

ACCOUNTING
GRADE 11 EXAMINATION

200 MARKS

2 HOURS

9 June 2014

INSTRUCTIONS

1. Answer all the questions.
2. A separate answer book is provided in which to answer all the questions.
3. Show all workings for part marks to be allocated.
4. Read the instructions carefully and follow them precisely.
5. You will lose marks if you:
 - leave out important dates
 - use non standardised abbreviations
 - over write on figures
 - use foreign entries
6. Non programmable calculators may be used.
7. Do not remove any pages from the answer book.
8. Use the information below as a guide when answering the questions and try not to deviate from it.

Number	Topic	Marks	Minutes
Question 1	ASSET MANAGEMENT	40	25
Question 2	CREDITORS' RECONCILIATION AND INTERNAL CONTROL	30	20
Question 3	PARTNERSHIPS Financial statements of partnerships Ethical issues	90	55
Question 4	BANK RECONCILIATION AND INTERNAL CONTROL	40	20
Totals		200	120

QUESTION 1

ASSET MANAGEMENT

(40 marks ; 25 minutes)

The following information appeared in the books of Harry's Traders for the financial year ended 29 February 2014.

INSTRUCTIONS:

- 1.1 Post to the following accounts in the General Ledger:
 - 1.1.1 Equipment (cost) (6)
 - 1.1.2 Asset Disposal (8)
- 1.2 Complete the Tangible Asset Note to the Balance Sheet.
Show workings for depreciation calculations to score part marks. (26)

INFORMATION:

a) *Tangible Assets balances*

	29 FEBRUARY 2014	1 MARCH 2013
Vehicles	235 000	175 000
Equipment	69 900	92 400
Accumulated Depreciation on Vehicles	?	87 600
Accumulated Depreciation on Equipment	?	42 200

- b) On 1 December 2013, a new vehicle was purchased from BGT Motors on credit. No vehicles were sold.
- c) On 30 June 2013, old equipment was donated to an old age home. The accumulated depreciation on the furniture donated, was R18 300 on 1 March 2013.
The new equipment to replace the old ones will only be purchased in the next financial year.
- d) Depreciation must be provided for as follows:
 - Vehicles at 15% on cost.
 - Equipment at 20% on the diminishing balance method.

(40)

QUESTION 2: CREDITORS' RECONCILIATION AND INTERNAL CONTROL

(30 marks; 20 minutes)

Organic Traders buys and sells organic products. A statement received on 28 July 2013 from a creditor, Aqua Wholesalers, reflects a different amount owing by Organic Traders than the amount in the Creditors' Ledger of Organic Traders.

REQUIRED:

2.1 Make a list of the changes to Aqua Wholesalers' account in the Creditors' Ledger, which the bookkeeper should process to correct the errors or omissions. Give a brief description in the Details column and show the changes to the balances in the Amount column. (12)

2.2 Prepare a Creditor's Reconciliation Statement in respect of Aqua Wholesalers for July 2013. (10)

2.3 The owner of Organic Traders is unhappy with the errors which occurred and resulted in inaccurate records in their books. Briefly explain TWO measures that Organic Traders can implement in order to maintain good control over their creditors and to avoid this from happening in future. (4)

2.4 Organic Traders is experiencing cash problems and is currently in a position where they are not able to pay their creditors on time. Aqua Wholesalers has granted them a credit limit of R40 000. All their current creditors require them to pay within 30 days and they allow their customers credit terms of 60 days.

Suggest TWO ways in which the liquidity position can be improved. (4)

INFORMATION: CREDITORS' LEDGER OF ORGANIC TRADERS

CL4. AQUA WHOLESALERS				
		Debit	Credit	Balance
2013 July 1	Balance brought forward			Credit 17 680
July 6	Cheque 6321	16 796		884
	Discount	884		Nil
July 8	Invoice 2590		17 932	17 932
July 10	Debit note 89	593		17 339
July 14	Invoice 2810		25 490	42 829
July 16	Journal Voucher 450	1 800		41 029
July 17	Debit note 102	1 482		39 457
July 19	Invoice 1067		420	39 967
July 22	Cheque 6410	18 000		11 967
July 29	Invoice 3056		32 604	44 571

Statement received from Aqua Wholesalers:

Aqua Wholesalers PO Box 453; Stellenbosch 7599; Tel: 021 851 5679				
Organic Traders PO Box 219 Stellenberg, 7550				
Credit limit: R40 000			Date of statement: 25 July 2013	
		Debit	Credit	Amount
2013 July 1	Balance brought forward			17 680
July 6	Receipt 1436		16 796	884
July 8	Invoice 2590	17 932		18 816
July 10	Credit note 1038		539	18 277
July 10	Credit note 1042		3 900	14 377
July 16	Invoice 2810	25 904		40 281
July 17	Debit note 102		1 482	38 799
July 19	Credit note 141		420	38 379
July 22	Cheque 6410		18 000	20 379
	Discount		900	19 479

ADDITIONAL INFORMATION:

1. Aqua Wholesalers rejected the discount claimed by Organic Traders on 6 July and indicated that the payment was received too late to qualify for the discount.
2. There is a disagreement over the goods returned by Organic Traders as per debit note DN 89. The error has been made by Organic Traders. Aqua Wholesalers' credit note CN 1038 is correct.
3. Aqua Wholesalers have reflected credit note 1042 on 10 July. This, however, relates to another one of their customers, Orgo Stores, and not to Organic Traders.
4. Invoice 2810 was correctly recorded by Organic Traders.
5. Aqua Wholesalers purchased goods on credit from Organic Traders. The bookkeeper was instructed to transfer their debit balance of R1 800 in the Debtors' Ledger to the Aqua Wholesalers account in the Creditors' Ledger. However, she did the entry wrong (refer to Journal Voucher 450. Aqua Wholesalers have also forgotten to record this entry.
6. Credit note 141 for R420 received from Aqua Wholesalers was incorrectly recorded as Invoice 141 in the Creditors' Ledger.
7. Organic Traders have forgotten to claim their discount on 22 July. There was also a subtraction error of R10 000 in the Creditors' Ledger account on 22 July.
8. Note that Aqua Wholesalers' statement is prepared on 25 July 2013.

(30)

QUESTION 3

PARTNERSHIPS (90 marks ; 55 minutes)

The information presented below is from the records of JJ Stores for the financial year ended 29 February 2014. JJ Stores is a partnership with partners Jakob and Julies. The business deals in footwear sales and offers a repair facility. The business maintains a constant profit mark-up of 60% on cost.

INSTRUCTIONS:

3.1 MATCHING ITEMS

Choose a statement from COLUMN B that matches the GAAP principle listed in COLUMN A. Write only the letter next to the question number in the space provided in the answer book.

COLUMN A.		COLUMN B	
3.1.1.	Matching	A	The market value of the building is R800 000, but it must be recorded at its original cost of R340 000
3.1.2.	Going concern	B	"small" expenses of the business are grouped together and disclosed as Sundry Expenses
3.1.3.	Historical cost	C	Money lost due to theft of stock is written off, even though it may be recovered in the future
3.1.4.	Prudence	D	Insurance includes R340 which relates to the next financial year
3.1.5.	Materiality	E	Financial statements are prepared on the assumption that the business will continue operating in the future

(10)

3.2 Taking into account the adjustments, complete the Income Statement for the year ended 29 February 2014. (40)

3.3 Prepare the following notes to the Balance Sheet:

3.3.1 Trade and Other Receivables (10)

3.3.2 Partners' Current Account Note (30)

INFORMATION

a. Extracted from the **Pre-Adjustment Trial Balance on 29 February 2014**

	Debit	Credit
Capital: Jakob		330 000
Capital: Julies		220 000
Current Account: Jakob (1 March 2013)	9 850	
Current Account: Julies (1 March 2013)		12 750
Drawings: Jakob	83 610	
Drawings: Julies	24 140	
Equipment	77 540	
Accumulated Depreciation on equipment		32 820
Trading Inventory	88 770	
Debtors Control	27 777	
Provision for Bad Debts		1 420
Creditors Control		64 600
Loan: AB Bank		84 375
Fixed Deposit (14% p.a.)	50 000	
Cash and Cash Equivalents	4 695	
Sales		540 270
Cost of Sales	204 180	
Debtors Allowances	18 020	
Rent Income		46 520
Fee Income (on footwear repairs)		17 630
Sundry expenses	?	
Consumable Stores	15 430	
Salaries and Wages	42 600	
Insurance	8 725	
Stationery	9 288	
Water and Electricity	12 545	
Bad Debts	2 323	5 250
Interest on investment		2 180

ADDITIONAL INFORMATION:

- a) A physical stock taking on 29 February 2014 revealed the following inventories on hand:
- | | |
|-------------------|---------|
| Trading Inventory | R87 650 |
| Consumable Stores | R1 430 |
- b) Make provision for interest on investment. This investment has been in existence for the entire year.
- c) A debtor who owed R1 580 was declared insolvent. His estate paid 35% of his debt. This has been correctly recorded. The remaining balance must be written off as a bad debt.
- d) The provision for bad debts must be adjusted to 4% of debtors.
- e) The rent increased by R320 on 1 December 2013. The tenant has paid the rent until the end of March 2014.
- f) Insurance includes R675 which relates to the period 1 January 2014 to 31 March 2014.
- g) The total interest on loan was transferred to the Loan Account (capitalised) on 27 February 2014. Interest is charged at 12,5% p.a.
- h) Depreciation on equipment of R15 472 must be taken into account.
- i) The partnership agreement made provision for the following:
- Partners' salary allowance:
 - Jakob and Julies are entitled to an annual salary allowance of R90 000 and R86 600 respectively.
 - Interest on capital is calculated at 8% p.a. on capital balances. Take into account that Julies increased his capital by R30 000 on 1 June 2013.
 - Partners share profits and losses in proportion to their capital balances at the **end** of the financial year.

QUESTION 4: BANK RECONCILIATION AND INTERNAL CONTROL (40 marks; 20 minutes)

Top Dog Traders employs Joe Cryme to write up the books, do the bank deposits and issue cheques. You are required to assist as internal auditor.

REQUIRED:

- 4.1. Why does a business prepare a Bank Reconciliation Statement each month? (4)
- 4.2. Calculate the correct totals in the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for October 2013. (12)
- 4.3. Prepare the Bank Reconciliation Statement on 31 October 2013. (12)
- 4.4. Refer to Information numbers 4 and 8 below.
- 4.4.1. It appears that Top Dog Traders will not be able to recover all amounts, or part of the amounts, lost due to the fraudulent activities of Joe Cryme. If you were the owner of this business, what steps would you take against Joe Cryme? Provide TWO steps. (4)
- 4.4.2. Explain why the rule of prudence will be used in accounting for the fraudulent activities in the books and the financial statements. (4)
- 4.4.3. Explain what was wrong with the procedures in the accounting department which led to this type of fraudulent activity. (4)

INFORMATION:

1. At the end of the previous month, 30 September 2013, the following items appeared in the Bank Reconciliation Statement:

Balance per Bank Statement	17 000
Outstanding deposits for cash sales:	
• Dated 28 September 2013	30 000
• Dated 30 September 2013	12 400
Outstanding cheques:	
• 502 (dated 19 April 2013)	6 200
• 613 (dated 24 September 2013)	13 400
• 614 (dated 27 September 2013)	9 100
Balance per bank account	30 700

2. The balance on the Bank Statement is R40 092 (favourable) on 31 October 2013.
3. The provisional totals in the journals for October 2013 before reconciling to the bank statement are: CRJ – R510 000 and CPJ – R463 600.
4. From the bank reconciliation for September 2013 only the outstanding deposit of R12 400 and cheque No. 614 appeared on the October Bank Statement. The R30 000 reflected on the deposit slip, dated 28 September, was never deposited into the bank account by Joe Cryme. He cannot account for the whereabouts of the cash.
5. The October Bank Statement reflected bank charges of R1 310 and interest of R102 on the favourable bank balance.

6. A dishonoured cheque was reflected on the Bank Statement, R1 700. This was originally received from a debtor in payment of his account.

7. A direct deposit of R5 500 from a tenant was reflected on the Bank Statement.

8. As internal auditor you also detected that cheque No. 642 for R18 000 appeared on the Bank Statement, but not in the CPJ. The bookkeeper, Joe Cryme, forged the signatures and used the funds for personal benefit.

9. Cheque No. 633 was reflected in the CPJ as R2 630, but on the Bank Statement it was reflected as R6 230. The amount on the Bank Statement is correct.

10. The following items appeared in the October CRJ and CPJ, but not on the Bank Statement:

- No. 652 – R3 800 (dated 15 November 2013)
- No. 655 – R1 300
- A deposit of R12 700 for cash sales.

(40)

TOTAL 200 MARKS

