

QUESTION 1 – CONCEPTS AND RECONCILIATION (28 MARKS – 15 MINUTES)

1.1 CONCEPTS (8)

Choose a term/concept from the list given to complete the sentences below. Write only the term next to the question number. (1.1.1 – answer) in the Answer Book.

Stale cheque, debit, credit, debit order, debit cheque.
Debit interest income and credit debtors control.
Debit debtors control and credit interest income

- 1.1.1 A favourable balance in the bank account in the general ledger is a Balance. (2)
- 1.1.2 The journal entry made for interest charged on the debtors overdue account is recorded as (2)
- 1.1.3 A grants permission to a third party to automatically receive a monthly payment from the current banking 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 (2)

1.2 BANK RECONCILIATION (20)

You are presented with information relating to Xolani Book Bazar for February 2018.

REQUIRED

- 1.2.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the answer book. (9)
- 1.2.2 Prepare the Bank reconciliation statement on 28 February 2018. (9)
- 1.2.3 As the internal auditor, you are not happy with the manner in which cash is being controlled in this business. Identify **ONE** problem and provide a figure to support your answer. Give advice on how this problem can be avoided in the future. (2)

INFORMATION

A Information from the Bank Reconciliation Statement on 31 January 2018

Favourable balance as per Bank Statement		30 000
Outstanding deposit	Dated 30 January 2018	37 500
Outstanding cheques	No 111 (dated 1 August 2017)	4 700
	No 267 (dated 27 January 2018)	8 000
	No 321 (dated 15 February 2018)	13 000
Favourable balance as per Bank account in the general ledger		41 800

B Provisional totals in the CRJ on 28 February 2018

- CRJ R107 200
- CPJ R 121 165

C A comparison of the February 2018 Bank Statement with the Bank Reconciliation Statement on 31 January 2018 revealed the following –

- Only cheque no 267 and the deposit of R37 500 appeared on the Bank Statement for February 2018.
- Cheque no 111 was issued to the Planet Fitness Club in payment of the owner's membership fees. The club no longer exists.

D A comparison of the February 2018 Bank statement with the Cash Journals for February 2018 revealed the following –

- Bank charges of R960 on the Bank statement were not recorded in the relevant journal
- A dishonoured cheque for R6 680 appeared on the Bank Statement. This cheque was received from B Zola, a debtor, in settlement of his account of R7 730.
- Interest of R520 credited on the Bank Statement was not recorded in the journals.
- Cheque no 421 issued to a creditor appeared correctly on the bank statement as R8 940. This was recorded as R9 840 in the Cash Payment Journal.
- A debit order of R1 200 for the monthly insurance appeared twice on the bank statement in error, but no entry has been made in the Journals.

E The February 2018 Cash Receipts Journal reflected the following outstanding deposits.

- R25 000 on 6 February 2018
- R17 000 on 27 February 2018

F Cheques from the February 2018 Cash Payments Journal but not yet presented for payment

- No 531 for R6 500 (dated 23 February 2018)
- No 561 for R8 100 (dated 25 February 2018)

G The bank statement reflected a favourable balance of R9 515 on 28 February 2018.

QUESTION 2 – ASSET MANAGEMENT – (53 MARKS – 35 minutes)

The following information was taken from the records of Day Traders. The financial year ends on 28 February.

REQUIRED

- 2.1.1 Show the calculations for Accumulated Depreciation marked (a) to (d) on the table provided in your answer book. (20)
- 2.1.2 Refer to information C and complete the Asset Register for **ITEM 2**. (3)
- 2.1.3 Prepare the **ASSET DISPOSAL ACCOUNT** in the general ledger for the vehicle that was sold on 28 February 2018. (8)
- 2.1.4 Prepare the **Fixed asset note** in the Balance Sheet as at 28 February 2018. (22)

INFORMATION

List of balances on 28 February 2018.

A

Land and buildings	6 789 200
Vehicles	810 000
Equipment	210 000
Accumulated depreciation on vehicles	387 600
Accumulated depreciation on equipment	77 000

B Land and Buildings

- A building was purchased during the financial year for R2 000 000. This has been properly recorded.
- Land and buildings to the value of R980 000 were sold at cost on the last day of the financial year. The entry has not been yet recorded.

C Equipment

The following information appeared in the asset register regarding the equipment.

	Date purchased	Cost price
ITEM 1	1 March 2011	R70 000
ITEM 2	1 June 2014	R60 000
ITEM 3	1 March 2016	R35 000
ITEM 4	1 August 2017	R45 000

- All equipment is depreciated at 10% p.a. on cost.
- Item no 4 was purchased during the financial year. The transaction was recorded properly in the books of the business.
- Item no 2 was sold on 1 September 2017. The transaction was not recorded.

D Vehicles

- A new vehicle costing R330 000 was purchased and paid for by cheque on 1 January 2018. This entry has not been recorded.
- On 28 February 2018 a vehicle costing R200 000 and was sold for cash, R72 000. The business made a loss of R9 920 on the sale of the asset. This entry still needs to be recorded. The vehicle was purchased on 1 March 2014.
- Depreciation on vehicles is calculated at 20% p.a on the diminished balance method.

QUESTION 3 FIANANCIAL STATEMENTS (87 MARKS – 45 MINUTES)

3.1 Match the concept in column A with the description in column B.

Write only the correct letter (3.1.1 A) in your answer book. (8)

3.1.1	Income Statement	A	Analysis of the financial position of the business
3.1.2	GAAP	B	Remaining value of an asset after it has been fully depreciated
3.1.3	Depreciation	C	Finance cost
3.1.4	Principle of Materiality	D	When classifying a transaction, the seriousness or impact on the profits must be considered
3.1.5	Balance sheet	E	These principles make it possible to compare the financial results of different businesses
3.1.6	Matching Principle	F	Shows the profitability of the business
3.1.7	Interest	G	Imputed expense
3.1.8	Residual value	H	Incomes earned and expenses incurred must be shown for the same financial period

3.2 The following information relates to Red Small Stores. The financial year ended on 28 February 2018. The business uses the perpetual inventory system.

REQUIRED

3.2.1 Complete the **Income Statement** for the year ended 28 February 2018. (48)

3.2.2 Prepare the following notes to the Balance Sheet.

- Trade and other receivables (9)
- Trade and other payables (22)

INFORMATION – ANNEXURE A

Adjustments and additional information.

1. On 28 December 2017, T Left, a debtor, returned damaged goods. The selling price was R850 and the mark-up was 25% on cost price. The goods were immediately sent back to the supplier, who issued a credit note. No entries have been made in the books.
2. Trading stock on hand as per physical stock taking on 28 February 2018, amounted to R698 900.
3. Packing material to the value of R15 700 was used during the year.
4. The insolvent estate of E Eye paid out 40 cents in the rand and transferred R360 directly into the bank account of the business on 5 December 2017. This has been recorded. The rest of her outstanding balance must be written off and the provision for bad debts must be adjusted to R3 090.
5. A debtor with a credit balance of R11 700 is to be transferred to the Creditors Ledger.
6. One employee was erroneously left out of the salaries journal for February 2018. The details from his pay slip were

NET SALARY	R18 375
PAYE DEDUCTION	R4 500
PENSION DEDUCTION	R1 875
UIF DEDUCTION	R250

The business contributions are as follows –

- Pension fund – 10.5% of Gross salary
- UIF – Rand for Rand basis

Note – All contributions are debited to the salaries and wages account

7. Rent expense was increased by 10% on 1 February 2018. The rent for March 2018 has already been paid.
8. The total depreciation for the financial year amounted to R83 200.
9. The water and electricity account for February 2018 has not been paid, R11 000.

10. The bank statement from Standard bank reflected the following –
- Interest on overdraft, R315
 - Bank charges, R670
 - EFT from S Sibiya previously written off as irrecoverable, R3 600.
11. The loan statement from Capitec Bank in 28 February 2018 reflects the following –
- Balance on 1 March 2017 – R665 600
Total payments during the year – R103 200
Balance on 28 February 2018 – RR652 000
- Provide for interest. (note interest must be capitalized)
12. The following cheques issued to suppliers had not yet been presented for payment -
- No 1270 – R2 580
No 1280 – R1 850

QUESTION 4

PARTNERSHIPS – ANALYSIS AND INTERPRETATION (55 MARKS – 37 minutes)

You are provided with the incomplete Financial Statements of a partnership, Sunshine Stationers, together with additional information and financial indicators. Round all answers to 1 decimal place.

REQUIRED

- 4.1 Sunshine Stationers uses a mark-up of 50% at all times.
- 4.1.1 Calculate the Gross profit on sales and the net profit on sales for the current financial year. (7)
- 4.1.2 Calculate the actual mark-up percentage used for the 2018 financial year. (5)
- 4.1.3 Comment on the mark up achieved in 2018. Mention two actions that the business can do to ensure they achieve their desired mark up in the future. (6)
- 4.2 Should the partners be satisfied with the percentage return earned on the average equity in 2018, compared to the 21,7% earned in 2017? Give two reasons for your answer. (5)

- 4.3 Is the business positively or negatively geared? Give a reason for your answer. (3)
- 4.4 Calculate the missing amounts in the Balance Sheet labelled A – H. (23)
- 4.5 Comment on the businesses liquidity position for the year ended 29 February 2018. Identify and quote two financial indicators to support your answer. (6)

INFORMATION -Sunshine Stationers

EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRAURY 2018

	FEB 2018	FEB 2017
Sales	2 181 120	1 715 200
Cost of sales	1 536 000	1 280 000
Interest income	12 150	12 150
Net profit	657 270	?

BALANCE SHEET AS AT 28 FEBRUARY 2018

	2018	2017
ASSETS	1 111 000	937 900
Non – Current Assets		
Fixed Assets	?	?
Financial assets (Fixed deposit – 9%)	F	F
Current Assets	G	421 600
Inventories (all Trading stock)	247 500	E
Trade and other receivables (all Trade debtors)	H	144 600
Cash and cash equivalents	133 000	D
TOTAL ASSETS	1 586 000	1 359 500
EQUITY AND LIABILITIES		
OWNERS EQUITY	1 160 000	1 040 000
Capital	1 100 000	A
Current accounts	60 000	B
Non current liabilities	236 000	C
Loan Best Bank (13% p.a.)	236 000	C
Current liabilities	190 000	163 500
Trade and other payables (all trade creditors)	190 000	163500
TOTAL ASSETS AND LIABILITIES	1 586 000	1 359 500

ADDITIONAL INFORMATION

- The business achieved a 28 % return on average equity for 2018.
- Both partners contributed **additional capital** of R50 000 each on 1 March 2017.
- An **extra R80 000** was borrowed from Best Bank during the 2017 financial year. (for last year)
- The debt equity ratio for 2017 was 0.15:1.
- The stock turnover rate for the year ended 28 February 2017 was 8 times. The stock on hand was constant throughout the 2017 financial year.
- The fixed deposit was taken out on 1 June 2015 for 3 years. The interest rate is fixed at 9% per annum. Interest is not capitalised.
- The current ratio for 2018 is 2,5:1 and for 2017 it was 2,6:1.
- The acid test ratio for 2018 is 1,2:1 and for 2017 it was 1,6:1.

QUESTION 5 – MANUFACTURING (68 MARKS – 40 MINUTES)

5.1 Choose one answer and write only the letter (A-D) next to the question number. E.g. 5.1.1 A (5)

5.1.1 **Direct wages is calculated as follows –**

- A (Number of factory employees x overtime hours) + (overtime rate x normal hours)
- B (Number of factory employees x number of normal hours worked by each employee x overtime wage rate) + employers contributions towards factory workers.
- C Number of factory employees x normal wage rate
- D (Number of factory employees x normal hours worked x normal wage rate) + (overtime hours of all factory workers x overtime wage rate) + employers contribution towards the factory workers

5.1.2 **Break-even point refers to-**

- A total amount which the business will receive in the future
- B total number of units produced by the business in the particular period to make a profit
- C total number of units that must be produced to recover all costs in the particular period.
- D Profit that is generated by the business in the particular period.

5.1.3 **Fixed costs per unit are calculated as follows –**

- A total fixed costs divided by number of units produced
- B number of units produced divided by total fixed costs
- C total fixed costs divided by direct labour
- D direct labour divided by total fixed costs

5.1.4 **Which of the following items will be regarded as a factory overhead cost**

- A indirect material
- B salaries of a salesman
- C advertising of a finished product
- D depreciation of office equipment

5.1.5 **Prime cost equals –**

- A $DLC + DMC$
- B $DLC + DMC + FC$
- C $DLC + DMC + FC + AC$
- D $FC + AC$

5.2 You are provided with the information relating to Newby Manufacturers for the year ended 28 February 2018.

The business makes and sells only one type of product, namely bicycles.

REQUIRED:

5.2.1 Prepare the **following ledger accounts/calculations** in the general ledger/note.

RAW WORK STOCK ACCOUNT (11)

WORK IN PROGRESS STOCK ACCOUNT (10)

FACTORY OVERHEADS CALCULATION NOTE (24)

INFORMATION

1. **OPENING BALANCES ON 1 March 2017.**

Raw material stock	R180 000
Work in progress stock	160 000
Finished goods stock	110 000
Indirect materials	10 000
Factory plant and equipment at cost	1 800 000
Accumulated depreciation on factory plant and equipment	1200 000

2. Newby Manufacturers employs the following individuals:

Details	Number of employees	Basic <u>MONTHLY</u> salary/wage per employee	Overtime hours per employee	Overtime rate per hour
Employees in the production process	19	R7 000	1 000	R40
Factory foreman	2	R8 500	400	R45
Salesman	3	R5 600	-	-
Cleaner	1	R3 000	-	-

3. **Employment benefits** –

- All employees in the production process work overtime
 - Employment benefits are allocated to the cost account applicable to the salaries/wages of the specific employee's.
 - All employees, except the factory cleaner are registered with the business pension fund and the UIF. **Deductions** are made from the basic salary for the pension fund (7%) and the UIF (1%). The **employer contributes** 8% of the basic salary towards the pension fund and 1% of the basic salary to the UIF.
 - The cleaner spends 75% of his time cleaning the factory and 25% of his time cleaning the offices.
4. Factory maintenance paid to date amounted to R70 000. A further amount of R2 000 is owed for repairs to the machine.
5. Electricity and water paid for the financial year amounted to R60 000. 10% must be allocated to the admin office. The factory used the rest.

6. Rent and insurance are allocated between the factory and the admin office on the basis of floor space. The factory comprises 690 square metres while the office comprises 310 square metres. The monthly rent for the entire premises is R12 000.

NOTE - The annual insurance premium is R40 000.

7. Indirect material bought for cash, R30 000. The factory uses 70% of all material, while the office uses the rest.
8. Raw material is purchased – cash, R900 000 and credit, R60 000.
9. Depreciation on factory plant and equipment must be brought into account to 20% per annum, according to the cost method.

CLOSING BALANCES ON 29 FEBRUARY 2018

Raw materials stock	R260 000
Work in progress stock	275 460
Finished goods stock	150 000
Indirect materials	15 000

PART B 5.2 (18 marks)

New Fashion Manufacturers

This business produced and sold 5 000 tracksuits for the year ended 29 February 2018.

REQUIRED

Refer to information 1

- 5.2.1 Calculate the number of meters of raw material fabric that has been wasted during the production process. Use the information in 1 given. (5)
- 5.2.2 Give two examples of how wastage could have occurred and in each case give advice. (4)

Refer to information 2

- 5.2.3 Calculate the administration cost per unit for 208. (3)
- 5.2.4 Calculate the break-even point for the current financial year. (4)
- 5.2.5 Should the business be satisfied with the number of units that they are currently producing? Briefly explain. (2)

INFORMATION 1

	Number of metres of fabric	Total cost
Opening stock	1 210 m	R30 000
Purchases	19 750 m	R510 380
Raw materials issued to factory	18 110m	R480 210
Closing stock	3 160 m	R90 170
<ul style="list-style-type: none">• 5 000 tracksuits were produced and sold.• A study shows that 3.4 metres of fabric is required to produce one tracksuit.		

INFORMATION 2 – Raw material

	TOTAL	PER UNIT
Sales	R2 500 000	R500
Total variable cost	R800 000	R160
Total fixed cost	R1 350 000	R270
Admin cost	R400 000	?

QUESTION 6 – PROBLEM SOLVING (9 MARKS – 8 MINUTES)

Speedy bikes sells one brand of motor bikes. The owner, C Edy, has three branches operating in Cape Town, Brits and Pretoria. The three branches are managed by M Leppan, T Wittstock and A Sutton, respectively. C Edy has obtained the annual figures from the three branches for the financial business period ending 30 April 2018.

REQUIRED

- 6.1 Identify **ONE** problem in relation to each branch, **quoting figures** to support the problems. In each case, offer C Edy advice on how to solve the problem.

INFORMATION

	LEPPAN	WITTSTOCK	SUTTON
Number of motor bikes available for sale	490	370	420
Number of motorbikes sold during the year	425	330	125
Physical count on 30 April 2018	55	40	295
Cost price per motor bike	R10 000	R10 000	R10 000
Selling price per motor bike	R20 000	R20 000	R20 000
Total amount of deposit	R8 500 000	R6 300 000	R2 250 000
Advertising per year	R40 000	R40 000	R80 000
Salary of manager per month	R30 000	R30 000	R30 000

ANNEXURE A – TRIAL BALANCE INFORMATION for 28 February 2018 RED SMALL STORES

<u>Balance sheet section</u>	R
Fixed deposit Investec Bank	460 000
Debtors control	63 190
Provision for bad debts	3 450
Trading stock	697 400
Bank	(cr)7 800
Creditors control	197 000
Pension Fund	6 500
Creditors for Salaries	48 000
SARS – PAYE	12 000
UIF	1 500
Mortgage loan Nedbank	652 000
<u>Nominal section</u>	
Sales	4 220 700
Cost of sales	1 100 720
Debtors allowances	12 500
Salaries and wages	288 090
Bad debts	2 790
Rent expense	63 360
Advertising	292 330
Water and electricity	72 000
Packing materials	16 070
Bank charges	1 675
Interest on current account	847
Interest on fixed deposit	13 000
Insurance	18 300

