



**HILLCREST HIGH SCHOOL
ACCOUNTING EXAM
NOVEMBER 2020
GRADE 11**

MARKS: 300

TIME: 3 HOURS

INSTRUCTIONS AND INFORMATION:

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions
3. A FORMULA SHEET for financial indicators is attached to this question paper. You may use it if necessary.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Where applicable, show ALL calculations to ONE decimal point.
8. Write neatly and legibly
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 8 minutes	
Topic of the question:	This question integrates:
<i>GAAP and Accounting Equation</i>	GAAP AOL / Ledger
QUESTION 2: 84 marks; 50 minutes	
Topic of the question:	This question integrates:
<i>Financial Statement</i>	Income Statement Capital & Current Notes
QUESTION 3: 22 marks; 12 minutes	
Topic of the question:	This question integrates:
<i>Financial Statement</i>	Balance Sheet
QUESTION 4: 25 marks; 20 minutes	
Topic of the question:	This question integrates:
<i>Analysis and interpretation</i>	Concepts Analysis and interpretation of financial statements
QUESTION 5: 20 marks; 15 minutes	
Topic of the question:	This question integrates:
<i>Tangible/Fixed Assets</i>	Note to the Financial Statement
QUESTION 6: 32 marks; 20 minutes	
Topic of the question:	This question integrates:
<i>Reconciliations</i>	Theory Bank Reconciliation
QUESTION 7: 37 marks; 20 minutes	
Topic of the question:	This question integrates:
<i>Inventory Systems</i>	WILL BE LEFT OUT!
QUESTION 8: 45 marks; 35 minutes	
Topic of the question:	This question integrates:
<i>Manufacturing</i>	Concepts Ledger Accounts Interpretation of unit costs

QUESTION 1(GAAP; AOL/Ledger)**(35 marks; 8 minutes)****1.1 GAAP PRINCIPLES**

Choose an explanation from COLUMN B that matches the GAAP principle in COLUMN A. Write only the letter (A-E) next to the question number in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Historical cost	A	Income and expenses must be recorded in the correct financial period.
1.1.2	Prudence	B	The assumption is that the business is financially strong enough to continue for the foreseeable future.
1.1.3	Matching	C	An asset is recorded at its original cost price.
1.1.4	Going concern	D	Financial results are reported in a conservative manner.
		E	The business transactions are to be treated separately from the owner's personal transactions.

(4)

1.2 TRANSACTION ANALYSIS

MD Stores is owned by two partners, M. Marks and D. Davids.

REQUIRED:

Show the effect of the following transactions on the accounting equation. The **bank balance is favorable** at all times and the perpetual stock system is used. The first transaction has been completed as an example.

E.G. Paid wages by cheque, R8 000.

- 1.2.1 Received R455 from a debtor in settlement of his account of R500.
- 1.2.2 Davids took stock at cost for personal use, R2 000.
- 1.2.3 Marks contributed an additional R20 000 capital in cash.
- 1.2.4 Marks contributed a vehicle worth R180 000 to be used for delivery purposes as additional capital contribution.
- 1.2.5 Received an invoice from PNA for goods R5 000, and stationery for office use R200.

(31)

35

QUESTION 2: (Statement of Comprehensive Income, Notes)

(84 marks; 65 minutes)

The information was extracted from the records of JJ Stores on 28 February 2020, the end of the current financial year. The partners are Ms Jozi and Mr Jay.

REQUIRED:

- 2.1 Prepare the **Statement of Comprehensive Income** for the year ended on 28 February 2020.
NOTE: Some amounts are provided in the Answer Booklet.
SHOW all workings in brackets. (37)
- 2.2 Complete the **Notes** to the Statement of Financial Position:
- Capital (8)
 - Current accounts (31)
- 2.3 Jozi is not happy with the manner in which Jay is handling his investment in the business.
- Provide TWO reasons to justify why she feels this way. In each case provide relevant figures to support your comments. (4)
 - Propose TWO practical suggestions that the partnership can use to address the concern expressed by Jozi (4)

INFORMATION:

A. Extracts from the financial records:

Capital: Jozi (1 March 2019)	R240 000
Capital: Jay (1 March 2019)	360 000
Drawings: Jozi	26 409
Drawings: Jay	57 403
Current account: Jozi (1 March 2019)	(Cr) 22 360
Current account: Jay (1 March 2019)	(Dr) 10 100
Sales	998 400
Cost of sales	665 600
Net profit (as per Profit and Loss account)	311 133

B. Extract of Pre-adjustment amounts from the General Ledger on 28 February 2020:

Loan: Kudu Bank	?
Fixed deposit: Bok Bank (9% p.a.)	120 000
Debtors control	68 720
Provision for bad debts (1 March 2019)	3 936
Trading stock	134 840
Rent income	117 250
Insurance	21 455
Packing material	23 100
Water and electricity	25 320
Interest income	8 100
Sundry expenses	?

C. The following adjustments were taken into account to calculate the net profit:

- The annual stock take revealed the following stock on hand:
 - Trading stock, R130 540
 - Packing material unused, R3 600
- Adjust the provision for bad debts to 5% of the net trade debtors.
- Interest on loan is capitalised. The loan statement received from Kudu Bank showed the following:

Loan balance on 1 March 2019	R374 600
Repayments for the year (including interest)	86 400
Interest capitalised	?
Loan balance on 28 February 2020	327 000

- The rent for March 2020 was received and deposited. Take into account the rent was increased by R875 from 1 December 2019.
- Insurance includes the annual policy for R5 820 paid on 1 June 2019.
- The water and electricity account for February 2020 was not yet paid, R2 150.
- Interest on fixed deposit is not capitalised. Interest for the last quarter of this financial year was not yet received.

D. Transactions relevant to the partners:

- Jozi took goods from stock for her personal use. The selling price was R9 590. Goods are marked up by 75% on cost. Only the trading stock entry was processed.
- Jay used a business cheque to settle his personal telephone account, R5 100.

3. The partnership agreement clause for salaries provided for the following:
 - Jozi R113 400 annually
 - Jay R7 800 per month

NOTE: The partners were entitled to an annual increase of 10% effective on 1 December each year. The above allowances were not adjusted with this increase.
4. Interest on capital is calculated at 8% of the capital balances. On 1 June 2019, Jozi increased her capital by R40 000 and Jay decreased his capital by R10 000. These changes were not taken into account.
5. Jozi is entitled to a performance bonus equal to 3% of the total sales.
6. Partners share remaining profits or losses in the ratio of their capital balances at the end of the year.

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QUESTION 3: Financial Statements – Balance Sheet [22 Mark; 12 minutes]

The following information was extracted from the accounting records of RM Traders, a partnership business owned by Raymond and Mhlaba. The financial year ends on 28 February 2020.

REQUIRED:

The **Equity and Liabilities** section of the Balance Sheet on 28 February 2020. (22)
Note: *Adjustments must be shown in brackets on the balance sheet.*

INFORMATION:

A. The following balances appeared amongst others in the General Ledger of RM Traders on 28 February 2020.

Capital: Raymond	1 000 000
Capital: Mhlaba	850 000
Current Account: Raymond [Debit]	8 450 Dr
Current Account: Mhlaba [Credit]	51 800 Cr
Tangible Assets at carrying value	1 160 000
Fixed Deposit: Money Bank – 9% p.a.	350 000
Loan: Ching Bank – 12% p.a.	200 000
Trading Stock	429 900
Debtors Control	320 000
Creditors' Control	45 350
SARS: PAYE	17 500
Bank overdraft	101 250 Cr
Petty Cash	6 000

Cash Float	2 000
Provision for bad debts	4 450
Pension Fund	2 500
Income Received in Advance	3 500

B: Adjustments and additional information

1. A cheque for R75 000 dated 31 March 2020 was issued to Wiseman Builders for improvements to the property. The transaction was properly recorded in the CPJ and posted to the general ledger. Make the necessary adjustment on the Balance Sheet.
2. On 28 February 2020 partner Mhlaba contributed Equipment to the value of R150 000 to equalize his capital contribution. This entry was not recorded.
2. The partners have agreed to pay off R100 000 of the Loan from Ching Bank by 30 April 2020.

22

QUESTION 4: (Analysis & interpretation)

(25 marks; 20 minutes)

Jody and Tim are partners in a partnership, JT Sports Outfitters. They sell sports gear to local schools. The business aims at achieving a mark-up of 50% on cost.

The financial indicators below were calculated from the financial statements for the past two years ended 30 September.

REQUIRED:

Study the extract from the financial statements and financial indicators and then answer the questions in your Answer Booklet.

INFORMATION:

A. Extract from the Statement of Financial Position with comparative figures:

	2020	2019
Non-current liabilities (13% p.a)	220 000	180 000
Trading stock	1 270 000	650 000
Trade and other receivables (all debtors)	240 000	50 000
Cash and Cash equivalents	30 000	25 000
Trade and other payables (all creditors)	380 000	150 000

B. Financial indicators

	2020	2019
% Return on average equity (Partner Jody)	14%	13%
% Return on average equity (Partner Tim)	8%	6%
Current ratio	4 : 1	5 : 1
Acid-test ratio	?	0,5 : 1
Creditors average payment period	30 days	30 days
Debtors average collection period	90 days	100 days
Debt/Equity ratio	0,5 : 1	0,3 : 1
Interest rate on loans	13%	12%
Gross profit on cost of sales	40%	42%
Gross profit on sales	29%	39%
Net profit on sales	4%	7%
Operating expenses on sales	32%	18%
Operating profit on sales	9%	13%

In your answers, quote the actual ratios / percentages from the above list to support your answer.

- 4.1 Calculate the acid test ratio for 2020. (3)
- 4.2 Comment on the liquidity of the partnership. Recommend THREE ways in which the liquidity of the partnership can be improved. (9)
- 4.3 If you were partner Tim, would you be satisfied with your return earned over the past two years? Motivate your answer. (4)
- 4.4 On which areas of the Statement of Comprehensive Income should the owners concentrate in order to improve the profitability of the business? List TWO points and motivate your answer. (4)
- 4.5 The partners are considering the expansion of the operations of the business. In order to do this, they are considering taking out a large loan at an interest rate of 13% or admitting a new partner into the business.
Which of these two methods of financing do you advise for this business? Explain in detail. (5)

25

QUESTION 5: (Fixed assets in Financial Statements) (20 marks; 15 minutes)

The following information was taken from the records of BB Traders, with partners Butch and Bella. The financial year ended on 28 February 2020.

REQUIRED:

Complete the **Fixed Assets Note** to the Financial Statements. (20)

INFORMATION:

A. Extract from the list of balances on 28 February 2020

Land and buildings	?
Vehicles	700 000
Equipment	430 000
Accumulated depreciation on vehicles (1/3/2019)	280 000
Accumulated depreciation on equipment (1/3/2019)	193 500

B. Vehicles

- A new vehicle, costing R145 000 was purchased on 1 June 2019.
- Depreciation provided on vehicles at 20% p.a. on carrying value

C. Equipment

- The old office desk was sold on 31 December 2019 at a profit of R320. The cost of the desk was R5 400. It was sold for R1 750 cash.
- Depreciation written off on equipment at 15% p.a. on cost.

20

QUESTION 6: (Bank reconciliation)**(32 marks; 20 minutes)**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (6.1.1–6.1.5) in the Answer Booklet.

- 6.1.1 A favourable balance on the Bank Statement is indicated as a debit.
6.1.2 A post-dated cheque received must be entered on the date received.
6.1.3 An issued cheque that has been lost must be cancelled in the CRJ.
6.1.4 Interest credited on the bank statement will be recorded in the CRJ.
6.1.5 An unpaid cheque not appearing on the bank statement is shown as an outstanding cheque in the bank reconciliation statement.

5

Bank reconciliation

The given information relates to Menzies Traders for June 2020.

REQUIRED:

- 6.2.1 Calculate the following on 30 June 2020:
• Correct totals for the **CRJ** and **CPJ**
• **Bank Account balance** (14)
- 6.2.2 Prepare the **Bank Reconciliation Statement** on 30 June 2020 (9)
- 6.2.3 Explain the problem relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future. (4)

INFORMATION:

- A. **The Bank Reconciliation Statement on 31 May 2020 showed the following:**

Unfavourable balance on the Bank Statement	R1 450
Outstanding deposits:	
• 17 May 2020	30 000
• 31 May 2020	16 200
Outstanding cheques:	
• 605 (dated 16 December 2019)	9 750
• 812 (dated 10 April 2020)	8 550
• 816 (dated 25 May 2020)	13 590
• 819 (dated 15 August 2020)	7 650
• 823 (dated 31 May 2020)	2 900
Unfavourable balance on the Bank account in the Ledger	R5 210

B. Provisional Cash Journal totals on 30 June 2020:

- Cash Receipts Journal (CRJ): R90 500
- Cash Payments Journal (CPJ): R85 920

C. Entries in the Cash Journals for June 2020 that do not agree with the June Bank Statement

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	EFT 19	11	Paintco	R5 500
	Deposit slip 451	25	Cash sales	R40 500

Note: EFT 19 was incorrectly entered in the CRJ instead of the CPJ.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	Cheque 870	25	VN Ltd	R16 800
	EFT 21	30	SJ Stores	R2 250

D. Items on the Bank Statement dated 30 June 2020 that do not agree with the June Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
02	Deposit (17 May)		30 000
05	Cheque 812	8 550	
09	Debit order (insurance)	2 290	
11	Direct transfer to Paintco (EFT 19)	5 500	
12	Cheque 816	13 590	
16	Deposit (31 May)		16 200
18	Direct transfer from S Smit (rent)		16 500
22	Cheque 823 (see note below)	9 200	
23	Unpaid cheque (B Blast settled his debt, R795)	750	
24	Service fee	1 220	

NOTE:

- Cheque 823: Bank Statement figure is correct.
- Service fees were overstated by R900. The bank will rectify the error next month.

E. The Bank Statement on 30 June 2020 reflected a balance of R?

32

QUESTION 7 (Inventory systems)

WILL BE LEFT OUT!

QUESTION 8: Manufacturing

(45 marks; 35 minutes)

8.1

(Manufacturing concepts)

Choose the correct term in the brackets. Write only the term next to the number (8.1.1- 8.1.5) in the Answer Booklet.

- 8.1.1 The salary of the factory manager is (direct/ indirect) labour.
8.1.2 Rent of a building is considered as a (fixed/ variable) cost.
8.1.3 Advertising is a/an (administration/ sales and distribution) cost.
8.1.4 Direct material and direct labour is classified as (prime/ secondary) costs.
8.1.5 Carriage on raw materials purchased (decreases/increases) the cost of raw materials issued for production.

5

8.2

(Manufacturing calculations and ledger)

4'Ocean Traders manufactures bags from organic, recycled materials. 4'Ocean Traders uses the perpetual stock system and a mark-up of 100% on cost. The information below relates to the financial year ending 30 June 2020.

REQUIRED:

- 8.2.1 Calculate:
- Direct material cost (4)
 - The correct Factory overhead costs (7)
- 8.2.2 Complete the **Work-In-progress stock account** in the General Ledger. (10)
- 8.2.3 Calculate the following:
- 8.2.3.1 Selling price per unit (**NOTE: 374 400 units**) (3)
 - 8.2.3.2 Cost of sales (3)
 - 8.2.3.3 Variable cost per unit (3)
 - 8.2.3.4 Break-even point (4)
- 8.2.4 4'Ocean Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.
- 8.2.4.1 Explain what you understand by the term '**break-even point**' (2)
 - 8.2.4.2 Explain the effect that the above decision will have on the **fixed cost** per unit and the **break-even point**. (4)

INFORMATION:

A. Balances/totals on 30 June:

	2020	2019
Raw material stock	92 400	78 900
Work-in-progress stock	?	175 000
Finished goods stock	759 000	542 000
Factory overhead cost	352 940	
Production wages	990 000	

B. Raw materials stock purchases of R553 500 includes carriage on purchases of R40 000.

C. Production wages totalling R90 000 was not recorded.

D. Factory overhead cost was incorrectly calculated. The following adjustments needs to be taken into account:

- Depreciation on Factory plant and Equipment amounting to R84 030 was omitted.
- Indirect materials included R3 500 worth of materials bought for the next financial year.
- The Water and Electricity amount of R10 290 in the Factory overhead cost account was apportioned in the ratio of 2 : 1 : 1 between the factory and other departments respectively. It should have been in the ratio 4 : 2 : 1

E.

UNITS PRODUCED AND SOLD	Value	Units
Cost of Finished goods produced	R1 872 000	374 400
Sales (mark-up = 100% on cost)	R3 564 000	396 000

F.

COST AND BREAK-EVEN	
Fixed Costs	R682 500
Variable Costs	R2 059 200
Administration Costs	R250 500
Selling and Distribution Costs	?
Break-even Point	?

GRADE 11 ACCOUNTING: FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	
$\frac{\text{Total earnings by partner}}{\text{Partner's average equity}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Average owners' equity}} \times \frac{100}{1}$	
Current assets : Current liabilities	(Current assets – Inventories) : Current liabilities	
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365}{1} \text{ or } \frac{12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$	
Non-current liabilities : Owners' equity	Total assets : Total liabilities	