

ALP101G

**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 get 60% for Ass 1 and 0% for Ass 2, your year mark will be 3%, your exam mark contribution must be 47% for a minimum exam mark of 52% ($47\% \div 0.9$) to pass.
 - If you submit both assignments but scored 0 in both, you will require an examination mark of 56% to pass.
 - Exam sub-minimum is 40%.

Old

TERMINOLOGY

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
	l/s bold Revenue, but not gross profit
Balance sheet as at....	Statement of financial position as at
(Balance sheet–equity)	(Statement of financial position – equity)
Asset replacement reserve	Other components in equity (+note)
Other financial liabilities	Other current liabilities
(Statement of changes)	(Statement of changes)
Total (column)	Total equity
(Statement of changes)	(Statement of changes)
Profit for the period	Total comprehensive income for the year
	Statement of changes
	“Bold” Balance at (beginning) and (end)
(Statement of changes)	(Statement of changes)
Partners profit share	Partners share of comprehensive income
(PPE note)	(PPE note)
Depreciation for the period	Depreciation for the year
Cash flow statement for the year ended....	Statement of cash flows for the year ended.....

TERMINOLOGY

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
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.

ELEMENTS OF FIN 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:**

$$\text{ASSETS} - \text{LIABILITIES} = \text{NET ASSET VALUE}$$

(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

- 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.

(Past exam indicates - 75% of students do not understand the principles)

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.

	ASSETS	=	EQUITY	+	LIABILITIES
	Bank		Capital		
Transaction	R		R		R
New balances		=		+	

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.

	ASSETS	=	EQUITY	+	LIABILITIES
	Bank		Capital		
Transaction	R +130 000		R +130 000		R
New balances	130 000	=	130 000	+	0

The general ledger

- **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

The trial balance

A trial balance is a **list of 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	54 200	
Equipment	100 000	
Furniture	2 000	
Debtors control	4 000	
Capital		130 000
Drawings	1 000	
Loan		25 000
Creditors control		200
Wages	800	
Advertisements	200	
Fees		7 000
	162 200	162 200

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
	0	0	+20 000	=	+20 000	0	+	0

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount R
20.1 Jan 3	F Fox deposited as opening capital 20 000	20 000
	Paid rent for January 20.1	2 300
30	Received payment from D Dunn on his account	1 500

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000 -2 300		+20 000	-2 300		
	0	0	+17 700	=	+20 000	-2 300	+	0

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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		
6		
9		
10		
13		
18		
29		
30	Received payment from D Dunn on his account	1 500

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
4	+24 000		-2 300			-2 300		+24 000
5								
6								
9								
10								
13								
18								
29								
30								
	+24 000		+17 700	=	+20 000	-2 300	+	+24 000

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
6		
9		
10		
13		
18		
29		
30	Received payment from D Dunn on his account	1 500

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6								
9								
10								
13								
18								
29								
30								
	+25 700	0	+16 000	=	+20 000	-2 300	+	+24 000

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
6	Provided services for cash	7 200
9		
10		
13		
18		
29		
30	Received payment from D Dunn on his account	1 500

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9								
10								
13								
18								
29								
30								
	+25 700	0	+23 200	=	+20 000	+4 900	+	+24 000

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
6	Provided services for cash	7 200
9	Debited D Dunn with fees for services rendered	8 318
10		
13		
18		
29		
30	Received payment from D Dunn on his account	1 500

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+ LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R	Creditors R
20.1 Jan 3			+20 000		+20 000		
			-2 300			-2 300	
4	+24 000						+24 000
5	+1 700		-1 700				
6			+7 200			+7 200	
9		+8 318				+8 318	
10							
13							
18							
29							
30							
	+25 700	+8 318	+23 200	=	+20 000	+13 218	+24 000

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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		
18		
29		
30		

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13								
18								
29								
30								
	+25 700	+8 318	+23 200	=	+20 000	+13 118	+	+24 100

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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		
29		
30		

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13			-1 234		-1 234			
18								
29								
30								
	+25 700	+8 318	+21 966	=	+18 766	+13 118	+	+24 100

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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		
30		

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13			-1 234		-1 234			
18			+1 350			+1 350		
29								
30								
	+25 700	+8 318	+23 316	=	+18 766	+14 468	+	+24 100

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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
30		

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13			-1 234		-1 234			
18			+1 350			+1 350		
29			-8 350			-8 350		
30								
	+25 700	+8 318	+14 966	=	+18 766	+6 118	+	+24 100

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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		

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13			-1 234		-1 234			
18			+1 350			+1 350		
29			-8 350			-8 350		
			-100					-100
30								
	+25 700	+8 318	+14 866	=	+18 766	+6 118	+	+24 000

Basic accounting equation

(Study guide, Revision Exercise 2, p.36)

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

Date	Transactions	Amount 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	1 700
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

Revision exercise 2, SG, p36 - Solution

	ASSETS			=	EQUITY		+	LIABILITIES
Date	Libr. & Equipm. R	Debtors R	Bank R		Capital R	I & E R		Creditors R
20.1 Jan 3			+20 000		+20 000			
			-2 300			-2 300		
4	+24 000							+24 000
5	+1 700		-1 700					
6			+7 200			+7 200		
9		+8 318				+8 318		
10						-100		+100
13			-1 234		-1 234			
18			+1 350			+1 350		
29			-8 350			-8 350		
			-100					-100
30		-1 500	+1 500					
	+25 700	+6 818	+16 366	=	+18 766	+6 118	+	+24 000

F Fox

STATEMENT OF FINANCIAL POSITION AT 31 JANUARY 20.1

ASSETS	Note	R
Non-current assets		25 700
Equipment		1 700
Library		24 000
Current assets		23 184
Trade receivables		6 818
Cash and cash equivalents		16 366
Total assets		48 884
EQUITY AND LIABILITIES		
Total equity		24 884
Capital		24 884
Current liabilities		24 000
Trade and other payables		24 000
Total equity and liabilities		48 884

VAT (Only basic info)

- 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

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

VAT example (SG Exercise 6.2)

The following information relates to Rundü Dealers, who is registered as a VAT vendor and who use the periodic inventory system: (The VAT period of the business ends on unequal months.)

(a) TRIAL BALANCE AS AT 28 FEBRUARY 20.4

	Debit R	Credit 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	
	<u>268 785</u>	<u>268 785</u>

(b) TRANSACTIONS FOR MARCH 20.4

March 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

(b) TRANSACTIONS FOR MARCH 20.4

March 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

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input	Settlement discount granted	Sundry accounts		
									Dr	Dr	Amount
			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

March 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

(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

(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			
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

March 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

(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	Settlement discount granted	Sundry accounts		
									Dr	Dr	Amount
			R	R	R	R	R	R	R		
1	Sales		15 504	13 600	1 904						
7	W Wolf		1 469			1 583	(14*)	(100)			
14	L Lion		713			770	(7)	(50)	250		Equipment
	O Old		285								
	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

March 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

(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	Settlement discount granted	Sundry accounts		
									Dr	Dr	Amount
			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

March 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

(g) GENERAL JOURNAL — MARCH 20.4

J2

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

(b) TRANSACTIONS FOR MARCH 20.4

March 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

(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

March 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

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input	Settlement discount granted	Sundry accounts		
									Dr	Dr	Amount
			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

March 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 Ram

(a) CASH RECEIPTS JOURNAL — MARCH 20.4

CRJ2

Date	Details	Fol	Bank	Sales	VAT Output	Debtors	VAT Input	Settlement discount granted	Sundry accounts		
									Dr	Dr	Amount
			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

March 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

(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

March 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

(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

March 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

(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

March 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.

(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

March 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.~~

(f) PURCHASES RETURNS JOURNAL — MARCH 20.4*PRJ2*

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

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**
Favourable (debit on bank account)
(credit on bank statement)
Unfavourable (debit on bank statement)
(credit on bank account)

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

QUESTION 3

TL101/3/2009

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

	1. Bank reconciliation as at 31 May 20.7		R
•	Balance as per bank statement	2 731,20	
•	Deposit outstanding	<u>6 480,80</u>	
•		9	
•	212,00		
•	Cheques outstanding:		
•	No. 090	1 200,00	
•	No. 168	860,00	
•	No. 170	<u>4 502,00</u>	
•	(6 562,00)		
•	Balance as per bank account		<u>2</u>
•	<u>650,00</u>		

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 for June 20.7

Date	Details	Bank
30	Total	20 000

Cash payments journal for June 20.7

Date	Details	Amount
30	Total	20 054

- 3.1

At 30 June 20.7 the **bank statement** showed a favourable balance of R7 630,00

Bank reconciliation statement as at 30 June 20.7

	R	R
Balance as per bank		7 630

- 3.2

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

Cash receipts journal for June 20.7

Date	Details	Bank
30	Total	20 000
	Donation (Rooi Kruis)	1 200

Cash payments journal for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200

- 3.3

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

QUESTION 3

TL101/3/2009

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

	1. Bank reconciliation as at 31 May 20.7	R
•	Balance as per bank statement	2 731,20
•	Deposit outstanding	<u>6 480,80</u>
•		9
•	212,00	
•	Cheques outstanding:	
•	No. 090 1 200,00	
•	No. 168 860,00	
•	No. 170 <u>4 502,00</u>	(6 562,00)
•	Balance as per bank account	<u>2</u>
•	<u>650,00</u>	

Bank reconciliation statement as at 30 June 20.7

	R	R
Balance as per bank		7 630
Outstanding cheques		
168	860	

4.1

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

Service fees, R96,00;

levies, R14,00;

cash handling fees, R16,00;

interest on credit (favourable) balance,
R50,00.

Cash payments journal for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200
	Bank charges (96 + 14 + 16)	126

Cash receipts journal for June 20.7

Date	Details	Bank
30	Total	20 000
	Donation (Rooi Kruis)	1 200
	Interest income	50

4.1

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

- Deposit of R6 480,80.
- **No entry** necessary – it appeared on the bank recon statement

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

Cash payments journal for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000

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

Cash payments journal for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Fix-it Motors	1 700

– Cheque no.195 in favour of Handy Wholesalers, a creditor, was correctly made out 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 for June 20.7

Date	Details	Bank
30	Total	20 000
	Donation (Rooi Kruis)	1 200
	Interest income	50
	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 for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Fix-it Motors	1 700
	S Steward (R/D)	500

- 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 for June 20.7

Date	Details	Bank
30	Total	20 000
	Donation (Rooi Kruis)	1 200
	Interest income	50
	Handy Wholesalers	180
	Credit losses recovered	4500

- 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 for June

20.7

Date	Details	Amount
30	Total	20 054
	Donation (Rooikruis)	1 200
	Bank charges (96 + 14 + 16)	126
	Mortgage (African bank)	2 000
	Fix-it Motors	1 700
	S Steward (R/D)	500
	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

- 5.2

Cheque no. 211, R3 532,00
no. 216, R3 668,00

Bank reconciliation statement as at 30 June 20.7

	R	R
Balance as per bank		7 630
Outstanding deposit		3 850
Outstanding cheques		(9 260)
168	860	
211	3 532	
216	3 668	
221	1 200	

Cash receipts journal for June 20.7

Date	Details	Bank
30	Total	20 000
	Donation (Rooi Kruis)	1 200
	Interest income	50
	Handy Wholesalers	180
	Credit losses recovered	4500
		25 930

Cash payments journal for June

20.7

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

Bank account

Dr	Bank				Cr
1	Balance	2 650	30	Total payments	26 360
30	Total receipts	25 930		Balance	2 220
		28 850			28 580
1	Balance	2 220			

Bank reconciliation statement as at 30 June 20.7

	R	R
Balance as per bank		7 630
Outstanding deposit		3 850
Outstanding cheques		(9 260)
168	860	
211	3 532	
216	3 668	
221	1 200	
Balance as per bank		2 220

TRADE AND OTHER RECEIVABLES

- Settlement discount granted
- Credit losses
- Allowance for credit losses
- Debtors control account

Settlement discount granted

- A **settlement discount** is granted to debtors to encourage a quick settlement of their debts
- Example
 - A client purchased goods for R2 850 on 1 March 20.0
 - A settlement discount of 2% applies if payment is made within 30 days
 - Client pays **before** end of month

Settlement discount and VAT

- Client pays:
$$R2\ 850 - (2\ 850 \times 2\%) = R2\ 793$$
- Settlement discount amounts to R57
(Vat inclusive)
- VAT is $14/114 \times R57 = R7$

Debtors control account

Dr	Debtors control			Cr	
1	Balance	2 850	31	Bank	2 793
				Settlement discount	50
				VAT Input	7
		2 850			2 850

CREDIT LOSSES

- The debts that are never paid are known as credit losses / irrecoverable debts
- Writing off a credit loss
 - **Debit** credit losses account
 - **Credit** debtors control and individual debtors accounts

- On 15 May 20.0 AM Traders was informed that
A Langa, a debtor who owed R660, was declared insolvent. The amount must be written off as irrecoverable.
- The opening balance on the debtors control account amounted to R18 000

GENERAL JOURNAL

		Debit	Credit
May	Credit losses	660	
	A Langa		660
	Debtors control		660
	<i>Write account off as irrecoverable</i>		

Debtors control account

Dr	Debtors control				Cr
1	Balance	18 000	15	Credit losses	660

Debtors ledger

A Langa

Day	Details	Debit	Credi	Balanc
		R	R	R
1	Account rendered			660
15	Credit losses		660	-

Debtors control account

- What should be entered on the **debit** side
 - Balance – beginning of the month
 - Sales of goods (credit)
 - R/D cheques
 - Discount cancelled
 - Interest charged on overdue account
 - Transfers from creditors control

Debtors control account

- What should be entered on the **credit** side
 - Sales returns of goods (credit)
 - Payments received from debtors
 - Settlement discount granted
 - Credit losses

QUESTION 4

TL101/3/2009

- On 30 June 20.7 the **debtors control account** in the general ledger of Desmond Traders showed a debit balance of R33 538,00 while the **debtors list** of the debtors ledger showed a total of R21 978,00. The following errors and omissions were found by the bookkeeper on 30 June 20.7.

Debtors control account

Debtors control account					
Dr	Debtors control				Cr
1	Balance	33 538			

Debtors list

Total

21 978

Transactions: Errors and omissions

1. The **debtors list** was overcast by
R5 760,00.

Debtors list

Total

21 978

Addition error

(5 760)

2. The **balance of a debtor** (R van Zyl) was omitted from the debtors list, R2 120,00.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120

3. The **balance on an account of a debtor** (S Goldner) of R3 200,00 was brought down incorrectly as R320,00.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880

4. An invoice of R5 440,00 issued to F Wilson was in error **posted to his account** as R6 880,00.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)

5. A payment made to Viking Traders, a creditor, as per cash payments journal was in error debited to the debtors control account, R38 080,00.

Debtors control account

Dr	Debtors control				Cr
1	Balance	33 538	30	Bank	38 080

6. The **sales journal** was under cast, the total should have been, R41 920,00 and not R20 320,00. The amount was posted as such.

Debtors control account

Dr	Debtors control				Cr
1	Balance	33 538	30	Bank	38 080
	Sales	21 600			

7. A credit note for R2 040,00 was recorded in the sales returns journal but **not posted to the account of Z Wonder, a debtor.**

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 440)

8. The **account of a debtor** H Muller, was balanced incorrectly. His balance should have been R3 704,00 and not R3 064,00.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640

9. A credit note for R1 552,00 was recorded correctly in the sales returns journal but was posted to the **account of V Swart** as R1 192,00.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640
V Swart (1 192 – 1 552)	(360)

10. A credit note issued to N Bennett for R5 120,00 was recorded correctly in the sales returns journal, but not posted to the debtors ledger account of N Bennett.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640
V Swart (1 192 – 1 552)	(360)
N Bennett	(5 120)

11. A cheque for R4 400,00 that was received

from Y Yach was posted to the account of Y Yssel.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640
V Swart (1 192 – 1 552)	(360)
N Bennett	(5 120)
Y Yach	(4 400)
Y Yssel	4 400

12. An invoice for R2 080,00 in the sales journal was posted to the credit side of D Fourie's account in **the debtors ledger**.

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640
V Swart (1 192 – 1 552)	(360)
N Bennett	(5 120)
Y Yach	(4 400)
Y Yssel	4 400
D Fourie (2 x 2 080)	4 160

Debtors control account

Dr	Debtors control				Cr
1	Balance	33 538	30	Bank	38 080
	Sales	21 600		Balance	17 058
		55 138			55 138
1	Balance	17 058			

Debtors list

Total	21 978
Addition error	(5 760)
R van Zyl	2 120
S Goldner (3 200 – 320)	2 880
F Wilson (6 880 – 5 440)	(1 440)
J Wonder	(2 040)
H Muller (3 704 – 3 064)	640
V Swart (1 192 – 1 552)	(360)
N Bennett	(5 120)
Y Yach	(4 400)
Y Yssel	4 400
D Fourie (2 x 2 080)	4 160
Total	17 058

INVENTORY

- **Opening** inventory – beginning of financial period
- **Closing** inventory – end of financial period
- Forms part of **cost of sales** in statement of comprehensive income

PROPERTY, PLANT AND EQUIPMENT

- Cost price
- Purchase price of property, plant and equipment
- Depreciation
 - Straight line method
 - Diminishing balance method

Cost price

- **Purchase price**, including expenses to get the asset to the premises
- **Installation costs** including wages of technical personnel
- **Costs** to get the asset **operational**
- Remember only costs incurred to get the asset **operational**

Depreciation

- Cost of owning the asset is written off against the income earned over the useful life of the asset
- Depreciation is the **systematic allocation** of the **depreciable amount** of an asset over its **useful life**.
- Method must be a **fair** allocation of the cost

Word definitions

- **Cost price** – value at which asset is recorded in the books on date of acquisition
- **Useful life** – is determined in terms of time, production or service
- **Residual value** – amount the entity expects to obtain for the asset at the end of the useful life after deducting expected cost of disposal
- **Depreciable amount** – cost of asset less residual value (not all methods)

Word definitions

- **Accumulated depreciation** – total of depreciation written off on an asset over time
Accumulated depreciation is a contra asset account
- **Carrying amount** - difference between the cost price and accumulated depreciation of an asset – recorded in **statement of financial position**

Straight-line method

- **Equal amounts** are allocated to each accounting period over the total useful life of the asset
- Instructions can be given as 20% p.a. on straight-line or over 5 years
- Entries to be made in the journal (example)
- **Dr** Depreciation account
- **Cr** Accumulated depreciation: motor vehicles

Diminishing balance method

- The **value** of the asset decreases more in the first year of use than in the last year
- Method results in a consistently decreasing depreciation written off
- A **fixed percentage** (%) is written off on the **carrying value** of the asset
- To calculate depreciation use $\% \times (\text{cost price less accumulated depreciation} - \text{carrying value})$

Example

Bilgedron bought a machine on 1 June 20.0 for R500 000 with a discount of R60 000, transport costs of R15 000 and installation costs of R5 000. The estimated lifespan of the asset is 5 years.

The financial year end is 31 May.

Show the depreciation for the year ended
31 May 20.2

Calculations

$$\begin{aligned}\text{Cost price} &= \text{R}500\,000 - 60\,000 + 15\,000 + \\ &\quad 5\,000) \\ &= \text{R}460\,000\end{aligned}$$

Straight-line

$$\text{Depreciation: } \text{R}460\,000 / 5 = \text{R}92\,000$$

Diminishing balance

$$\text{Depreciation: } \text{R}460\,000 - 92\,000 = 368\,000$$

$$368\,000 \times 20\% = \text{R}73\,600 \text{ (for year 31 May 20.2)}$$

Straight-line method

General journal

		Debit	Credit
20.2			
May 31	Depreciation	92 000	
	Accumulated depreciation: machinery		92 000

Diminishing balance method

General journal

		Debit	Credit
20.2			
May 31	Depreciation	73 600	
	Accumulated depreciation: machinery		73 600

CURRENT LIABILITIES

- Trade creditors
- Settlement discount received
- Sundry current liabilities:
 - Accrued expenses
 - Income received in advance
 - Instalments on borrowings
 - Taxation payable
 - Bank overdraft

Creditors control account

- What should be entered on the **credit** side
 - Balance – beginning of the month
 - Purchases of goods (credit)
 - R/D cheques
 - Discount cancelled
 - Interest charged on overdue account
 - Transfers to debtors control

Creditors control account

- What should be entered on the **debit** side
 - Purchases returns of goods (credit)
 - Payments made to creditors
 - Settlement discount received

Difference between list and creditors control account

- Errors in posting
- Incorrect balancing of accounts
- Incorrect totalling of columns in journals
- Incorrect listing of a balance
- Omissions in posting

Question 4

Exam May 2008

The following information for April 2008 was obtained from the accounting records of JD Stores:

1. The **statement** received from Lunga Traders at 28 April 2008 showed an outstanding balance of R2 531,60 while the account in the **creditors ledger** showed a balance of R213,22.

Creditors control account

Creditors control account					
Dr	Creditors control				Cr
			1	Balance	213,22

Creditors list

Total

2 531,60

2. Invoice no. 1225 received from Lunga Traders for R872,10 has been duplicated on the statement.

Creditors list

Total	2 531,60
Invoice duplicated	(872.10)

3. Invoice no. 1270 received from Lunga Traders for R191,80 has been **omitted** in the entity's records.

4. A payment of R659,50 made to Lunga Traders is **not** yet reflected **on the statement**

Creditors list

Total	2 531,60
Invoice duplicated	(872.10)
Payment not yet reflected	(659,50)

5. **Invoice** no. 1294 received from Lunga Traders for R268,49 has been recorded in the entity's books as a **credit note**.

Creditors control account

Dr	Creditors control				Cr
			1	Balance	213,22
			30	Purchases	191,80
				Purchases	268,49
				Purchases	268,49

6. **Trade discount** of R57,00 deducted from last month's payment, has been disallowed by Lunga Traders. Reverse this discount.

Creditors control account

Dr	Creditors control				Cr
			1	Balance	213,22
			30	Purchases	191,80
				Purchases	268,49
				Purchases	268,49
				Settlement discount rec	57

7. Invoice 1385 for R183,00 has been correctly recorded in the entity's books, but it is **not shown on the statement.**

Creditors list

Total	2 531,60
Invoice duplicated	(872.10)
Payment not yet reflected	(659,50)
Invoice 1385 omitted	183,00

8. **Invoice** no. 1396 for R77,00 was posted in **error** to the account of Fast Traders instead of the account of Lunga Traders.

Creditors control account

Dr	Creditors control				Cr
			1	Balance	213,22
			30	Purchases	191,80
				Purchases	268,49
				Purchases	268,49
				Settlement discount rec	57
				Fast Traders	77,00

9. Goods with a cost price of R107,00 were returned to Lunga Traders. This transaction is **not shown on the statement.**

Creditors list

Total	2 531,60
Invoice duplicated	(872,10)
Payment not yet reflected	(659,50)
Invoice 1385 omitted	183,00
Goods returned not yet credited	(107,00)

Creditors control account

Dr	Creditors control				Cr
			1	Balance	213,22
			30	Purchases	191,80
				Purchases	268,49
				Purchases	268,49
				Settlement discount rec	57
				Fast Traders	77,00
					1 076,00

Creditors list

Total	2 531,60
Invoice duplicated	(872,10)
Payment not yet reflected	(659,50)
Invoice 1385 omitted	183,00
Goods returned not yet credited	(107,00)
Total of list	1 076,00

Theory questions

- **Chapter 14** (study guide)
 - Trust and business money
 - Transfers
 - Trust creditors
 - All theory
- **Chapter 16** (study guide)
 - All topics

ANALYSIS AND INTERPRETATION

- Formulas
 - Liquidity
 - Profitability
 - Activity
 - Solvency
- Know the formula and apply the information given

Current and Acid test ratios

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Acid test ratio

$$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$$

- The following information was extracted from the statement of financial position of H Hill as at 28 February 20.2

- Current assets
8 700

Inventories	2 460
-------------	-------

Trade debtors	3 660
---------------	-------

Cash and cash equivalents	2 580
---------------------------	-------

- Current liabilities
2 900

Trade creditors	2 900
-----------------	-------

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

8 700

2 900

= 3:1

Acid test ratio

Current assets -

Current liabilities

8 700 – 2 460

2 900

= 2.15:1

Gross profit percentage

$$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$$

- The following information was extracted from the accounting records of H Hill for the year ended 28 February 20.2

	R
- Sales	244 000
- Gross profit	76 000
- Profit for the year	24 400
- Current assets	
Inventories	30 000
Trade debtors	20 000
Cash and cash equivalents	10 000

Gross profit percentage

$$\begin{aligned} & \frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1} \\ = & \frac{76\,000}{244\,000} \times \frac{100}{1} \\ = & 31.15\% \end{aligned}$$

Profit for the year percentage

$$\frac{\text{Profit before}}{\text{Sales}} \times \frac{100}{1}$$

Profit for the year percentage

$$\begin{aligned} & \frac{\text{Profit before tax}}{\text{Sales}} \times \frac{100}{1} \\ = & \frac{24\,400}{244\,000} \times \frac{100}{1} \\ = & 10\% \end{aligned}$$

Return on assets

$$\frac{\text{Sales}}{\text{Total assets}} \times \frac{100}{1}$$

Return on assets

$$\begin{aligned} & \frac{\text{Sales}}{\text{Total assets}} \times \frac{100}{1} \\ = & \frac{244\,000}{92\,000 + 30\,000 + 20\,000 + 10\,000} \times \frac{100}{1} \\ = & 160.5\% \end{aligned}$$

Earnings per share

Profit before tax

Number of shares in issue

- You are provided with the following information:

	R
- Profit before tax	50 000
- Number of shares in issue	20 000

Earnings per share

Profit before tax

Number of shares in

$$= \frac{50\ 000}{20\ 000}$$

$$= \text{R}2.50 \text{ per share}$$

Interest cover

Profit before tax and interest

Interest payments

- You are provided with the following information:

	R
- Profit before tax	118 000
- Interest payments	30 000

Interest cover

Profit before tax and interest
payments

Number of shares in issue

$$= \frac{118\ 000 + 30\ 000}{30\ 000}$$

$$= 4,91:1$$

Dividend cover

Profit after tax and preference share
dividends

Dividends on ordinary shares

- You are provided with the following information: R
- Profit after tax and preference share dividends
72 000
- Dividends on ordinary shares 60 000

Dividend cover

Profit after tax and preference
share dividends

Dividends on ordinary shares

$$= \frac{72\,000}{60\,000}$$

$$= 1,2:1$$

Debtors collection period

$$\frac{\text{Trade debtors}}{\text{Credit sales}} \times \frac{365}{1}$$

Creditors payment period

$$\frac{\text{Average}}{\text{Credit purchases}} \times \frac{365}{1}$$

Inventory turnover rate

$$\frac{\text{Cost of sales}}{\text{Average inventory}}$$

Number of days inventory on hand

$$\frac{\text{Average}}{\text{Cost of sales}} \times \frac{365}{1}$$

- You are provided with the following information:

	R
- Trade debtors 000	366
- Credit sales 000	2 196
- Opening inventory (28/2/20.1) 080	2
- Closing inventory (28/2/20.2) 460	2
- Cost of sales for the year 10 160	
- Trade creditors (28/2/20.1) 164 000	

Debtors collection period

$$\begin{aligned} & \frac{\text{Trade debtors}}{\text{Credit sales}} \times \frac{365}{1} \\ = & \frac{366\,000}{2\,196\,000} \times \frac{365}{1} \\ = & 60,83 \text{ days} \end{aligned}$$

Creditors payment period

$$\begin{aligned} & \frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1} \\ = & \frac{164\,000 + 144\,000 / 2}{1\,092\,000} \times \frac{365}{1} \\ = & 51,47 \text{ days} \end{aligned}$$

Inventory turnover rate

$$\begin{aligned} & \frac{\text{Cost of sales}}{\text{Average inventories}} \\ = & \frac{10\ 160}{2\ 460 + 2\ 080 / 2} \\ = & 4,5 \text{ times} \end{aligned}$$

Number of days inventory on hand

$$\begin{aligned} & \frac{\text{Average inventory}}{\text{Cost of sales}} \times \frac{365}{1} \\ = & \frac{2\,460 + 2\,080 / 2}{10\,160} \times \frac{365}{1} \\ = & 81,55 \text{ days} \end{aligned}$$

Solvency ratio

Total assets

Total liabilities

EXAM TIPS

- Answer all the questions
- Start each question on a new page
- Show all calculations
- Always commence with the question (topic) your best at first
- Use the time allocation provided
- Do not panic, stay calm, focused and relax
- Accounting is a challenge – go for it