



HILLCREST HIGH SCHOOL

ACCOUNTING EXAM

JUNE 2015

GRADE 11

EXAMINER: MRS SUTTON

MODERATOR: MRS EDY

TIME: 3 HOURS

MARKS: 300

INSTRUCTIONS:

- Read through all the questions carefully and then answer each question to the best of your ability.
- Write only in black, blue pen or dark pencil.
- Answer ALL the questions in the special answer book provided.
- This paper consists of 4 (four) questions
- Remember to write your name and your Accounting teacher's name on your answer booklet.
- Where applicable, workings must be shown in order to achieve part-marks.
- Non-programmable calculators may be used

Topic	Time	Mark
Bank Reconciliation	30	50
Ratios and Ethics	42	70
Fixed Assets	25	42
Income Statement, Balance Sheet and Notes	83	138
Total	180 minutes	300

QUESTION 1 BANK RECONCILIATION**(50 marks; 30 minutes)**

You are provided with information relating to Clayton Traders. They require your help in preparing their Bank Reconciliation Statement for July 2015. Their financial year ends on 31 July 2015.

REQUIRED:

Study the information provided and answer the questions that follow:

INFORMATION

The Bank reconciliation Statement on 30 June 2015 showed the following:

Balance as per Bank Statement	R 44 000 (Cr)
Balance as per Bank account in the ledger	R 64 600 (Cr)
Outstanding deposit (dated 30 June 2015)	R 55 200
Outstanding cheques:	
▪ No. 1655 (dated 15 January 2015)	R 5 000
▪ No. 3210 (dated 18 July 2015)	R 22 800
▪ No. 3245 (dated 19 August 2015)	R136 000

On comparing the July Bank Statement from Mary Bank with the Cash Receipts Journal (CRJ) and the Cash Payments Journal (CPJ) for July, the following were noted:

1. A deposit of R55 200 appeared on the Bank Statement on 1 July 2015 but not in the July cash journals.
2. A deposit of R37 200 appeared in the CRJ on 29 July but not on the July Bank Statement.
3. Commission income of R10 000 was deposited directly into the bank account of Clayton Traders by Kit Kat Products. This appeared on the bank statement but not in the journals
4. Bank charges of R1 070 appeared on the bank statement but not in the journals.
5. Interest of R410 was credited on the bank statement, but has not been entered in the journals.
6. The bank statement reflected a dishonoured cheque of R3 800. This cheque was originally recorded in the CRJ on 5 July. It was received from T Taryn in settlement of her debt of R4 500.
7. The bank statement reflected a favourable balance of R120 000 on 15 July 2015. Clayton Traders put through a direct transfer to USA Bank for R100 000 in order to earn a higher return on a fixed deposit for 6 months. This transaction has been entered in the journals and on the Bank Statement.
8. Cheque no. 1655 is stale and must be cancelled. The cheque was originally issued as a donation to Child Welfare but it was lost in the post. It was decided to increase the donation and a new cheque no. 3347 for R6 000 was issued to Child Welfare. This has not been entered in the CPJ and Child Welfare has not yet deposited the cheque.
9. On 30 July 2015, a debtor J Dukes, presented a cheque dated 21 August 2015 for R12 200 in settlement of his debt. The bank did not accept this cheque for deposit on 31 July 2008. The cheque has also not been entered in the journals.
10. Cheque no. 3210 for R22 800 appeared on the July Bank Statement but not the July journals.
11. Cheque no. 3346 for R15 400 appeared in the July CPJ but not on the July Bank Statement.

12. A sundry entry for R44 appeared on the Bank Statement on 24 July 2015. This is a fraudulent entry by a bank employer. The R44 also appeared on the Bank Statement on 4 June and 24 May and Clayton recorded these amounts as bank charges in the CPJ for May and June. Mary Bank has agreed to reverse all three amounts immediately.
13. The Bank Statement showed a favourable balance of R60 096.

QUESTIONS:

- 1.1.1 Identify the items (numbers and amounts of the above information) that must be entered in the CRJ (8)
- 1.1.2 Identify the items (numbers and amounts of the above information) that must be entered in the CPJ (6)
- 1.1.3 Prepare the Bank Reconciliation Statement on 31 July 2015 (9)
- 1.1.4 Explain how you would treat cheque no. 3245 when preparing the financial statements on 31 July 2015 (2)
- 1.1.5 In your opinion, was it wise of Clayton Traders to invest R100 000 on fixed deposit on 15 July 2015? Explain your answer. Quote specific figures or details from the question to support your answer. (3)
- 1.1.6 Refer to the entry of R44 on the Bank Statement on 24 July 2015 (see item 12). Clayton Traders received a phone call from the bank manager to ask about the quality of their service. What would Clayton Traders say to him? (2)
- 1.2 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number in the ANSWER BOOK. (20)
- 1.2.1 Preparing a Bank Reconciliation Statement is an important part of internal control in a business.
- 1.2.2 Interest on a bank overdraft is recorded as part of bank charges.
- 1.2.3 A credit balance on the Bank Statement is favourable.
- 1.2.4 A post-dated cheque issued must be recorded in the Cash Payment Journal on the date of issue.
- 1.2.5 Overstated errors are recorded in the CRJ.
- 1.2.6 Deposits not yet credited by the bank is recorded in the Journals.
- 1.2.7 Post-dated cheques issued to suppliers are recorded in the CPJ and the Bank Reconciliation Statement.
- 1.2.8 Electronic transfers made in favour of the business is recorded CRJ.
- 1.2.9 Stale cheques are considered invalid if they are older than 6 months old.
- 1.2.10 Stop payments as per Bank Statement must be recorded in the CPJ.

QUESTION 2 PARTNERSHIPS & RATIOS**(70 marks; 42 minutes)**

ABCON TRADERS is a partnership owned by two partners, Abbott and Connor.

INSTRUCTIONS

Study the Appropriation statement and additional information below and then answer the question that follows:

Show workings for your calculations. Where comments are required, you are expected to quote the relevant figures/ratios in your answers.

REQUIRED:

- 2.1 Prepare the CURRENT ACCOUNT: ABBOTT for the year ended 28 February 2015.
The missing figure is his drawings for the year. (12)
- 2.2 Calculate and comment briefly on:
- 2.2.1 The percentage return earned by the business for 2015.
(Use average equity in your calculation) (8)
- 2.2.2 The percentage return earned by Abbott for 2015.
(Use average equity in your calculation) (11)
- 2.2.3 Calculate and comment on the debt-equity ratio for 2015 (4)
- 2.2.4 Calculate the Return on capital employed for 2015. In your opinion, was it a good idea to increase the loan this year? (8)
- 2.2.5 Did the business change its policy in setting its prices? Explain briefly. (5)
- 2.2.6 Did the business policy have a favourable or unfavourable effect on the financial results for the 2015? Explain briefly. (4)
- 2.2.7 Calculate the average rate of stock turnover for 2015. (4)
- 2.2.8 Calculate the current ratio for 2015. (3)
- 2.2.9 Calculate the acid-test ratio for 2015. (4)
- 2.2.10 Comment briefly on the liquidity position of the business for 2015. (5)
- 2.2.11 Explain the effect that the stock has on the liquidity position for 2015. (2)

ABCON TRADERS**APPROPRIATION STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015**

Net Profit for year		R58 000
Primary distribution		(44 000)
Salary: Abbott		12 000
Interest on capital (10 % p.a.)		32 000
Final distribution		14 000
Shared in profit-sharing ratio	14 000	
Abbott	7 000	
Connor	7 000	

(a) The following balances appeared in the financial statement for the past two years:

	2015	2014
Capital: Abbott	200 000	160 000
Capital: Connor	200 000	80 000
Current Account: Abbot	8 000	2 000
Current Account: Connor	12 000	(Dr) 8 000
OWNERS' EQUITY	420 000	234 000
Loan: People's bank	420 000	280 000
TOTAL CAPITAL EMPLOYED	840 000	514 000
Current Assets	160 000	145 000
Current Liabilities	70 000	90 000
Trading inventory (included in current assets)	100 000	60 000
Sales	570 000	600 000
Cost of Sales	380 000	450 000

(b) The partners increased their capital half way through the year.

(c) The interest rate on the Loan is 21 % p.a. and the interest paid during the current year was R57 600.

(d) The following ratios were calculated in respect of the previous account period (2014).

Return earned on average equity (Abcon Traders)	24 %
Return earned on average equity by Abbott	26 %
Return earned on average equity by Connor	23 %
Debt: Equity Ratio	1,2:1
Current Ratio	1,6:1
Acid-Test Ratio	0,6:1
Turnover rate of stock	9 times
Mark-up % on cost	33,3 %

QUESTION 3 ASSET MANAGEMENT**(42 marks; 25 minutes)**

The following information appeared in the books of Denton's Traders for the financial year ended 29 February 2015.

INSTRUCTIONS:

3.1.1 Post to the following accounts in the General Ledger:

3.1.1.1 Equipment (cost) (6)

3.1.1.2 Asset Disposal (8)

3.1.2 Complete the Tangible Asset Note to the Balance Sheet. (23)

3.1.3 40 % of the total equipment is made up of computers and other office devices. The accountant is of the opinion that the depreciation policy regarding equipment must be re-visited. Do you agree? Provide TWO reasons. (5)

INFORMATION:

a)

<i>Tangible Assets balances</i>	29 February 2015	1 March 2014
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 2014 a new vehicle was purchased from BGT Motors on credit. No vehicles were sold.
- c) On 30 June 2014 old equipment was donated to an old age home. The accumulated depreciation on the furniture donated, was R18 300 on 1 March 2014. 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

QUESTION 4**(138 marks; 90 minutes)**

- 4.1 Match each concept mentioned in the left column with an example of its application in the right column. (14)

Concepts	Application
a. Business entity	(1) Damages payable to client will be finalised next year. An estimated amount of R25 000 is recorded this year
b. Historical cost	(2) Interest on overdraft is shown as a separate amount in the Income Statement.
c. Going concern	(3) An owner of a business wins R4 000 in a competition. This is not shown in the Income Statement of the business.
d. Matching	(4) Whenever a debtor settles an account, discounts should be recorded at the same time.
e. Consistency	(5) Land and buildings are shown in the Balance Sheet at R205 000, even though an estate agent says that they could be sold for R250 00
f. Materiality	(6) Trading stock is shown in the Balance Sheet at R60 000, even though the business would get only R40 000 if the stock was sold at a flea market the next day
g. Prudence	(7) The business must deal with similar transactions in the same way from one financial year to another.

- 4.2 The famous ex-cricketers, Pollock and Ntini, require your assistance in preparing their financial statements.
- An Income Statement for the year ended 31 August 20x2. (53)
 - A Balance Sheet on 31 August 20x2, and the relevant Notes to the financial statements (71)
 - Inventory, Trade and other Receivables, Capital, Current account and Trade and other Payables.

Adjustments and other information

- Packing materials of R500 purchased on 31 August 20x2 were incorrectly posted to the Stationery account. Correct this error.
- According to a physical stock count the following were on hand at the year end:
Packing materials, R900
Trading stock, R79 100
- Rent income includes rent received until 30 September 20x2. The monthly rent was increased by 10 % with effect 31 May 20x2
- Provide for depreciation as follows:
On equipment at 15 % per annum on cost price
On vehicles at 20 % per annum on the diminishing balance method
- Stationery includes an amount of R400 for invoice books bought for the next financial year.

6. The loan statement from NFB showed the following:
- | | |
|---|---------|
| Balance at beginning of year: | R? |
| Repayments including interest for the year: | R? |
| Interest capitalised: | R 7 125 |
| Balance at end of year: | R40 000 |
- The business pays R10 000 on the loan from NFB Bank annually
7. The following totals from the August salaries journal were not posted:
- | | |
|--------------------------|---------|
| Gross salary | R30 000 |
| Medical Aid deduction | R 1 300 |
| Pension deduction | R 700 |
| PAYE | R 6 000 |
| UIF | R 300 |
| Medical aid contribution | R 2 600 |
| UIF contributions | R 300 |
| Skills Development Levy | R 300 |
8. The cheque for the payment of salaries was not issued on 31 August 20x2.
9. The provision for bad debts must be decreased by R200.
10. The fixed deposit at NFB Bank was made on the last day of the accounting period
11. The partnership agreement makes provision for the following:
- Monthly salary allowance of R7 500 to each partner.
 - Interest at 12 % per annum on partners' capital invested. N. Ntini had withdrawn R30 000 of his capital on 31 July 20x2.
 - Bonus to Pollock, R27 000
 - Remaining profit/loss to be shared in the ratio of their capital contribution at the end of the year.

Name of business: PN Sport Shop			
PRE-ADJUSTMENT TRIAL BALANCE AT 31 AUGUST 20x2			
BALANCE SHEET ACCOUNTS SECTION	Fol.	Debit	Credit
Capital: N. Ntini			300 000
Capital: S. Pollock			200 000
Current account: N. Ntini (1 September 20x1)			16 000
Current account: S. Pollock (1 September 20x1)		18 400	
Drawings: N. Ntini		71 900	
Drawings: S. Pollock		83 300	
Land and Buildings		530 200	
Vehicles		188 300	
Equipment		79 600	
Accumulated depreciation on vehicles			42 000
Accumulated depreciation on equipment			22 000
Trading stock		81 000	
Creditors control			85 825
Debtors control		53 000	
Bank			13 200
Cash float		1 000	
Petty cash		400	
Fixed deposit at NFB		12 500	
Provision for bad debts			1 500
Loan from NFB Bank at 15 % p.a.			40 000
NOMINAL ACCOUNT SECTION			
Sales			1 032 000
Cost of Sales		427 000	
Debtors allowances		32 000	
Salaries and wages		125 000	
Advertising		25 000	
Rent income			46 900
Discount allowed		1 500	
Insurance		6 400	
Packing materials		4 200	
Stationery		4 100	
Interest on loan		7 125	
Bad debts		1 500	
Medical aid contributions		3 000	
Discount received			4 200
Interest income			500
Bad debts recovered			1 000
Unemployment insurance contributions		1 250	
Skills Development Levy		1 250	
Bank charges		840	
Interest on overdraft		360	
HIV/Aids workshop expenses		1 000	
Sundry expenses		44 000	
		1 805 125	1 805 125