

## **QUESTION 1 BANK RECONCILIATION STATEMENTS (42 – 25 MINUTES)**

### **1.1 CONCEPTS**

Consider the descriptions A to E and choose the relevant item from the table to match the description. (5)

Stop payment	Stop order	Bank overdraft
Current liability	Interest on overdraft	Cash and cash equivalents
Interest on current account		

- A Debit balance as per bank statement
- B Instruction to the bank to make regular payments for a specified period
- C Debit balance as per bank account
- D Current portion of the loan
- E Interest on debit balances

### **1.2 BANK RECONCILIATION**

The information presented was extracted from the books of Bridal Boutique Stores in Pretoria. Their financial year ends on 31 August 2017.

#### **REQUIRED**

- 1.2.1 All entries to be recorded in the bank account. (25)
- 1.2.2 Prepare the Bank Reconciliation Statement on 31 August 2017. (10)
- 1.2.3 Briefly explain the purpose of preparing the bank reconciliation statement. (2)

#### **INFORMATION**

- 1. The Bank Reconciliation Statement on 31 July 2017 was prepared by an inexperienced bookkeeper.

Credit balance as per bank statement	13 400
Outstanding deposit 25 July 2017	14 600
Outstanding deposit 29 July 2017	23 500
Cheques not presented for payment	
No 599 (dated 15 January 2017)	2 000
No 718	5 400
No 722 (dated 20 October 2017)	1 000
No 739	600
No 746	1 800
Debit amount incorrectly credited	400
?balance as per Bank account	?

2. Provisional totals from the bank columns of cash journals on 31 August 2017:
  - Cash Receipts Journal R29 120
  - Cash Payments Journal R21 480
  
3. On comparing the Bank Reconciliation Statement for July 2017 with Bank Statement for August 2017 it was noted that:
  - The errors had been corrected
  - The outstanding deposit of R14 600 appeared on the bank statement on 5 August 2017.
  - The deposit of R23 500 does not appear on the August 2017 bank statement.
  - Cheque number 718 and 746 had been presented for payment.
  - Cheque number 599 was issued to Thokia, a creditor.
  
4. On comparing the Bank Statement for August 2017 with the Cash Journals for August 2017 the following differences were noted:
  - A deposit of R17 400 made on 31 August 2017 did not appear on the bank statement.
  - The following cheques had not been presented for payment:
    - No 754 R3 000
    - No 755 R5 200
    - No 756 R6 000
    - No 763 R1 200 (dated 10 September 2017)
  
5. Cheque number 739 was issued to Benny Motors for repairs to the vehicle. The cheque was misplaced by the payee and must be cancelled. Cheque number 764 was issued on 31 August 2017. Benny Motors picked up the cheque on 1 September 2017.
  
6. The cheque of a debtor, B Sims was returned unpaid by the bank. The cheque of R1 500 was received in settlement of his account of R1 600.
  
7. A cheque for R7 200 dated 5 September 2017 was received from Tyson Traders, a debtor.
  
8. An amount of R1 800 had been debited by the bank for a debit order in favour of FNB Bank in payment for the owner's personal vehicle.
  
9. The accountant had made the following errors in the Cash Journals:
  - Cheque no 721 for stationery had been overstated by R500
  - A deposit received from the owner as additional capital was recorded incorrectly as R2 000 instead of R20 000.
  
10. The following items appeared on the Bank Statement but not in the Cash Journals:
  - Service fees, R248, Cash handling fees, R380, Interest on overdraft, R520

- The monthly debit order for insurance to Old Mutual Insurers, R4 000
- Rent was directly deposited into our Bank account by the tenant, M Leppan, R6 800.

11. Calculate the balance as per bank statement from FNB Bank on 31 August 2017.

**QUESTION 2 – COST ACCOUNTING (49 MARKS – 30 MINUTES)**

**2.1 COST ACCOUNTING CONCEPTS**

**REQUIRED**

Choose a description in COLUMN B to match the concept in COLUMN A. Write only the letter (A – D) next to the number (2.1.1 – 2.1.3) in the ANSWER BOOK.

(3)

COLUMN A		COLUMN B	
2.1.1	Direct material	A	The varnish purchased to use on the school desks
2.1.2	Indirect material	B	The carpenter in the factory's salary
2.1.3	Indirect labour	C	The wood purchased to produce school desks
		D	The salary of the factory foreman

**2.2 FASHIONISTA BAGS**

Fashionista Bags manufactures handbags. They sell their bags at a mark-up of 100% on cost. The information given was taken from their financial records on 31 July 2017, the end of the financial year.

**REQUIRED**

2.2.1 Complete the following notes for the year ended 31 July 2017:

- Direct Materials (7)
- Factory overheads (16)
- Direct Labour Costs (4)

2.2.2 Prepare the work in process account in the general ledger.

(12)

## INFORMATION

A The following balances were appeared in the books:

	31 July 2017	1 August 2016
Direct material	?	R810 000
Work in process	?	R20 200
Finished products	R490 000	R320 000
Indirect materials	R64 000	R25 000

### **Direct material**

- Raw materials purchased, R1 650 000.
- Import duties are 20% of the material cost.
- Damaged materials worth R24 000 were returned to the supplier.
- Raw materials issued to the factory, R1 542 000.

### **Direct labour**

- The monthly basic salaries of the factory workers is R80 000. During November they earned an additional R25 000 in overtime.
- The employer's contribution to the UIF amounts to 1% of their basic salaries.

### **Additional information**

- **Indirect materials:** Purchases during the financial year, R217 000. 80% are allocated to the factory.
- **Indirect labour:** The factory foreman received an annual salary of R227 250.
- **Factory rent:** The rent expense reflected in the trial balance on 31 July 2017 was R124 200. The rent increase annually with 10% on 1 January. The rent for August 2017 has already been paid.
- The water and electricity for the financial year was R120 000. This is divided between the factory, office and sales department in the ratio 4:1:1.
- Maintenance on factory equipment amounts to R125 per hour. A total of 480 maintenance hours were recorded.
- Depreciation on factory equipment amounted to R74 000.
- A total of 5 216 handbags were manufactured during the financial year at a cost of R620 per bag.

### 2.3 JERRY'S JERSEY'S

Jeremy Franks produces jerseys. The financial year ended on 30 June 2017.

#### REQUIRED

- 2.3.1 Calculate the number of jerseys that must be produced in order to break even in the 2017 financial year. (4)
- 2.3.2 Would Jeremy be satisfied with his factory's level of production? Explain. Quote figures to support your answer. (3)

#### INFORMATION

Information for the financial year ended 30 June 2017:

		<b>TOTAL</b>
<b>Fixed costs:</b>		
Factory overhead cost		R184 510
Administration cost		55 250
		<b>239 760</b>
<b>Variable costs:</b>		
	<b>Per unit</b>	<b>TOTAL</b>
Direct material cost	R76,50	R260 100
Direct labour cost	44,20	150 280
Selling and distribution cost	14,50	49 300
	<b>135,20</b>	<b>459 680</b>
<ul style="list-style-type: none"><li>• Number of jerseys produced and sold during the year, 3 400.</li><li>• Selling price per unit, R200</li></ul>		

### **QUESTION 3 FIXED ASSETS AND FINANCIAL STATEMENTS**

**(70 MARK; 42 MINUTES)**

The following information was taken from the records of Tuesday Traders, with partners, Mon and Day. The financial year ended on 28 February 2017.

#### **REQUIRED**

- 3.1 Complete the following accounts in the general ledger:
  - 3.1.1 Accumulated depreciation on equipment (12)
  - 3.1.2 Asset disposal on 31 October 2016. (10)
- 3.2 Prepare the Trade and other Receivables note for the Balance Sheet. (8)
- 3.3 Complete the Income Statement for the year ended 29 February 2017. (40)

#### **INFORMATION**

##### **A BALANCES AND TOTALS ON 29 FEBRUARY 2017 (UNLESS OTHERWISE INDICATED)**

	R
Buildings	963 000
Equipment (cost)	367 000
Accumulated depreciation on equipment	172 500
Loan Thursday Bank	709 400
Fixed Deposit – Sunday Bank (8.5%)	120 000
Trading stock	224 330
Debtors control	48 220
Provision for bad debts (1 March 2016)	1 420
Sales	852 000
Cost of sales (profit mark-up is 50% on cost)	?
Rent income	42 500
Commission income	19 440
Sundry operating income	7 760
Interest on investment	7 650
Salary and wages	141 360
Consumable stores	9 370
Bad debts	3 980
Insurance	14 740
Repairs and maintenance	13 930
Sundry operating expenses	10 660

B The fixed assets comprise of Buildings and Equipment.

On 31 October 2016, old equipment was traded in to upgrade old equipment.

The transaction was not recorded. Details of the transaction is as follows:

Cost of the new equipment purchased	165 000
Cost of the old equipment traded in	93 500
Accumulated depreciation on this equipment on 1 March 2016	62 000
The trade in value received	29 600

Equipment is depreciated at 20% p.a. on the diminishing balance method.

C **ADDITIONAL ADJUSTMENTS NOT TAKEN INTO ACCOUNT**

- (a) Outstanding debts totalling R3 220 must be written off and the provision for bad debts must then be adjusted to 4% of debtors.
- (b) The rent for February was not yet received. Take into account that the tenant was granted R1 500 reduction in rent during November 2016 due to repairs being done to the building.
- © A fire insurance policy was entered into on 1 July 2016. The annual premium of R7 020 was paid in full.
- (d) The February 2017 loan statement showed an outstanding balance of R742 000. Interest on loan is capitalised. A fixed instalment including interest is paid on 27<sup>th</sup> of each month.
- (e) Interest on fixed deposit must be taken into account. The money was invested in June 2014. Interest is not capitalized.
- (f) The annual stock take revealed that R2 460 worth of stock was missing. Unused consumable stores amounted to R880.
- (g) Repairs to the building was posted in error to land and buildings account, R5 320.

## **QUESTION 4 PARTNERSHIPS – LEDGER ACCOUNTS AND INTERPRETATION**

### **(40 MARKS – 24 MINUTES)**

Fountain Traders is a partnership business owned by partners Lyn and Key.

The financial year ended on 31 August 2017.

- 4.1 Prepare the Current account Key on 31 August 2017 (9)
- 4.2 Calculate the following indicators on 31 August 2017.
  - 4.2.1 Acid test ratio (4)
  - 4.2.2 Debt/equity ratio (3)
  - 4.2.3 Percentage return earned by the partners (7)
- 4.3 The partners are concerned about the liquidity position of the business. Explain why they feel this way. Quote TWO financial indicators (with figures) to support your explanation. (6)
- 4.4 Comment on the percentage return earned by Partner Lyn. Should she be satisfied with this percentage? Explain and quote relevant financial indicators and/or figures. (5)
- 4.5 Partner Key feels that the business should increase the loan. Partner Lyn is not keen to incur more debt. Briefly explain who you would support.

Provide TWO financial indicators (with figures) to motivate your choice. (6)

### **INFORMATION**

#### **A – BALANCES EXTRACTED FROM THE FINANCIAL RECORDS:**

	<b>31 AUGUST 2017</b>	<b>31 AUGUST 2016</b>
Fixed deposit	100 000	125 000
Current assets including inventories	165 000	176 200
Inventories	62 200	54 000
<b>PARTNERS' EQUITY</b>	<b>1 700 000</b>	<b>1 270 300</b>
Capital Lyn	875 000	500 000
Capital Key	675 000	750 000
Current account Lyn	45 150 (cr)	12 400 (dr)
Current account Key	104 850 (cr)	32 700 (cr)
Mortgage loan (12 % p.a.)	425 000	762 180
Current liabilities	66 240	58 700

#### **B – INFORMATION FROM THE CURRENT ACCOUNT NOTE ON 31 AUGUST 2017**

	<b>PARTNER LYN</b>	<b>PARTNER KEY</b>
Annual salary allowance	265 200	225 216
Interest on capital	78 750	60 750
Bonus	-	13 784
Drawings per year	322 400	?
Partners share of the remaining profit	36 000	?

C – The total primary distribution amounted to R643 700.

D – The partners share the remaining profit/loss in the ratio 2:1 between Lyn and Key respectively.

E – Financial indicators on 31 August

	<b>2017</b>	<b>2016</b>
Current ratio	2.5:1	3:1
Acid test ratio	?	2:1
Stock turnover rate	11,2 times	9,4 times
Average debtors collection period	38 days	33 days
Debt/equity ratio	?	0.6:1
Return on average capital employed	33.5%	30.3%
Return earned by partners	?	40.5%
Return earned by Partner Lyn	54%	56%
Return earned by Partner Key	90%	84%
Interest on loans	12%	12%

E Salaries and wages are expected to remain the same for the budget period. Staff members on leave in December will receive their pay, totalling R35 600 during November.

F A loan will be received from a director, Thabo, on 1 November 2017 at 13% p.a. interest. Interest is not capitalized. A fixed monthly instalment and interest will be paid at the end of each month.

### **QUESTION 5 - CASH BUDGET (40 MARKS, 25 MINUTES)**

You are provided with an incomplete Cash Budget and additional information in respect of Soweto Traders. The financial year ends on 31 December.

#### **REQUIRED:**

- 5.1.1 Provide ONE reason why it is essential for the business to prepare a Cash Budget. (2)
- 5.1.2 Complete the Debtors' Collection Schedule. (8)
- 5.1.3 Calculate the missing figures for cash surplus / deficit and bank balances (A – E) on the Cash Budget. (16)
- 5.1.4
- Comment briefly on the bank balances. Quote figures.
  - Explain TWO significant measures they have used to improve the cash flow. Quote figures. (8)

### 5.1.5 Refer to Information F.

The owner feels that there is a problem regarding some of the income and expense items. In each case suggest how to improve the internal control of the items concerned.

(6)

#### **INFORMATION:**

##### **A. Debtors and sales**

- The owner decided to start selling goods on credit with effect from 1 November 2017.
- Credit sales are expected to comprise 40% of total sales.
- Debtors are expected to settle their accounts as follows:
  - 25% in the same month as the credit sale, subject to a 5% discount.
  - 68% in the month following the credit sale.
  - 7% of debtors' accounts are expected to comprise bad debts.

##### **B. Purchase of stock and mark-up**

- All goods are sold at a mark-up of 50% on cost.
- Goods are replaced monthly to maintain a fixed stock level.
- Goods are purchased as follows: 25% for cash and 75% on credit.
- All credit purchases are settled during the following calendar month.

##### **C. Salaries**

Monthly salaries for all 11 staff members will be increased with effect from 1 November 2017. The increase will be as follows:

- The manager will receive an increase of 35% on his present monthly salary of R12 000 from 1 November 2017.
- The ten shop assistants, who receive an equal salary, will each receive an increase of R520 per month from 1 November 2017.
- An additional shop assistant will be employed from 1 December 2017 at the same increased salary as the other shop assistants.

##### **D. Loan and interest**

- A short-term loan of R800 000 was received on 31 August 2017.
- This is to be repaid in four equal instalments every three months. The first instalment must be paid on 30 November 2017.
- Interest (15%p.a.) is paid monthly by cheque.

<b>CASH BUDGET FOR THE PERIOD</b>			
<b>1 OCTOBER 2017 TO 31 DECEMBER 2017</b>			
	<b>OCT</b>	<b>NOV</b>	<b>DEC</b>
<b>RECEIPTS</b>	<b>R</b>	<b>R</b>	<b>R</b>
Cash sales	288 000	216 000	252 000
Collections from debtors	0	34 200	?
Rent income	8 400	10 080	0
Sale of part of shop premises		1 000 000	
Capital contribution	370 000		
<b>TOTAL RECEIPTS</b>	<b>666 400</b>	<b>1 260 280</b>	<b>?</b>
<b>PAYMENTS</b>			
Payments to creditors	135 000	<b>A</b>	180 000
Cash purchases	48 000	60 000	70 000
Salaries	64 000	<b>B</b>	79 120
Drawings	40 000	60 000	60 000
Advertising	2 880	3 600	8 400
Water and electricity	15 000	15 000	15 000
Telkom and cell phone costs	26 000	28 000	30 000
Vehicle instalment		100 000	15 000
Repayment of loan		200 000	
Interest on loan	10 000	10 000	<b>C</b>
Delivery vehicle expenses	8 940	9 208	9 484
Sundry operating expenses	40 000	40 000	40 000
<b>TOTAL PAYMENTS</b>	<b>389 820</b>	<b>743 208</b>	<b>?</b>
Cash Surplus (Deficit)	276 500	517 072	(124 684)
Bank : Opening balance	(195 308)	81 192	<b>D</b>
Bank: Closing balance	<b>81 192</b>	<b>598 264</b>	<b>E</b>

## **QUESTION 6 – STOCK VALUATION, PROBLEM SOLVING AND VAT**

**(59 MARKS – 34 MARKS)**

6.1 **Stock concepts – Choose the correct word (10)**

**Increase, decrease, current, net profit, gross profit, stock taking, trading stock, periodic and perpetual**

- A Trading stock is a non-current asset
- B The continuous inventory system uses closing stock to calculate cost of sales.
- C Regular stock purchase is an internal control process to detect stock shortages.
- D Theft of stock will result in a decrease in gross profit when the continuous inventory system is in use
- E Theft of stock will result in a decrease in cost of sales when the periodic inventory system is in use

## 6.2 INVENTORY SYSTEMS (32)

The information provided below was drawn from the books of Wittstock Traders. The owner maintained an average mark up of 40% on cost over the last years. She aimed to increase the stock turnover rate for the year ending 28 February 2017.

### REQUIRED

- 6.2.1 Calculate the cost of sales. (12)
- 6.2.2 Calculate the gross profit. (4)
- 6.2.3 Calculate the stock turnover rate for 2017. (4)
- 6.2.4 Comment on the drop in the mark up percentage in relation to the stock turnover rate. Provide two points. (4)
- 6.2.5 List two other ways in which the profits of a business can be increased. (4)
- 6.2.6 List two ways in which the turnover of the business can be increased. (4)

### INFORMATION

A Balances on 29 February 2017

Trading stock (28 February 2016)	394 290
Purchases	2 127 870
Carriage on Purchases	87 786
Sales	3 038 580

B Physical stocktaking was completed on 26 February 2017 and trading stock on hand amounted to R313 254.

The following transactions were not entered in the books and must be taken into account.

- February 20 Trading stock bought on credit from Sutton Traders for R63 000  
28 Goods costing R18 400 were sold for R20 980  
28 Trading stock (cost R4 200; selling price R5 880) was donated to the hospital before stocktaking. No entries have been made for this transaction.

**C Financial indicators –**

	<b>2017</b>	<b>2016</b>
Mark up percentage	28%	40%
Stock turnover rate	?	4.5 times

**6.3 PROBLEM SOLVING (9)**

Govani Traders has THREE different branches. The owner of Govani Traders, Ross Brady, is concerned that the branches are not running effectively and provides you with the following figures for August 2017.

**REQUIRED**

Identify ONE problem in each branch. Quote figures to support your answer. In each case, advise Ross on how to solve the problem. (9)

	Pretoria	Nelspruit	Polokwane
Sales	R405 000	R540 000	R260 000
Returns	R20 250	R64 800	R10 400
Advertising	R25 000	R25 000	R12 500
Number of sales assistants	8	6	4
Business hours per day	8	8	8
Period of stock on hand	60 days	120 days	25 days
Rent	R38 000	R19 000	R19 000

**6.4 VAT AND ETHICS (8)**

You are provided with the information of Stanley Traders, a registered VAT vendor.

Goods are subject to 14% VAT.

**REQUIRED**

6.4.1 Calculate the missing amounts from the table given below. (6)

6.4.2 Cope Wholesalers, one of Stanley's suppliers, offered Stanley Traders goods valued at R5 400 for R2 700. He stated that Stanley Traders must pay cash and he will not issue an invoice.

What advice would you give to Stanley Traders? (2)

**INFORMATION**

	<b>VAT EXCLUSIVE</b>	<b>VAT</b>	<b>VAT INCLUSIVE</b>
1	<b>140 000</b>	<b>A</b>	
2	<b>B</b>	98	
3		<b>C</b>	<b>39 900</b>



## **QUESTION 6 – STOCK VALUATION, PROBLEM SOLVING AND VAT**

**(59 MARKS -**

### **6.1 Stock concepts – Choose the correct word**

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### **6.2 INVENTORY SYSTEMS**

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- 6.2.4 Comment on the drop in the mark up percentage in relation to the stock turnover rate. Provide two points. (4)
- 6.2.5 List two other ways in which the profits of a business can be increased. (4)

6.2.6 List two ways in which the turnover of the business can be increased. (4)

### **INFORMATION**

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### **REQUIRED**

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In each case, advise Ross on how to solve the problem.

(9)

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What advice would you give to Stanley Traders? (2)

#### **INFORMATION**

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2	<b>B</b>	98	
3		<b>C</b>	39 900