

**QUESTION 1 – CONCEPTS AND RECONCILIATION (49 marks)**

**1.1 CONCEPTS (8)**  
**PART A**

Give one term for each of the following descriptions by using a term from the list below. Write only the term next to the question number (1.1.1 term) in the Answer book.

*Outstanding deposit; dishonoured cheque; debit order;*  
*Stale cheque; bank overdraft; outstanding deposit*

- 1.1.1 A facility whereby the business can use more money than they have in their current banking account. (2)
- 1.1.2 An item shown as an unpaid cheque on the Bank Statement will be regarded as a/an .....(2)
- 1.1.3 Permission granted to a third party to automatically receive monthly payments from the current account of a business (2)
- 1.1.4 A cheque that is more than six months old will not be cashed by the bank because it is a/an ..... (2)

**PART B (10)**

- 1.1.5 What is the purpose of a bank reconciliation in a business? (2)

Indicate whether the following are true or false –

- 1.1.6 An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month. (2)
- 1.1.7 Service fees and interest on overdraft will be debited to bank charges.(2)
- 1.1.8 Post dated cheques received are entered into the CRJ. (2)
- 1.1.9 A post dated cheque issued is entered into the financial statements. (dr bank and cr creditors control – bank is favourable). (2)

**PART C (15 marks)**

The information provided, was taken from the records of Hillcrest Traders on 31 August 2016.

**REQUIRED**

Analyse each transaction by completing the columns in the table provided.

**Example**

The bank statement showed interest on overdraft of R85.

No	Journals and bank account			Bank statement		No entry
	Contra account - details	Amount debited	Amount credited	Amount debited	Amount credited	
e.g.	Interest on overdraft		85			

- A A deposit of R4 500 made on 30 August 2016 was in the cash journals but did not appear on the bank statement.
- B Cheque no 221, for R1 480 (a post dated cheque) issued to a creditor in part-payment of account appeared in the cash journal.
- C Cheque No 243 for R175 appeared on the bank statement. This cheque was issued to Hillcrest Tennis Club for the owner's membership fees. It was incorrectly entered as R157 in the cash journal.
- D A cheque for R680 was received from M Hillcrest (a debtor) dated 30 September 2016. This will be deposited on the due date.
- E A cheque for R570 issued to the Daily News for an advertisement was lost. This cheque will be replaced with a new cheque for the same amount in September 2016.
- F A salary cheque of the clerk on leave was not cashed at the bank. The gross salary of the clerk was R5 680. Total deductions for the month amounted to R2 270.
- G Cheque no 209 for R880 from the previous reconciliation statement issued to Telkom for the monthly telephone account appeared in the August 2016 bank statement.

## **PART D(16)**

### **1.2 BANK RECONCILIATION**

As the internal auditor, you are presented with information on the Bank Reconciliation Statement of Manto Traders. The owner is Rory Pollard. Their financial year ends on 31 October 2016.

#### **REQUIRED:**

1.2.1 Refer to the figure of R24 000 in information A.

The bank has no record of R24 000 ever being deposited. This money cannot be found.

- Explain how this loss would be treated in the books. (2)
- Explain how Rory can prevent a loss of this nature in the future. Provide two points. (2)

1.2.2 Refer to information A and B:

The bank account in the books of Manto Traders reflects a debit balance of R16 160 on 31 October 2016 before taking any adjustments into account.

Calculate the correct bank account balance on 31 October 2016. (6)

1.2.3 Give a suitable reason for the following entry from the Bank Reconciliation Statement:

Credit amount incorrectly debited R2 500. (2)

1.2.4 The office assistant of Manto Traders takes money from the cash register to make payments for the business expenses. Explain why this is bad accounting practice, and provide ONE point of advice to Pollard. (4)

#### **INFORMATION**

A Extract from the Bank Reconciliation Statement on 31 October 2016.

<u>Deposits not yet recorded</u>	
12 October 2016	24 000
30 October 2016	12 760
Outstanding deposits	
No 713 24 October 2016	7 880
No 738 15 December 2016	15 400
Credit amount wrongly debited	2 500
Balance as per bank statement	?

- B The following information appeared on the Bank Statement but the bookkeeper did not take this into account when calculating the balance of the bank account.
- The bank statement showed an unpaid cheque for R2 710 which had been received from a debtor
  - A stop order, R1 650 for insurance
  - The bank statement reflected cheque no 688 as R4 270 (the correct amount). This appeared incorrectly as R4 720 in the relevant Cash Journal.

## **QUESTION 2 – FIXED ASSET AND INTERNAL CONTROL (43 marks)**

You are provided with information relating to Mpe Traders for the year ended 29 February 2017. The business is owned by S Buthelezi.

### **INFORMATION**

A Office equipment and disposals:

Office equipment includes the office computers. Four of the office computers were stolen on 31 August 2016. These four computers were originally bought at a cost price of R14 000 each. The accumulated depreciation on the stolen computers on 31 August 2016 was R19 600. The insurance company, Old Mutal, only paid out R6 000 for each computer. These computers were replaced at a higher price on 31 August 2016.

Depreciation was calculated at 10% p.a.

B Information from the financial statements for the year ended 29 February 2017.

<b>FIXED ASSETS</b>	<b>LAND AND BUILDINGS</b>	<b>EQUIPMENT</b>	<b>VEHICLES</b>
<b>Carrying value at the beginning of the year</b>	1 200 000	550 000	403 501
Cost	1 200 000	1 000 000	699 000
Accumulated depreciation		(450 000)	(295 499)
<b>MOVEMENTS</b>			
Additions		?	
Disposal at carrying value	(700 000)	(36 400)	
Depreciation		?	(111 000)
<b>Carrying value at the end of the year</b>	500 000	?	292 501
Cost	500 000	992 000	699 000
Accumulated depreciation		?	(406 499)

## **REQUIRED**

- 2.1 Prepare the Asset disposal account for office equipment (computers) stolen on 31 August 2016. (9)
- 2.2 Calculate the date, which the stolen equipment was purchased. (6)
- 2.3 Calculate the cost price of the new equipment, which was purchased on 31 August 2016. (5)
- 2.4 Calculate the total depreciation for equipment on 29 February 2017. (5)
- 2.5 One of the office employees, Zolly, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Toni broke the security gate of the office to make the incident look like forced entry. She is not sure if the owner knows this.
- What advice would you give Zolly? Give one point. (3)
- 2.6 Explain how the fixed assets register will assist the internal audit in his duties. (3)

### **C Delivery vehicles:**

As a service to their customers, the business delivers goods within Durban. They charge a flat rate of R250 per delivery. Clients pay cash directly to the drivers.

3 660 deliveries were made during the year. The delivery service operated on 260 days during the year.

You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.

### **D Information from the Fixed Assets Register and the accounting records on 29 February 2017.**

<b>FIXED ASSETS REGISTER</b>	<b>DELIVERY VEHICLE 1</b>	<b>DELIVERY VEHICLE 2</b>	<b>DELIVERY VEHICLE 3</b>
<b><i>NAME OF DRIVER</i></b>	<b><i>Old Mill</i></b>	<b><i>Sandy</i></b>	<b><i>Thandi</i></b>
Date purchased	1 April 2017	1 January 2012	1 April 2015
Cost price of the vehicle	315 000	144 000	240 000
Accumulated depreciation	94 500	143 999	168 000
Carrying value	220 500	R1	72 000
Number of days worked	200 days	260 days	260 days
Number of deliveries done	300 deliveries	2 080 deliveries	1 500 deliveries
Cash paid in by drivers	75 000	525 000	275 000
Fuel and maintenance costs for the year	36 400	430 500	201 500

**REQUIRED** –

- 2.7 Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer. Provide a valid solution for each problem. (12)

**QUESTION 3 (78 marks)**

**INCOME STATEMENT AND NOTE TO THE BALANCE SHEET**

**PART A (10)**

Read each of the following statements and choose a term/phrase from the table below that best describes the statement.

<p><i>Finance cost, matching, secondary distribution, reliability, partners' earnings, going concern limited, liability materiality, Primary distribution</i></p>
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- (a) Financial statements are prepared on the assumption that a business will continue for the foreseeable future. (2)
- (b) The income statement is prepared for a specified period. (2)
- (c) Interest on loan is paid on borrowed funds. (2)
- (d) In a partnership, net profit is appropriated for salaries, interest on capital, bonus and share in remaining profit/loss. (2)
- (e) Financial statements should be available as close as possible to the date of the period for which they are prepared. (2)

**PART B**

You are presented with information from the books of Queen Stores for the financial year 30 June 2016. (Annexure A)

**REQUIRED**

- 3.1 Prepare the Income Statement for the year ended 30 June 2016. (52)
- 3.2 Prepare the Trade and Other Receivables and Inventories notes to the balance sheet. (16)

## **INFORMATION**

A Balances and totals extracted from the Pre-adjustment trial balance on 30 June 2016 (Annexure A)

### **B ADJUSTMENTS AND ADDITIONAL INFORMATION**

- a) An allowance of R240 granted to a debtor, A Able, for damaged goods sold to him, must still be recorded.
- b) The following invoice issued to debtor B Zulu, was not yet recorded:

All goods are sold at a profit mark up of 60% on cost.

<b>QUEEN STORES</b>		<b>Date 28 June 2016</b>	
<b>CREDIT SALES INVOICE NO 122</b>			
<b>TO B Zulu</b>			
<b>Terms – 30 days less 5%</b>			
<b>QUANTITY</b>	<b>DESCRIPTION</b>	<b>UNIT PRICE</b>	<b>TOTAL</b>
4 pairs	Ladies shoes	330	1 320
2 cans	Shoe polish	40	80
			1 400
	Shoe repairs		120
			1 520

- c) The provision for bad debts must be adjusted to 5 % of the debtors control balance (after taking into account the above).
- d) According to a physical stock take on 30 June 2016, the stock on hand balances were as follows:

Trading stock R45 650  
Consumable stores R720

- e) Advertisement expense includes R735 for a three month contract with the Daily News which commenced on 1 June 2016.
- f) The following information appeared on the June bank statement: (these must still be taken into account).

Bank charges R350  
Interest debited R220  
Direct deposit for the June 2016 rent from H Hill. The rent was increased by R200 per month on 1 April 2016.  
Insurance payment of R1 250. 20% of this amount is for the owner's private vehicle.

- g) Interest on the mortgage loan is capitalised. The loan statement received from FNB gave the following summary:

Balance on 1 July 2015 R300 000

Total repayments (including interest) R129 000

Balance on 30 June 2016 R198 450

- h) R30 000 of the fixed deposit matured on 31 January 2016. This was received and used to extend a store room. Take into account the outstanding interest on fixed deposit.

#### **QUESTION 4 PARTNERSHIPS AND ANALYSIS (66 MARKS)**

The information provided relates to ST Traders. The business is a partnership owned by Sam and Tom Toms. The financial year ended on 28 February 2017.

#### **PART A (10)**

Complete each of the following statements by supplying the missing word/s. Write only the missing word/s.

- (a) Gross profit on ..... is calculated to verify the mark up. (2)
- (b) A drop in percentage between gross profit on turnover and operating profit on turnover is mainly caused by ..... (2)
- (c) Solvency is equal to ..... (2)
- (d) A fixed deposit that matures on the last day of the financial year will show an improvement in the ..... ratio. (2)
- (e) A debit balance on a current account is a ..... balance. (2)

#### **PART B**

#### **REQUIRED**

- 4.1 Complete the Current account note to the Balance Sheet. (Refer to point 2) and calculate amount earned by each partner. (21)
- 4.2 Calculate the following financial ratios/indicators: (year ended 2017)
- 4.2.1 Debt/equity ratio (5)
- 4.2.2 Current ratio (3)
- 4.2.3 Acid test ratio (4)
- 4.2.4 Percentage return on investment earned by Sam (6)
- 4.2.5 Percentage return earned by the business for the year ended. (4)

- 4.3 Should Sam be satisfied with his return on investment? Explain and quote relevant figures or financial indicators to support your answer. (3)
- 4.4 Tom was concerned that the percentage net profit on sales decreased although the operating profit on sales has improved. Provide him with an explanation. Quote appropriated figures in your explanation. (3)
- 4.5 Comment on the liquidity position of the business. Quote two relevant financial indicators (with figures) in your response. (4)
- 4.6 Sam wants to increase the loan by an additional R150 000 to make improvements to the existing buildings. What advice would you offer him? You must make reference to financial indicators and figures to support your answers. (3)

**INFORMATION – Extract from the Trial Balance on 28 February 2017.**

Capital Sam	750 000
Capital Tom	500 000
Current account Sam (1/3 2016)	6 750
Current account Tom (1/3/2016)	9 800 (dr)
Drawings Sam	?
Drawings Tom	102 840
Loan FNB	820 000
Bank (cr)	7 750 (cr)
Cash float	1 300
Trading stock	28 620
Trade and other receivables	37 500
Trade and other payables	32 300
Sales	1 120 000
Profit and loss (net profit for the year)	?

2. **Partners' earnings and drawings:**

- Sam earns a salary of R102 000 per year. Tom earns 5% more than Sam.
- Interest on capital is calculated at 8% p.a. Tom's interest amounts to R40 000. Note that Sam increased his capital by R25 000 on 1 December 2016. This was recorded accordingly.
- Tom is entitled to a production bonus equal to 1.5% of the turnover.
- The remaining profit or loss is shared between Sam and Tom in the ratio 3:2 respectively. The remaining profit earned by Tom was R7 500 after all adjustments were done.
- Sam ended with a credit balance of R32 550 on his current account.

3. **The following financial indicators were calculated:**

	28 February 2017	28 February 2016
Operating profit on sales	36.6%	34%
Percentage net profit on sales	30.6%	33%
Current ratio	1,7:1	1,98:1
Acid test ratio	?	1.1:1
Stock turnover rate	14,6 times	15 times
Debt equity ratio	?	0.56:1
Return on partners equity	26,8%	27,2 %

**QUESTION 5 – COST ACCOUNTING MANUFACTURING (64 marks)**

5.1 Match the terms in column A with the examples provided in Column B. Write only the letter (A – E) next to each question number in the answer book. (e.g. 5.1 – A) (5)

	<b>COLUMN A</b>	<b>COLUMN B</b>
5.1	Selling and distribution cost	A Wood used to make the desks
5.2	Direct material cost	B Advertising expense
5.3	Factory overhead cost	C Office stationery expense
5.4	Administration cost	D Factory rent expense
5.5	Direct labour cost	E Production wages

5.2 **BEECUM BUILDERS**

Beecum Builders manufactures school desks. The information presented relates to the financial year ended 29 February 2017.

**REQUIRED**

5.2.1 Calculate the following –

- Direct material cost (6)
- Direct labour cost (7)

5.2.2 Complete the table for factory overhead cost. (10)

5.2.3 Post to the Work in Process Stock account in the general ledger. (8)

5.2.4 Calculate the gross profit earned for the financial year ended 29 February 2017. (10)

5.2.5 What makes up PRIME COST? (2)

## **INFORMATION**

### **A – Stock balances**

	29 February 2017	28 February 2016
Raw materials	34 530	23 500
Work in process	26 600	27 270
Finished goods	42 600	37 275
	240 desks	210 desks

### **B – Transactions during the year**

	(R)
Cash and credit purchases of raw material	488 400
Transport cost on raw material	14 230
Defective raw material returned to suppliers	8 600
Cash purchases of factory indirect material	23 750
Production wages	?
Salary and wages	213 800
Rent expense	278 400
Insurance	46 800
Water and electricity	134 900
Factory sundry expenses	38 699

### **C PRODUCTION WAGES**

Number of employees	5	
Normal time (hours per employee)	1 840 hours	
Overtime (hours worked per employee)	77 hours	
Normal time rate	R45.60	
Overtime rate	1.5 times the normal rate	
<b>DEDUCTIONS AND CONTRIBUTIONS</b>		
	<b>EMPLOYEE</b>	<b>EMPLOYER</b>
Pension Fund	7 % of basic	9 % of basic
Unemployment insurance fund (UIF)	1 % of basic	1 % of basic

- D Consumable stores used in the factory amounted to R22 450.
- E Indirect labour inclusive of benefits totalled R81 000.
- F The rent expense must be apportioned between the factory, sales department and the office in the ratio 5:2:1.
- G 75 % of water and electricity must be allocated to the factory.
- H 2/3 of the insurance expense is for the factory.

- I During the year, 8 000 desks were produced at a cost of R177,50 per unit. Desks are sold at a fixed selling price of R250 each.

### 5.3 ZONDO MANUFACTURERS

Zondo manufacturers plastic stationery bags for matriculants. The information below is from their records for the financial year ended 30 June.

#### REQUIRED

- 5.3.1 Calculate the amounts denoted by (a) and (b) in the information. (4)
- 5.3.2 Verify the break even number of units for the financial year ended 30 June 2017 by showing a calculation. (4)
- 5.3.3 Comment on the break even point and the level of production for both years. Quote relevant figures in your comment. (4)
- 5.3.4 Provide a valid reason for the change in direct material cost per unit. (2)
- 5.3.5 Give one suggestion that the business can use to improve production and profitability. Quote figures. (2)

#### INFORMATION

	30 June 2017		2016
	TOTAL COST	UNIT COST	UNIT COST
Fixed costs	?	25,00	23,50
Factory overhead cost	224 640	18,00	17,00
Administration cost	(a)	7,00	6,50
Variable costs	?	?	59,50
Direct labour cost	349 440	28,00	25,60
Direct material cost	374 400	(b)	25,00
Selling and distribution cost	106 080	8,50	8,90
Number of units produced and sold	12 480		11 800
Selling price per unit	R92,50		R83,00
Break even number of units	12 000		11 800

## **ANNEXURE A**

### **BALANCES AND TOTALS EXTRATED FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 30 JUNE 2016**

Fixed deposit Mandi Bank (9% p.a.)	<b>60 000</b>
Loan (FNB bank)	<b>171 000</b>
Trading stock	<b>50 555</b>
Debtors control	<b>36 240</b>
Provision for bad debts	<b>2 195</b>
Sales	<b>930 000</b>
Cost of sales	<b>620 000</b>
Debtors allowances	<b>3 350</b>
Fee income	<b>32 550</b>
Salaries and wages	<b>56 400</b>
Consumable stores	<b>12 820</b>
Stationery	<b>5 440</b>
Rent income	<b>35 600</b>
Interest on fixed deposit	<b>4 725</b>
Discount allowed	<b>1 240</b>
Discount received	<b>2 565</b>
Advertising	<b>2 260</b>
Bank charges	<b>5 440</b>
Insurance	<b>8 800</b>
Bad debts	<b>2 100</b>
Sundry expenses	<b>18 000</b>