Practice exercise solutions

Learning Module: 4

Recording credit and sundry transactions

Practice exercise 4a

Questions regarding the *cashbook receipts*:

(i) The amount contributed by Leroy was deposited directly into the bank account, which meant the amount would have been reflected as a standalone on the bank statement. The analysis of receipts column is only used when separate transactional receipts need to be added together to obtain the total amount that appears on the bank deposit slip.

(ii) What needs to be considered when calculating cost of sales is that a trade discount does not affect the price a business initially paid for the products sold! In the given information it is clearly stipulated that all goods are sold at a constant mark-up of 50% on cost, *before* any trade discounts. The initial marked price of the Type F couches sold were R 7 000 each (before the 2.5% trade discount). Therefore, had the goods been sold at the original marked price, the cash amount received would have been R 14 000, the sales revenue would have been (R 14 000 ÷ 1.14) = R 12 280.70 and the cost of sales would have been (R 12 280.70 ÷ 1.50) = R 8 187.13; and this amount would still be the same irrespective of whether there happened to be a trade discount.

(iii) Since Letsema Furnishers is registered for VAT on the *invoice basis*, the VAT was accounted for when credit invoice D1 was issued to Runway Dealers on 8 April 20.7 in the debtors journal. The VAT was accounted for when the sale was made, and cannot be accounted for again when the account is settled.

(iv) Before Iso Venter's account was written off as irrecoverable (see JV6 on day 20 in the general journal), an amount of 40 cents in the Rand from his insolvent estate was received by cheque settlement. Since this was a cash receipt, an entry needed to be made into the cashbook receipts. To calculate the amount, we need to determine what his outstanding balance was at the time. One would go about this by firstly determining whether any amount was due by Iso Venter on 1 April 20.6. Since Letsema Furnishers only introduced transactions with debtors on 1 April 20.6, there would be no opening balance. Subsequently one would search for Iso Venter's name in all the journals leading up to the 20^{th}. The only transaction with this debtor between 1 April and 20 April was the credit sale for R 26 889.75 in the debtors journal on day 11. The debtor thus owed this amount on 20 April. 40 cents in the Rand essentially means 40% of the amount owing. The amount received from the debtor is therefore 40% of R 26 889.75 or R 10 755.90. The amount to be written off in the general journal is therefore 60% of the outstanding amount (i.e. 60% of R 26 889.75 or R 16 133.85).

(v) The bank statement is not a part of Letsema Furnishers' books; it's a printout from the books of AAA Bank. From AAA Bank's point of view, Letsema Furnishers is a creditor, *NOT* an asset. Creditors increase on the credit side. This is the reason for the interest being reflected as a credit by the bank. However, from the business's point of view, the interest has been received and should be added to Letsema Furnisher's asset balance – and assets increase on the debit side!

Questions regarding the *cashbook payments*:

(i) We need to calculate the amount was that was owed to Geronimo's on the $14^{th,}$ just before this settlement took place. The first step is to ascertain whether there was any amount due at the beginning of the month. Since Letsema Furnishers only started dealing with debtors and creditors on the 1^{st} of April, there would therefore not be any balance for creditors at that date. Transactions with Geronimo's took place on days 5 (CJ) and 7 (CAJ). The amount due just before settlement on day 14 can therefore be calculated as follows:

R 82 420.00 – R 6 900.00 = R 75 520.00

Since there was a settlement discount of 5% involved, this amount can now be split into two:

(the amount on the cheque must be entered into the CBP)

(this is the discount amount and must be entered into the GJ)

R 75 520.00 – 5%	=	R 71 744.00	
R 75 520.00 – R 71 744.00	=	R 3 776.00	
		R 75 520.00	

(ii) The VAT Act clearly states that no VAT input may be claimed on any operating or capital expenditure for in-house staff entertainment. If a restaurant were to purchase a kettle for use in the business kitchen, VAT input would be claimable since the kettle is used for business purposes.

(iii) The easiest way to explain this is to make use of a 'T-account' for the creditor, Western Frontiers.

There are two possible ways in which this transaction could have been recorded:

Method 1: Credit the creditor with the full invoice amount (i.e. credit creditors with R 59 280, debit equipment with R 52 000 and debit VAT input with R 7 280. This entry is made in the creditors journal. Thereafter, debit the creditor, and credit bank (in the CBP) with the deposit amount. The T-accounts would be affected as follows:

Western Frontiers (Creditors)

Date		Details	Fol.	Amount		Date		Details	Fol.	Amount	
20.7						20.7					
Apr.	20	Bank	CBP1	5 928	00	Apr.	20	Equipment & VAT	CJ1	59 280	00
		Balance	c/d	53 352	00						
				59 280	00					59 280	00
						20.7					
						May	1	Balance	b/d	53 352	00

Method 2: Credit the creditor with the portion of the invoice that was done on credit (i.e. R 53 352) and debit equipment with R 46 800 and VAT input with R 6 552. This entry is made in the creditors journal. Thereafter bank is credited with R 5 928, equipment is debited with R 6 757.92 and VAT input is debited with R 946.11. This entry is made in the cashbook payments. The creditors accounts would be affected as follows:

Western Frontiers (Creditors)

Date		Details	Fol.	Amount		Date		Details	Fol.	Amount	
						20.7					
						Apr.	20	Equipment	CJ1	53 352	00

The corresponding credit for the debit entry of R 5 928 would be entered into the bank account. This transaction was therefore recorded in the cashbook payments. The credit entry for R 59 280 would also be credited to creditors control. The corresponding debit entry would have been made in the equipment account. This double entry was therefore recorded in the creditors journal.

(iv) Firstly, one would have to calculate how much was owed to Smart Offices just before this transaction took place. This would help us determine what portion of the cheque amount was allocated to the settlement of the account. There was only one transaction with Smart Offices prior to this transaction, namely the credit purchase of R 886.40 on day 15 (in the CJ). The next portion of the cheque was the R 482 spent on stationery. The final portion was for trading inventory purchased for R 1 000. The total amount of the cheque was therefore R 886.40 + R 482 + R 1 000 = R 2 368.40. This amount was entered into the bank column. The R 886.40 would be entered into the creditors control column, and there would be no VAT amount linked to this entry. Since VAT output would only be claimable on the stationery and trading inventory purchased, one could calculate the amount entered into the VAT column as follows: (R 1 000 + 482) × 14/114 = R 182. The amount entered into the trading inventory column was calculated as follows: R 1 000 ÷ 1.14 = R 877.19. The balancing figure can now be entered into the sundry columns as a debit to postage and stationery (i.e. R 2 368.40 – 886.40 – 182 – 877.19 = R 422.81

Questions regarding the *petty cash journal*:

(i) The amount of R 250 must be inserted in the petty cash column, since it represents the VAT inclusive amount for the entire transaction – and this was the amount that was taken from the petty cash box. The R 50 in the sundries column represents the 20 stamps × R 2.5 which the owner took for personal use. Drawings of cash does not attract VAT so the R 50 will not be divided by 1.14. The amount in the VAT column represents the 80 stamps for business use × 14/114: Thus R 200 × 14/114 = R 24.56 will be entered into the VAT column. The balance of the R 250 will be entered into postage & stationery. Thus: R 250 – 50 – 24.56 = R 175.44 is to be entered into the postage & stationery column.

(ii) The easiest way to explain why there was no VAT claimed on this transaction is to assume that Jasper's Paradise paid for the courier fees and then received the income back from the debtor. I.e.:

Courier fees N#

Petty cash	196	93			

VAT control B#

Petty cash	27	57	Debtors control	27	57

Petty cash B#

			Courier fees & VAT	224	50

Debtors control B#

Courier fees recovered & VAT	224	50			

Courier fees recovered N#

			Courier fees	196	93

Note the following: The VAT control account was debited and credited with the same amount (they cancel each other out). Courier fees expense has been debited with R 196.93 while Courier fees recovered income has been credited with the same amount. Therefore, these two entries cancel each other out as well. This leaves us with a debit to debtors control and a credit to petty cash – exactly what was done in the petty cash journal. There is no need to make all the entries as shown above. Only the net effect needs to be recorded; i.e. debit debtors control and credit petty cash.

(iii) The petty cash imprest amount is usually restored by cashing in a cheque for the amount needed. Therefore the entry will be made in the cashbook payments. The amount of petty cash float as required by the business for a standard month is called an imprest amount. To restore the imprest amount on a monthly basis, a cheque needs to be drawn for the particular amount spent from petty cash during the month. This amount will be the total of the petty cash column in the petty cash journal. The amount required from the bank is requested according to required notes and coins. Notes and coins received are counted and placed in the petty cash box. The bookkeeper must adhere to control procedures for petty cash. One of these control procedures is to ensure the safekeeping of cash in a security safe, to which only authorised personnel have the access code. The petty cash float should regularly be reconciled with the petty cash journal. Discrepancies must be investigated and corrected within a reasonable period of time. Discrepancies arising from the reconciliation of petty cash are either resolved or referred to the appropriate person.

Questions regarding the *creditors journal*:

(i) This issue does indeed create confusion in practice. Yes, it would not have been a mistake had the business decided to open a separate ‘office furniture’ account for the coffee table purchased. A solution to this ‘grouping’ dilemma is to use an account called ‘office furniture and equipment’ and to debit office chairs, computers, coffee tables, office kitchen appliances etc. to this all-inclusive account.

(ii) The instalments were only due to start on 31 May 20.7, and would therefore not be included in the journals for April. Had the first premium been due on 30 April, for example; then an entry would have had to be made in the cashbook payments for April.

Questions regarding the *creditors allowances journal*:

(i) R 840.75 $\times$ 25% = R 210.19.

(ii) The amount given was the exclusive amount, and the inclusive amount should be entered into the creditors control column.

Questions regarding the *debtors journal*:

(i) A trade discount does not affect the price a business initially paid for the products sold. In the given information it is clearly stipulated that all goods are sold at a constant mark-up of 50% on cost, *before* any trade discounts. The initial marked price of the merchandise sold on day 11 was R 29 070. The cost of sales is thus R 29 070 ÷ 1.14 ÷ 1.50 = R 17 000.

(ii) The ratio was distorted due to the trade discount granted on the transaction on day 11. Refer to the explanation provided in (i) above. Had there been no trade discount, the amounts entered into the debtors control account would have been R 29 070 and the amount entered into the sales column would have been R 25 500. The total of the sales column would then have been R 48 539.43, and 48 539.43 ÷ 32 359.62 = 1.5!

Questions regarding the *debtors allowances journal*:

(i) Remember the following golden rule: One would only make an entry in the cost of sales account if one made an entry into the trading inventory account. Since there was no actual movement of inventory in this instance, no entry was made in trading inventory. Therefore no entry would be made in cost of sales. Therefore, no entry will ever be made in a cost of sales column if there is no actual movement in trading inventory.

Questions regarding the *general journal*:

(i) The interest was credited to the loan account, not the current bank account. One can only make an entry in the CBP if the bank account is credited.

(ii) Refer back to Learning example 3 A. The loan of R 150 000 was received on 2 March 20.7. The interest was calculated as follows: R 150 000 × 30/365 × 15% = R 1 849.32.

(iii) R 750 ÷ 1.50 = R 500

(iv) Refer to the discussion under the cashbook payments (question (i)).

(v) Refer to the discussion under cashbook receipts (question (iv)).

(vi) This is a bit of a technical issue. At the start of this Practice exercise, it was clearly stated that all amounts quoted are inclusive of VAT, unless otherwise stipulated. The mistake made during March was not the R 8 799.95 credit to bank, but rather the R 7 719.25 debited to equipment instead of postage and stationery. To correct the error, the amount debited to equipment must be ‘taken out’ of the account (i.e. equipment must be credited) and ‘put into’ the correct account (i.e. debited to postage and stationery).

Practice exercise 4b

General journal of Oribi Dealers – August 20.8 GJ4

Doc. no.	Day	Details	Fol.	Debit		Credit	
JV19	1	Furniture		15 000	00		
		Capital				15 000	00
		(Capital contribution by George Oribi)					
JV20	5	Drawings		[a] 3 548	25		
		VAT output				435	75
		Trading inventory				3 112	50
		(Owner took merchandise for own use)					
JV21	6	Drawings		[b] 3 556	80		
		VAT output				436	80
		Trading inventory				3 120	00
		(Owner took merchandise for own use)					
JV22	8	Drawings		365	54		
		VAT output				44	89
		Stationery				320	65
		(Owner took stationery for own use)					
JV23	9	Settlement discount granted		13	16		
		VAT input		1	84		
		Debtors control (Derold Selepe)				15	00
		(Settlement discount granted)					
JV24	11	Settlement discount granted		55	32		
		VAT input		7	75		
		Debtors control (Beauty Masilela)				63	07
		(Settlement discount granted)					
JV25	13	Settlement discount granted		1 019	74		
		VAT input		142	76		
		Debtors control (Thembi Mahlangu)				[c] 1 162	50
		(5% settlement discount granted)					
JV26	14	Debtors control (Beauty Masilela)		63	07		
		* VAT output				7	75
		Settlement discount granted				55	32
		(Cancellation of discount on R/D cheque)					

Doc. no.	Day	Details	Fol.	Debit		Credit	
JV27	16	Creditors control (Munro Enterprises)		250	00		
		VAT output				30	70
		Settlement discount received				219	30
		(Settlement discount received on full settlement)					
JV28	17	Creditors control (Donnay Dealers)		492	00		
		VAT output				60	42
		Settlement discount received				431	58
		(Settlement discount received on full settlement)					
JV29	19	Creditors control (Gorries Limited)		[d] 1 281	00		
		VAT output				157	32
		Settlement discount received				1 123	68
		(Settlement discount received on full settlement)					
JV30	24	Debtors control (Fred Couples)		[e] 104	45		
		Interest income				104	45
		(Interest charged on debtor's outstanding account @ 12.5% p.a. for 61/365)					
JV31	25	Interest expense		32	50		
		Creditors control (Dave Martin)				32	50
		(Interest charged by creditor on our overdue account)					
JV32	27	Packing materials		[f] 12 280	70		
		Office consumables				12 280	70
		(Correction of error)					
JV33	31	Interest income		104	45		
		Debtors control (Fred Couples)				104	45
		(Reversal of interest charged on 24/8)					

***** In this particular instance, it would not have been incorrect to credit VAT *input*. However, SARS will accept a credit to VAT output. For the sake of consistency in always debiting VAT input and always crediting VAT output, we will credit VAT *output* in this instance.

Calculations:

(a) R 4 731 ÷ 1.33333333… = R 3 548.25

(b) R 5 928 – 40% = R 3 556.80
OR: R 5 928 × 60% = R 3 556.80

(c) The amount owed by the debtor must have been R 22 087.50 ÷ 0.95 = R 23 250.
Thus, the amount of the discount (including VAT) must have been (R 23 250 – R 22 087.50) = R 1 162.50.

(d) The amount owed to the creditor must have been R 7 259 ÷ 0.85 = R 8 540. Thus, the amount of the discount (including VAT) must have been (R 8 540 – R 7 259) = R 1 281.

(e) R 5 000 × 12.5% × $^{61}/_{365}$ = R 104.45

(f) R 14 000 ÷ 1.14 = R 12 280.70