{Distribution, administrative and other expenses} & (519\ 270) \\
\text{Finance cost (Mortgage)} & (36\ 000) \\
\text{Profit for the year} & 280\ 990 \\
\text{Other comprehensive income for the year} & - \\
\text{Total comprehensive income for the year} & 280\ 990 \\
\end{array}
\]

HOLMES TRADERS LTD

ABBREVIATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

\[
\begin{array}{lrr}
\text{R} \\
\text{ASSETS} \\
\text{Non-current assets} & 454\ 000 \\
\text{Property, plant and equipment} & 454\ 000 \\
\text{Current assets} & 749\ 850 \\
\text{Inventories} & 290\ 350 \\
\text{Trade receivables} & 385\ 000 \\
\text{Cash and cash equivalents} & 74\ 500 \\
\text{Total assets} & 1\ 203\ 850 \\
\text{EQUITY AND LIABILITIES} \\
\text{Equity} & 654\ 850 \\
\text{Capital} & 654\ 850 \\
\text{Total liabilities} & 549\ 000 \\
\text{Non-current liabilities} & 360\ 000 \\
\text{Long-term borrowings (Mortgage)} & 360\ 000 \\
\text{Current liabilities} & 189\ 000 \\
\text{Trade and other payables} & 189\ 000 \\
\text{Total equity and liabilities} & 1\ 203\ 850 \\
\end{array}
\]

[TURN OVER]
QUESTION 5 (continued)

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

REQUIRED.

<table>
<thead>
<tr>
<th>Calculate the following ratios of Holmes Traders Ltd at 30 June 2017</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Profit margin</td>
<td>2½</td>
</tr>
<tr>
<td>(b) Inventory holding period</td>
<td>3½</td>
</tr>
<tr>
<td>(c) Acid test ratio</td>
<td>2½</td>
</tr>
<tr>
<td>(d) Return on assets</td>
<td>3½</td>
</tr>
<tr>
<td>(e) Trade receivables collection period (days)</td>
<td>4</td>
</tr>
</tbody>
</table>

Please note:

All formulas and calculations must be shown
All answers must be rounded off to 2 decimal places after the comma, e.g. 3.456% to 13.45%