FAC 1503

DISCUSSION CLASS

False words are not only evil in themselves, but they infect the soul with evil.

PLATO; GREEK AUTHOR & PHILOSOPHER (427 BC - 347 BC)

<u>Objectives</u>

- You (student) must be able to:

1. Identify the 2 accounts affected by tatransaction.
2. Identify the account to be debited and the other one to be credited (from the 2 accounts identified in objective 1).
3. Show the effect of the transaction (the 2 accounts) on the BAE.

Types of accounts

➢ All accounts are derived from the Basic Accounting Equation (BAE).

Assets (A)   =   Equity (E)   +   Liabilities (L)

➢ Assets: resources used by the business in performing its day to day operations / resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity.

➢ Examples: land, buildings, furniture, equipment, vehicles , inventories , accounts receivable (debtors control), cash at bank

Liabilities

➢ Amounts owed to other businesses by our business / present obligations of the entity arising from past events , the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

➢ Examples : long-term loans, mortgage, debentures , creditors control (accounts payable), bank overdrafts

Equity

➢ The interest of the owner in net assets of an entity / residual interest in the assets of an entity after deducting all its liabilities. (Net assets = Total Assets – Total Liabilities).

➢ Equity is made up of 4 components:

1) Capital (contributions by the owner into the business)

2) Drawings (business assets/cash taken by the owner for personal use)

3) Income

4) Expenses

<u>Income</u>

➢ A financial gain accruing over a given period of time which results mainly from our day to day operations / the amount of money earned by a business / an increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Examples of income

➢ Sales , fees earned , interest income , rent income , commission earned , dividend income , credit losses recovered , gains.

➢ Gains - Profit that does not arise from the day to day operations e.g. profit from the sale of a non-current asset.

Expenses

➢ Day to day running costs / decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity other than those relating to distributions to equity participants.

Examples of expenses

➢ Purchases of inventory, customs and excise duty, carriage on purchases, rent expense, salaries and wages, cost of raw materials, depreciation, administrative expenses, water and electricity, advertising, interest expense, bank charges, insurance, losses.

➢ Loss - decrease in economic activity which does not arise from the day to day activities e.g. loss on sale of non-current assets, damage caused by fire.

Behaviour of accounts

➢ Drawings, Expenses and Assets (DEA) increase on the debit (left) side and decrease on the credit (credit) side.

➢ Liabilities, Income and Capital (LIC) increase on the credit (right) side and decrease on the debit (left) side.

…*These 2 facts are useful when you study journals and ledger accounts.*

Double entry

➢ Every transaction that takes place in a business affects 2 accounts.

➢ Always, one account *must be* debited and the other account *must be* credited; in other words, one account is giving and one account is receiving.

➢ *Debited-*recording on the left side of an account.

➢ *Credited-*recording on the right side of an account.

Double entry

➢ Remember an account (a "T" account) has 2 sides.

1) The left side – the Debit side

2) The right side – the Credit side.

➢ Every transaction must affect 2 accounts, where one account is recorded on the left side/debit and the other is recorded on the right side/credit.

R/ship btwn accounts and the BAE

➢ Increase in drawings account - decrease in equity in the BAE.

➢ Increase in expense accounts - <u>decrease</u> in equity in the BAE.

➢ Decrease in expense accounts - <u>increase</u> in equity in the BAE.

➢ Increase in asset accounts - increase in assets in the BAE.

➢ Decrease in asset accounts - decrease in assets in the BAE.

R/ship btwn accounts and the BAE

➢ Increase in liability accounts - increase in liabilities in the BAE.

➢ Decrease in liability accounts - decrease in liabilities in the BAE.

➢ Increase in income accounts - <u>increase</u> in equity in the BAE.

➢ Decrease in income accounts - <u>decrease</u> in equity in the BAE

➢ Increase in capital account - increase in equity in the BAE.

Inventory systems

- Periodic inventory system: records are continuously updated with each sale. The 2 accounts affected are;

  purchases – debited

  bank/creditors control – credited

- Perpetual inventory system: the cost of goods sold is determined at the end of a financial period when inventory is physically counted. The 2 accounts affected are;

  inventory – debited

  bank/creditors control - credited

Steps to follow

1. Identify the 2 accounts affected by a transaction.

2. Classify those 2 accounts i.e. Identify whether they are drawings, expenses, assets (DEA), liabilities, income, capital (LIC).

3. Between the 2 accounts, identify the account to be debited and the one to be credited.

   (Are the accounts increasing or decreasing?)

Study guide , pg 37, exercise 2

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	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

20.1, January 3

➢ 2 accounts: bank and capital

➢ Bank – Asset; Capital - Equity

➢ Bank – increasing - Debited

➢ Capital – increasing - Credited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 3	Bank	Capital	+ 20 000	+ 20 000	

Study guide , pg 37, exercise 2

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

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20.1 Jan 3	F Fox deposited as opening capital 20 000	20 000
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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

20.1, January 3

➤ 2 accounts: bank and rent.

➤ Bank – Asset ; Rent - Expense.

➤ Bank – Decreasing - Credited

Rent – Increasing - Debited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 3	Rent paid	Bank	- 2 300	- 2 300	

Study guide , pg 37, exercise 2

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4	Bought law library on credit from Book Limited	24 000
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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

20.1, January 4

➢ 2 accounts: library and creditors/Book Limited

➢ Library – Asset; Creditors - liability.

➢ Library – Increasing - Debited

➢ Creditors – Increasing - Credited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 4	Library	Creditors /Book Limited	+ 24 000		+ 24 000

Study guide , pg 37, exercise 2

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

Date	Transactions	Amount R
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	Paid rent for January 20.1	2 300
4	Bought law library on credit from Book Limited	24 000
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13	F Fox drew a cheque for private use	1 234
18	F Fox received commission on a property transaction	1 350
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	(i) Salaries	8 350
	(ii) Leo Limited (on account)	100
30	Received payment from D Dunn on his account	1 500

20.1, January 5

➢2 accounts: equipment and bank.

➢Equipment – Asset; Bank - Asset

➢Equipment – Increasing - Debited

➢ Bank – Decreasing - Credited

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 5	Equipment	Bank	+ 4 700 - 4 700		

Study guide , pg 37, exercise 2

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	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

20.1, January 6

➤ 2 accounts: services rendered and bank.

➤ Services rendered – income; bank - asset.

➤ Services rendered – Increasing - Credited

➤ Bank – Increasing - Debited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 6	Bank	Services rendered	+ 7 200	+ 7 200	

Study guide , pg 37, exercise 2

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

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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

20.1, January 9

➤ 2 accounts: services rendered and debtors / D Dunn.

➤ services rendered – income; debtors - asset.

➤ services rendered – Increasing - Credited

➤ Debtors – Increasing - Debited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 9	Debtors	Services rendered	+ 8 318	+ 8 318	

Study guide , pg 37, exercise 2

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	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

20.1, January 10

➤ 2 accounts : repairs and creditors/Leo Limited.

➤ Repairs – expense; creditors - liability.

➤ Repairs – Increasing - Debited

   Creditors – Increasing - Credited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 10	Repairs	Creditors		- 100	+ 100

Study guide , pg 37, exercise 2

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	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

20.1 January 13

➢ 2 accounts: bank and drawings.

➢ Bank – asset; drawings - equity.

➢ Bank – Decreasing - Credited

  Drawings – Increasing - Debited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 13	Drawings	Bank	- 1 234	- 1 234	

Study guide , pg 37, exercise 2

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	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

20.1, January 18

➤ 2 accounts: bank and commission income.

➤ Bank – asset ; commission income - income.

➤ Bank – Increasing - Debited.

➤ Commission income – Increasing - Credited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 18	Bank	Commission income	+ 1 350	+ 1 350	

Study guide , pg 37, exercise 2

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	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

20.1 January 29

➢ 2 accounts: bank and salaries.

➢ Bank – asset; salaries - expense.

➢ Bank – Decreasing - Credited

➢ Salaries – Increasing - Debited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 29	Salaries	Bank	- 8 350	- 8 350	

Study guide , pg 37, exercise 2

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	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

20.1, January 29

➢ 2 accounts: Creditors/Leo Limited and bank.

➢ Creditors – liability; bank - asset.

➢ Creditors – decreasing - debited

➢ Bank – decreasing - credited.

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 29	Creditors /Leo Limited	Bank	- 100		- 100

Study guide , pg 37, exercise 2

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
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4	Bought law library on credit from Book Limited	24 000
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	(i) Salaries	8 350
	(ii) Leo Limited (on account)	100
30	Received payment from D Dunn on his account	1 500

20.1, January 29

➢ 2 accounts: bank and debtors/D Dunn.

➢ Bank – asset; debtors - asset.

➢ Bank – increasing - debited

Debtors – decreasing - credited

Date	Account debited	Account credited	A =	E +	L
20.1 Jan 29	Bank	Debtors	+ 1 500 - 1 500		

Example 2

May /June 2011- Qn 1

QUESTION 1 (20 marks) (24 minutes)

Commence this question on a new (separate) page.

PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

3. B Kenyeza who owed R1 480 paid R1 200 on 15 May 2011 in full settlement of his account. The cheque was returned on 3 April 2011 marked R/D. No entries were made in the books to record the cheque returned.

6. Paid the telephone account of the entity by cheque, R1 560.

8. A delivery vehicle was purchased on credit from Auto Motors for R85 000. A deposit of R35 000 was paid immediately and the outstanding balance is still due to Auto Motors.

12. Inventory purchased from LA Traders for R975 was incorrectly posted to the repairs account.

14. Received a cheque from M Moyo, R2 375. His debt was written off as irrecoverable during December 2010.

15. Received an invoice from ST Suppliers for stationary ordered, R1 450.

18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

QUESTION 1 (20 marks) (24 minutes)

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REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 1

➢ 2 Accounts: drawings and bank

➢ Drawings – Equity; Bank - Asset

➢ Drawings – Increasing - Debited

➢ Bank – Decreasing - Credited

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Drawings	Bank	- 2 580	- 2 580	

QUESTION 1 (20 marks) (24 minutes)

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PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

3. B Kenyeza who owed R1 480 paid R1 200 on **15 March 2011** in full settlement of his account. The cheque was returned on 3 April 2011 marked R/D. No entries were made in the books to record the cheque returned.

6. Paid the telephone account of the entity by cheque, R1 560.

8. A delivery vehicle was purchased on credit from Auto Motors for R85 000. A deposit of R35 000 was paid immediately and the outstanding balance is still due to Auto Motors.

12. Inventory purchased from LA Traders for R975 was incorrectly posted to the repairs account.

14. Received a cheque from M Moyo, R2 375. His debt was written off as irrecoverable during December 2010.

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18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 3

- 2 Accounts: B Kenyeza(debtors control) and bank
- B.Kenyeza – Asset; Bank - Asset
- B.Kenyeza – Decreasing - Credited
- Bank – Increasing - Debited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 3	B Kenyeza	Bank	+ 1 200 - 1 200		

2011, April 3

➢ 2 Accounts: B Kenyeza(debtors control) and Settlement Discount Granted (SDG)

➢ B Kenyeza – Asset; Settlement Discount Granted(SDG) – Equity (expense)

➢ B Kenyeza – Decreasing - Credited

➢ SDG – Increasing - Debited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 3	B Kenyeza	SDG	+ 280	+ 280	

QUESTION 1 (20 marks) (24 minutes)

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3. B Kenyeza who owed R1 480 paid R1 200 on 15 May 2011 in full settlement of his account. The cheque was returned on 3 April 2011 marked R/D. No entries were made in the books to record the cheque returned.

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18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 6

➢ 2 Accounts-telephone and bank

➢Telephone – Equity(expense); Bank - Asset

➢Telephone – Increasing - Debited

➢Bank – Decreasing - Credited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 6	Telephone	Bank	- 1 560	- 1 560	

QUESTION 1 (20 marks) (24 minutes)

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PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

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18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 8

➢ 2 Accounts: motor vehicles and creditors control(Auto motors)

➢ Motor vehicles – Asset; Creditors control - liability

➢ Motor vehicles – Increasing - Debited (50 000)

➢ Creditors control – increasing - Credited (50 000)

➢ Motor vehicles – Increasing - Debited (35 000)

➢ Bank – Decreasing - Credited (35 000)

Date	Account Debited	Account Credited	A =	E +	L
2011 Apr 8	Motor Vehicles	Creditors control	+ 50 000		+ 50 000
2011 Apr 8	Motor Vehicles	Bank	+ 35 000 - 35 000		
[OR] 2011 Apr 8	Motor Vehicles	Creditors control Bank	+ 85 000 - 35 000		+ 50 000

QUESTION 1 (20 marks) (24 minutes)

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1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

3. B Kenyeza who owed R1 480 paid R1 200 on 15 May 2011 in full settlement of his account. The cheque was returned on 3 April 2011 marked R/D. No entries were made in the books to record the cheque returned.

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15. Received an invoice from ST Suppliers for stationary ordered, R1 450.

18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 12

➢ 2 Accounts: purchases and repairs

➢ Purchases – Equity(Expense); Repairs - Equity(Expense)

➢ Purchases – Increasing - Debited

➢ Repairs – Decreasing - Credited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 14	Purchases	Repairs		+ 975 - 975	

QUESTION 1 (20 marks) (24 minutes)

Commence this question on a new (separate) page.

PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

3. B Kenyeza who owed R1 480 paid R1 200 on 15 May 2011 in full settlement of his account. The cheque was returned on 3 April 2011 marked R/D. No entries were made in the books to record the cheque returned.

6. Paid the telephone account of the entity by cheque, R1 560.

8. A delivery vehicle was purchased on credit from Auto Motors for R85 000. A deposit of R35 000 was paid immediately and the outstanding balance is still due to Auto Motors.

12. Inventory purchased from LA Traders for R975 was incorrectly posted to the repairs account.

14. Received a cheque from M Moyo, R2 375. His debt was written off as irrecoverable during December 2010.

15. Received an invoice from ST Suppliers for stationary ordered, R1 450.

18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 14

➢ 2 Accounts: bank and Credit Losses Recovered(CLR)

➢ Bank – Asset; CLR - Equity(Income)

➢ Bank – Increasing - Debited

➢ CLR – Increasing - Credited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 14	Bank	CLR	+ 2 375	+ 2 375	

QUESTION 1 (20 marks) (24 minutes)

Commence this question on a new (separate) page.

PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

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15. Received an invoice from ST Suppliers for stationary ordered, R1 450.

18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 15

➢ 2 Accounts: stationery/ST Suppliers (Creditors control)

➢ Stationery – Equity (Expense); Creditors control - Liability

➢ Stationery – Increasing - Debited

➢ Creditors Control – Increasing - Credited

   if stationery is classified as inventory

➢ Stationery inventory – Increasing - Debited

➢ Creditors control – Increasing - Credited

Date	Acc debit	Acc credit	A =	E +	L
2011 April 15	Stationery	Creditors Control		- 1 450	+ 1 450
[OR] 2011 April	Stationery Inventory	Creditors control	+ 1 450		+ 1 450

QUESTION 1 (20 marks) (24 minutes)

Commence this question on a new (separate) page.

PK Traders entered into the following transactions during April 2011. The entity uses a periodic Inventory system and is **not registered as a VAT** vendor.

1. Paid R2 580 with a business cheque for a printer purchased for the owner's son.

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18. Sold inventory on credit to M Maluleka, R1 400.

REQUIRED:

Analyse the above transactions of PK Traders in tabular format as follows:

Example:

April 1   The owner deposited R10 000 into the business's bank account as his capital contribution.

Date	Account debited	Account credited	A =	E +	L
2011 April 1	Bank	Capital	+ 10 000	+ 10 000	

2011, April 18

➢ 2 Accounts: debtors control (M.Maluleka) and sales

➢ Debtors control – Asset; Sales - Equity(Income)

➢ Debtors control – Increasing - Debited

➢ Sales – Increasing - Credited

Date	Account Debited	Account Credited	A =	E +	L
2011 April 18	Debtors Control	Sales	+ 1 400	+ 1 400	

Journals and posting to the ledger

- Cash receipts journal (CRJ)
- Cash payments journal (CPJ)
- Sales journal (SJ)
- Sales returns journal (SRJ)
- Purchases journal (PJ)
- Purchases returns journal (PRJ)
- General journal (GJ)

Functions of the journals

- CRJ- recording of all cash coming into the entity.

- CPJ- recording of all cash going out of the entity.

- SJ- recording goods/merchandise/inventory sold on credit.

- SRJ- recording of goods/merchandise/inventory returned, which were initially sold on credit.

Functions continued...

- PJ- recording of goods bought on credit.
- PRJ- recording of goods returned to the supplier, which were initially bought on credit.
- GJ- recording of all transactions which can not be recorded in the other journals, specifically;

-purchase and sale of non-current assets

-correction of errors

-transfers between ledger accounts

-opening entries in the new set of ledgers

-interest on debtors accounts

-credit losses written off

Discounts

- Trade discount: discount allowed by a wholesaler to the retailer and is never recorded in the books of the purchaser.

- Settlement discount granted: discount given to a debtor if s/he settles his/her account within a stipulated period.

- Settlement discount received: discount given to us by the creditor, if we settle our account in the stipulated period.

Value Added Tax- VAT

- Tax levied on the supply of goods and services.
- VAT output- VAT charged on sales, and is recorded in the cash receipts journal, the sales journal and the sales returns journal.
- VAT input- VAT charged on purchases, and is recorded in the cash payments journal, purchase journal and the purchases returns journal.

Calculation of VAT

- VAT is charged at 14% of the purchase price.
- E.g. An amount of R4000 is VAT inclusive. What is the VAT amount and the selling price?
- Note that R4000 is made up of 2 amounts i.e. the VAT portion , (represented by 14%)and the selling price (represented by 100%).
- In other words, R4000 = 114%. To calculate VAT we say 14/114 X R4000 = R491.
- To calculate the selling price; 100/114 X R4000 =R3502.

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

The following information pertains to Vivo Traders & Repairs. The entity is registered as a VAT vendor and uses the periodic inventory system. The VAT period of the entity ends on equal months.

Transactions, 14% VAT inclusive, for September 2011:

Sep 5   Issued an invoice to R Phiri for trading inventory to the value of R3 420 sold to him.

7   Cash sales of trading inventory, R1 482.

10   Received an invoice from Lifestyle Furnishers for a desk purchased on credit, R1 368.

17   Issued a cheque for R2 394 to Compu Traders, a trade creditor, as part payment of the entity's account.

20   Issued a credit note to R Phiri for a calculation error made on the invoice of 5 September 2011, R228.

21   Rendered services to A Colyn and received his payment of R684.

24   Issued a receipt to S Mnisi for R3 078, for a payment received on his account.

26   Purchased trading inventory on credit from Model Traders, R2 736.

27   Cash purchases of trading inventory, R3 990.

28   Received a credit note from Model Traders for trading inventory of R570 returned to them (refer to 26 September 2011).

31   Paid the water and electricity account of R969 by means of an electronic fund transfer to the to City of Vivo.

REQUIRED:

Enter the above transactions in the following journals of Vivo Traders & Repairs for September 2011:

2.1 **Cash receipts journal.** Make provision for the following columns: day, details, bank, sales, services rendered, VAT Output and debtors control. Do not total the columns. (6)

2.2 **Cash payments journal.** Make provision for the following columns: day, details, bank, creditors control, purchases, VAT Input and sundry accounts. Do not total the columns. (6)

2.3 **Sales journal.** Make provision for the following columns: day, details, sales, VAT Output and debtors control. Do not total the columns. (2)

2.4 **Sales returns journal.** Make provision for the following columns: day, details, sales returns, VAT Output and debtors control. Do not total the columns. (2)

2.5 **Purchases journal.** Make provision for the following columns: day, details, purchases, VAT Input and creditors control. Do not total the columns. (2)

2.6 **Purchases returns journal.** Make provision for the following columns: day, details, purchases returns, VAT Input and creditors control. Do not total the columns. (2)

2.7 **General journal.** (3)

2.8 Open the debtors- and creditors control , bank , purchases and purchases returns accounts in the **general ledger** (Opening balances: Debitors control, R65 000, Creditors control, R53 000, Bank, R185 738 and Purchases, R110 200) and post the applicable totals from the journals done for September 2011 to them.

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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31   Paid the water and electricity account of R969 by means of an electronic fund transfer to the to City of Vivo.

Sales Journal – Sept 2011

Date	Details	Sales	VAT output	Debtors control
		R	R	R
Sep 5	R Phiri	3 000	420	3 420

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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Cash Receipts Journal – Sept 2011

Date	Details	Bank	Sales	Debtors control	Services rendered	VAT output
		R	R	R	R	R
Sept 7	Sales	1 482	1 300			182

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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General Journal – Sept 2011

Date	Details	Debit	Credit
2011		R	R
Sept 10	Furniture	1 200	
	VAT input	168	
	Creditors control/ Lifestyle Furnishers		1 368

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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Cash Payments Journal – Sept 2011

Date	Details	Bank	Creditors control	Purchases	VAT input	Sundry accounts	
						Amount	Details
		R	R	R	R	R	
Sep 17	Compu Traders	2 394	2 394				

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

The following information pertains to Vivo Traders & Repairs. The entity is registered as a VAT vendor and uses the periodic inventory system. The VAT period of the entity ends on equal months.

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31   Paid the water and electricity account of R969 by means of an electronic fund transfer to the to City of Vivo.

Sales Returns Journal – Sept 2011

Date	Details	Sales returns	VAT output	Debtors control
		R	R	R
Sep 20	R Phiri	200	28	228

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

The following information pertains to Vivo Traders & Repairs. The entity is registered as a VAT vendor and uses the periodic inventory system. The VAT period of the entity ends on equal months.

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Cash Receipts Journal – Sept 2011

Date	Details	Bank	Sales	Debtors control	Services rendered	VAT output
		R	R	R	R	R
Sept 21	A Colyn	684			600	84

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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Cash Receipts Journal – Sept 2011

Date	Details	Bank	Sales	Debtors control	Services rendered	VAT output
		R	R	R	R	R
Sept 24	S Mnisi	3 078		3 078		

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

The following information pertains to Vivo Traders & Repairs. The entity is registered as a VAT vendor and uses the periodic inventory system. The VAT period of the entity ends on equal months.

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Purchases Journal – Sept 2011

Date	Details	Purchases	VAT input	Creditors control
		R	R	R
Sep 26	Model Traders	2 400	336	2 736

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

The following information pertains to Vivo Traders & Repairs. The entity is registered as a VAT vendor and uses the periodic inventory system. The VAT period of the entity ends on equal months.

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Cash Payments Journal – Sept 2011

Date	Details	Bank	Creditors control	Purchases	VAT input	Sundry accounts	
						Amount	Details
		R	R	R	R	R	
Sept 27	Cash	3 990		3 500	490		

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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Purchases Returns Journal – Sept 2011

Date	Details	Purchases returns	VAT input	Creditors control
		R	R	R
Sep 28	Model Traders	500	70	570

QUESTION 2 (23 marks) (28 minutes)

Commence this question on a new (separate) page.

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Cash Payments Journal – Sept 2011

Date	Details	Bank	Creditors control	Purchases	VAT input	Sundry accounts	
						Amount	Details
		R	R	R	R	R	
Sept 31	City of Vivo	969			119	850	Water and electricity/ municipality/ electricity

Total Cash Receipts Journal – Sept 2011

Date	Details	Bank	Sales	Debtors control	Services rendered	VAT output
		R	R	R	R	R
Sept 7	Sales	1 482	1 300			182
21	A Colyn	684			600	84
24	S Mnisi	3 078		3 078		
		5 244	1 300	3 078	600	266

<u>Total</u> Cash Payments Journal – Sept 2011

Date	Details	Bank	Creditors control	Purchases	VAT input	Sundry accounts	
						Amount	Details
		R	R	R	R	R	
Sep 17	Compu Traders	2 394	2 394				
27	Cash	3 990		3 500	490		
31	City of Vivo	969			119	850	Water and electricity/ municipality/ electricity
		7 353	2 394	3 500	609		

Total Sales Journal – Sept 2011

Date	Details	Sales	VAT output	Debtors control
		R	R	R
Sep 5	R Phiri	3 000	420	3 420

<u>Total</u> Sales Returns Journal – Sept 2011

Date	Details	Sales returns	VAT output	Debtors control
		R	R	R
Sep 20	R Phiri	200	28	228

Total Purchases Journal – Sept 2011

Date	Details	Purchases	VAT input	Creditors control
		R	R	R
Sep 26	Model Traders	2 400	336	2 736

Total Purchases Returns Journal – Sept 2011

Date	Details	Purchases returns	VAT input	Creditors control
		R	R	R
Sep 28	Model Traders	500	70	570

Total General Journal – Sept 2011

Date	Details	Debit	Credit
2011		R	R
Sept 10	Furniture	1 200	
	VAT input	168	
	Creditors control/ Lifestyle Furnishers		1 368

Dr   Debtors control   Cr

Date	Details	Folio	Amount		Date	Details	Folio	Amount
Sept 1	Balance	b/d	65 000		Sept 31	Bank	CRJ	3 078
31	Sales	SJ	3 420		31	Sales returns	SRJ	228

Dr   Creditors control   Cr

Date	Details	Folio	Amount		Date	Details	Folio	Amount
Sept 31	Bank	CPJ	2 394		Sept 1	Balance	b/d	53 000
31	Purchases returns	PRJ	570		31	Purchases	PJ	2 736
					31	Furniture	GJ	1 368

Dr   Bank   Cr

Date	Details	Folio	Amount		Date	Details	Folio	Amount
Sept 1	Balance	b/d	185 738		Sept 31	Total payments	CPJ	7 353
31	Total receipts	CRJ	5 244					

Dr   Purchases   Cr

Date	Details	Folio	Amount		Date	Details	Folio	Amount
Sept 1	Balance	b/d	110 200					
31	Bank	CPJ	3 500					
31	Creditors control	PJ	2 400					

Dr   Purchases returns   Cr

Date	Details	Folio	Amount		Date	Details	Folio	Amount
					Sept 31	Creditors control	PRJ	500