

QUESTION 1 – PARTNERSHIPS (105 marks – 63 minutes)

The information presented below is from the records of TT Stores for the financial year ended 29 February 2016. TT Stores is a partnership with partners Tom and Mickey. The business deals in footwear sales and offers a repair facility. The business maintains a constant profit mark up of 60% on cost.

INSTRUCTIONS

1.1 MATCHING ITEMS (10)

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	
1.1.1	Matching principle	A	The market value of the building is R800 000 but it must be recorded at its original cost of R340 000
1.1.2	Going concern	B	Small expenses of the business are grouped together and disclosed as sundry expenses
1.1.3	Historical cost	C	Money lost due to theft of stock is written off even though it may be recovered in the future
1.1.4	Prudence	D	Insurance includes R340 which relates to the next financial year
1.1.5	Materiality	E	Financial statements are prepared on the assumption that the business will continue operating in the future

1.2 Taking into account the adjustments, complete the Income Statement for the year ended 28 February 2016. (40)

1.3 Prepare the following notes to the Balance Sheet –

Trade and other receivables (8)

Partners' current account note (21)

1.4 Comment on the Liquidity position of this business. Quote two relevant ratios to support your comment. (8)

1.5 Calculate the total earnings of partner Tom (show workings) (4)

1.6 Calculate the return on investment of partner Mickey. Should he be satisfied with this return? Explain your answer. (8)

- 1.7 Mickey is concerned about the total drawings of Tom. Explain why you think it bothers him and provide two suggestions on how he can address this concern. (6)

ADDITIONAL INFORMATION

- a) A physical stock taking on 29 February 2016 revealed the following inventories on hand –
Trading stock 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 the debt and 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 2015. The tenant paid the rent until the end of March 2016.
- f) Insurance includes R675 which relates to the period 1 January 2016 to 31 March 2016,
- g) The total interest on loan was transferred to the Loan Account (capitalized) on 27 February 2016. 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 –
- Partner's salary allowance – Tom and Mickey 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 Mickey increased his capital on 1 June 2015.
 - Partners share profits and losses in proportion to their capital balances at the end of the financial year.

J) **LIST OF FINANCIAL INDICATORS**

		29/2/2016	29/2/2015
1	Current ratio	1,9:1	1,6:1
2	Acid test ratio	0,5:1	0,9:1
3	Average debtors collection period	39 days	42 days
4	Debt equity ratio	1,14:1	0,3:1
5	Return on investment	?	Tom – 38% Mickey – 45%
6	Current interest rate offered by banks	10%	

QUESTION 2 – MANUFACTURING (45 marks – 27 minutes)

Natal Manufacturers products printer cartridges for Waltons and sells them at a profit mark up of 50% on cost. The information below is from their financial records for the financial year ended 30 June 2016.

INSTRUCTIONS –

2.1 Indicate the cost category of each of the item listed below. Choose your answer from the list provided. Write the answer only, next to the question number in the answer book.

**Direct material cost, Selling and Distribution cost, Direct labour cost, Administration cost,
Factory overhead cost**

- 2.1.1 Advertising expense
- 2.1.2 Wages paid to workers in the production process
- 2.1.3 Salary of the factory foreman
- 2.1.4 Stationery and telephone expenses (4)

REFER TO INFORMATION A

- 2.2 Calculate the TOTAL FACTORY OVERHEAD EXPENSES (15)
- 2.3 Calculate the selling price per cartridge. (4) Hint – Calculate the number of units sold first
- 2.4 Post to the following accounts in the General Ledger –
 - 2.4.1 Work in process stock account (7)
 - 2.4.2 Finished goods stock account (6)

REFER TO INFORMATION B

- 2.5 Calculate the number of units Vusi had to produce in order to break even. (5)

2.6 Explain the usefulness of the break even analysis and comment on the level of production achieved by Vusi. (4)

INFORMATION A

Natal Manufacturers produces printer cartridges for Waltons and sell them at a mark up of 50% on cost. The information below is from their financial records for the financial year ended 30 June 2016.

a)

Stock balances	30 June 2016	30 June 2015
Raw material stock	34 560	27 660
Factory indirect material	2 530	3 550
Work in process	37 300	32 450
Finished goods stock	33 000 440 units	14 250 190 units

b) **Summary of transactions for the year ended 30 June 2016**

MATERIAL USED IN THE FACTORY	
Raw material purchased	?
Raw materials issued for production	490 000
Indirect materials purchased	21 760
FACTORY SALARIES AND WAGES	
Direct labour	647 500
Indirect labour	24 350
Factory manager's salary	64 860
OTHER EXPENSES	
Rent expense	38 400
Insurance	8 880
Water and Electricity	16 600
Bad debts	3 210
Sundry factory expenses	25 620
SALES	1 940 625
NUMBER OF UNITS PRODUCED	17 500

c) **ADDITIONAL INFORMATION**

60% of the rent expense must be allocated to the factory

2/3 of the insurance expense relates to the factory

Water and electricity must be divided between the factory and the office in the ratio 4:1 respectively

INFORMATION B

Vusi makes fancy cellphone pouches which are popular with high school learners. He operates from his father's garage. The information below relates to the first 3 months of his business.

a)

	TOTAL	PER UNIT
FIXED COSTS		
Factory overheads	6 860	
Administration costs	690	
VARIABLE COSTS		
Direct material costs	9 800	10
Direct labour costs	5 880	6
Selling and distribution costs	2 940	3

b) Number of units produced 980 (all the units produced were sold)

Sales for the period above – R27 440

QUESTION 3 – CASH BUDGETS (45 marks – 27 minutes)

You are provided with information from Queen Dealers, a business owned by Q Queen. The business buys and sells camping goods using a profit mark up of 60% on cost.

INSTRUCTIONS

- 3.1 Complete the partially completed Debtors collection schedule. (7)
- 3.2 Prepare the Cash Budget for the budget period 1 May 2016 to 30 June 2016. (26)
- 3.3 Q Queen wants to borrow R100 000 from the bank. She intends presenting this budget as motivation for the loan. State two points that you think the bank would consider before making a decision. (Quote figures) (4)
- 3.4 The budgeted telephone expense for April was R3 000.
 - 3.4.1 Provide a suitable reason for the actual expense being R450 more than the budgeted amount. (2)
 - 3.4.2 Give a reason why the business decided to maintain the telephone expense at R3 000 for the budget period. (2)
- 3.5 The sales assistants are dissatisfied with their wage increase. Give two points to support them. (4)

INFORMATION

a)

	ACTUAL		BUDGETED	
	MARCH	APRIL	MAY	JUNE
Sales (cash and credit)	82 000	76 000	72 000	66 000
Purchases of stock	51 250	47 500	?	?
Rent income	9 000	9 000	?	?
Manager's salary	8 500	8 500	?	?
Wages (sales assistants)	12 000	12 000	?	?
Telephone	3 000	3 450	3 000	3 000
Consumable stores	4 500	4 500	4 600	4 600
Discount received	1 000	1 200	1 200	1 300
Sundry expenses	8 000	?	?	?

b) 25 % of total sales are for cash. Experience has shown that debtors settle their accounts as follows-

60% settle in the month following the transaction month

37% settle in the 2nd month after the transaction month

3% usually irrecoverable

c) Inventories are kept constant by replacing the amount of goods sold. (a base stock is maintained)
Note – that the mark up percentage on cost is 60%.

All purchases are on credit and creditors are paid 30 days after purchases (i.e. in the next month)

d) Salaries and wages are reviewed at the end of May each year. It was decided that the manager's salary will increase by 10% effective from 1 June 2016.

The sales assistants will receive a 5% increase, which was equal to the inflation rate at the time.

e) Sundry expenses are expected to increase by 5% on the previous month's total.

f) New equipment to the value of R75 000 (including finance charges) will be purchased during May 2016. R25 000 will be paid in May and the balance will be paid in eight equal instalments.

g) Rent income will be increased by 8% on 1 May 2016.

h) The owner's total drawings per month amounts to R5 500. R1 200 of this is usually consumable goods from stock.

i) On 30 April 2016 the bank account showed a favourable balance of R27 555

QUESTION 4 – BANK RECONCILIATION (30 marks – 18 minutes)

TY Traders is a small business that deals in selling computer equipment. They also provide a repair and maintenance service to regular clients. The following information was extracted from their records. The bank statement was received from FNB bank on 29 June 2016.

INSTRUCTIONS

- 4.1 Adjust the Bank account in the general ledger by recording the information directly in the bank account, as laid out in the answer book. (Insert appropriate details on each side of the bank account for part marks) (16)
- 4.2 Prepare the bank reconciliation statement on 30 June 2016. (10)
- 4.3 Explain how monthly reconciliation with the bank statement can be useful in detecting and preventing mismanagement of cash and fraud (two points) (4)

INFORMATION

- a) On 30 June 2016 the bank columns in the cash journals show the following provisional totals –
Cash receipts journal R620 500
Cash payments journal R532 200
- b) The following items on the bank reconciliation statement on 31 May 2016

Favourable balance as per bank statement	11 500
Cheque 1123 not presented for payment	12 250
Cheque 1136	4 200
Cheque 983 dated 22 December 2014	500
Outstanding deposits	18 600

- c) Information that appeared in the cash journals but not on the bank statement for June 2016-

Cheque 1143 for R21 400 – post dated for 15 September 2016
Cheque 1156 for R7 500 – dated 29 June 2016
A deposit of R45 600 on 30 June 2016
- d) Information that appeared on the bank statement received, but not in either of the cash journals for June 2016
 - Total bank charges for the period on the statement, R1 860
 - A deposit of R18 600 was recorded on 1 June 2016
 - Cheque 1136 was recorded on the statement of R2 400 (the correct amount). This cheque was in favour of a creditor.
 - A stop order went through in favour of Cat Insurers for R3 000 for a short term insurance on the store.
 - Interest of R600 was received for the period of the bank statement.

- An R/D cheque for R9 420. An investigation revealed that this cheque was received from a debtor, M Broke as a final payment of his account of R9 500.
 - A cheque payment of R1 250. It was established that this was not a transaction of this business but it was an error made by the bank.
- e) Cheque 983 was issued to Sunflower Children’s Home as a donation. This organization has subsequently closed down.
- f) Cheque 1123 was reported lost. This was in favour of Builder Services for renovations to the existing building. A new cheque 1167 was issued. This transaction was not recorded.
- g) The bank statement reflected a favourable balance on 30 June 2016.

QUESTION 5 – ASSET MANAGEMENT (40 marks – 24 minutes)

The following information appeared in the books of Harry Traders for the financial year ended 29 February 2016.

INSTRUCTIONS

5.1 Post to the following accounts in the general ledger-

Equipment (6)

Asset disposal (8)

5.2 Complete the Tangible Asset note in the balance sheet. (Show workings) (8)40%

5.3 40% of the total equipment is made up of computers and 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) TANAGIBLE ASSETS BALANCES

	28 February 2016	28 February 2015
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 2015, a new vehicle was purchased from Toyota on credit. No entries have been made.

c) On 30 June 2015, old equipment was donated to an old age home. The accumulated depreciation on the furniture donated was R18 300 on 1 March 2015. 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% p.a. on cost

Equipment at 20% p.a. on the diminished balance method

QUESTION 6 PERIODIC STOCK METHOD AND VAT (35 marks – 21 minutes)

PART A (26 marks)

6.1 Beta Stationery shop

You are provided with information relating to Beta Stationery shop for the year ended 29 February 2016.

The business used the **periodic inventory method**.

REQUIRED

6.1.1 Prepare the Trading account – show all workings. (15)

6.1.2 Calculate the cost of sales. Show all workings. (6)

6.1.3 Calculate the mark up % achieved. (3)

6.1.4 The business aims at a mark-up of 65%. Give two possible reasons for the actual mark up percentage being different from the intended mark up %. (2)

INFORMATION

a) Trading stock was valued as follows –

R245 000 on 1 March 2015

R302 000 on 28 February 2016

b) Goods purchased during the year on credit, R960 000

c) Goods returned to suppliers, R26 000

d) Carriage paid to Gauteng Deliveries during the year –

On goods delivered to Beta Stationery Shop, R35 000

On goods delivered to customers, R22 000

- e) Goods comprising gold plated pens were imported from Top Notch Pens in the USA. Payment of 6 000 dollars was made to Top Notch Pens immediately. The exchange rate is R15,00 to a US dollar. Beta Stationery Shop also paid R4 800 to Fedex to transport the pens. Customs duty on these goods was levied at 40% and this was paid to SARS when the goods arrived in the country.
- f) The owner, B Beta, took goods costing R3 200 for personal use.
- g) Goods were sold during the year for R1 532 900.

PART B – VAT (9)

Change **the underline** parts in the following sentences to make the statements TRUE. Write the answer next to the question number in the answer book. (3)

- 1. Vat is charged at **14%** on fruits and vegetables.
- 2. Vat is payable to the **South African Reserve Bank**.
- 3. Vat is the most pervasive of all the taxed levied in South Africa as it **applies only to some people**.

REQUIRED

Calculate the correct amount of VAT the business has to pay. Show all workings. (6)

INFORMATION

TRANSACTION	VALUE EXCLUSIVE OF VAT	VAT AMOUNT	VALUE INCLUSIVE OF VAT
Credit sales	R16 200	? A	? B
Cash sales	? C	? D	36 936
Cash purchases of trading stock	? E	3 178	? F