



GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION
JUNE 2016
GRADE 11**

ACCOUNTING

TIME: 180 minutes

MARKS: 300

14 pages

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INSTRUCTIONS

1. Answer ALL the questions.
2. Show ALL working in order for part marks to be allocated.
3. Read the instructions of each question carefully and follow them precisely.
4. Non-programmable calculators may be used.
5. All answers must be written in blue ink.
6. Use the information in the table as a guide when answering the question paper. Try NOT to deviate from it.

| QUESTION | TOPIC | MARKS | TIME IN MINUTES |
|-----------------|---|--------------|------------------------|
| 1 | Bank Reconciliation | 60 | 36 minutes |
| 2 | Creditors' Reconciliation | 25 | 15 minutes |
| 3 | Asset Disposal | 50 | 30 minutes |
| 4 | Partnerships | 40 | 24 minutes |
| 5 | Financial Statements | 75 | 45 minutes |
| 6 | Analysis and Interpretation of Financial Statements | 50 | 30 minutes |
| TOTAL | | 300 | 180 minutes |

QUESTION 1**BANK RECONCILIATION AND INTERNAL CONTROL****(60 marks; 36 minutes)**

- 1.1 What is the purpose of bank reconciliation? (2)
- 1.2 Indicate whether the following statements are TRUE or FALSE.
- 1.2.1 An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month. (1)
- 1.2.2 Service fees and interest on overdraft will be debited to bank charges. (1)
- 1.2.3 A cheque that is older than six months will not be cashed by the bank. (1)
- 1.2.4 A post-dated cheque issued in September 2015, but dated February 2016, will only be entered in the Cash Payments Journal in February 2016. (1)

1.3 BANK RECONCILIATION

You are provided with information taken from the records of Sabe Traders for March 2016. The business is owned by M. Sabe.

REQUIRED:

- 1.3.1 Prepare the Cash Receipts Journal and Cash Payments Journal for March 2016. Total only the Bank columns. (36)
- 1.3.2 Prepare the Bank account in the general ledger for March 2016. (8)
- 1.3.3 Prepare a Bank Reconciliation Statement on 31 March 2016. (10)

INFORMATION:

| Bank Reconciliation Statement on 29 February 2016 | |
|--|--------|
| Debit balance according to bank statement | 22 400 |
| Credit outstanding deposit | 10 200 |
| Debit outstanding cheques: | |
| ▪ No. 88 | 3 400 |
| ▪ No. 160 | 1 420 |
| ▪ No. 163 | 6 400 |
| ▪ No. 165 (dated April 2016) | 3 710 |
| Balance according to bank account | ? |

Sabe Traders has a current bank account with Mawali Bank

| Provisional totals of the bank columns in the Cash Journals on 31 March 2016 | |
|---|--------|
| Cash Receipts Journal | 31 400 |
| Cash Payments Journal | 54 800 |

A comparison of the bank statement with the Bank Reconciliation Statement on 29 February 2016 shows the following:

- The deposit of R10 200 appears on the bank statement.
- Cheque no. 163 for R6 400 was presented for payment.
- Cheque no. 88 was issued on 15 September 2015 to the Health Welfare Organization as a donation. The organization has been disbanded and the cheque must be cancelled.
- Cheque no. 160 issued to RSA Distributors for stationery appears on the bank statement as R4 120. The amount on the bank statement is correct.

A comparison of the Salary Journal with the bank statement shows the following as outstanding:

| Employees | Gross salary | Net salary | Cheques issued |
|-----------|--------------|------------|----------------|
| B.Boom | R12 400 | R9 800 | 178 |
| C.Mood | R14 200 | R11 600 | 180 |

A comparison of the Cash Journals with the bank statement shows the following differences:

- The following appears in the cash journals, but not on the bank statement.
 - Deposit, R8 100
 - Cheque no.176, R8 900 (dated 15 April 2014)
- The Cash Payments Journal reflects a total of R30 700 for cheques issued in respect of salaries.
- Cheque no. 173 issued to Neotel for the monthly telephone account appears in the Cash Payments Journal as R3 280. The amount on the bank statement is R3 240. The amount on the bank statement is correct.
- Cheque no. 170 for R840 issued to BM Garage for fuel was lost in the mail. The cheque must be cancelled and replaced with cheque no. 181. This cheque is still outstanding.
- A stop order for the monthly repayment of a loan with Mawali Bank for R2 000 appears on the bank statement but not in the journal.
- A deposit of R35 000 was made directly into the current account of the business by the owner on 15 March 2016, as his capital contribution.
- An unpaid cheque for R420, received in settlement of an account of R450, appears on the bank statement. The cheque was received from a debtor, M. Lid.
- A deposit of R8 300 for rent was made directly into the current account of the business by the tenant, F. Fun.
- Mawali bank debited the bank account of Sabe Traders with the following amounts:
 - Interest on debit balance, R93
 - Bank charges, R380
- The bank statement shows a favourable balance of R17 367 on 31 March 2016.

QUESTION 2**CREDITORS' RECONCILIATION AND INTERNAL CONTROL (25 marks; 15 minutes)**

- 2.1 Why must the balance of the Creditors' Control Account in the General Ledger be the same as the total of the Creditors' List in the Creditors' Ledger? (2)

THE CREDITORS' CONTROL ACCOUNT AND THE CREDITORS' LIST

The bookkeeper of My Worth Stores made some mistakes and omitted certain transactions in preparing the Creditors' Control Account and the Creditors' List on 30 June 2016. You are the internal auditor of the store.

REQUIRED:

- 2.2 Calculate the correct balance of the Creditors' Control Account in the General Ledger. If no entry is applicable, write 'NO ENTRY'. (12)
- 2.3 Prepare the correct Creditors' List of balances on 30 June 2016. (11)

INFORMATION:**Pre-adjustment figures on 30 June 2016**

| | | |
|--|---------|----------|
| Creditors' Control Account balance | | R153 800 |
| Creditors' List total from the Creditors' Ledger | | R168 900 |
| • Stand Traders | R29 200 | |
| • Walk Wholesalers | R95 600 | |
| • Run Stores | R44 100 | |

ERRORS AND OMISSIONS

- A. A payment of R42 000 to Run Stores was correctly recorded in the Cash Payments Journal but the bookkeeper neglected to post this payment to the creditor's account.
- B. The total of the Creditors' Journal was inaccurately added as R51 150 instead of R61 250.
- C. Credit purchases of merchandise to the value of R13 000, from Stand Traders was incorrectly debited to their account.
- D. A credit balance of R440 from Run Stores' account in the Debtors' Ledger must be transferred to their account in the Creditors' Ledger.
- E. A cheque for R2 000 issued to Stand Traders in settlement of their debt of R2 200 was correctly recorded in the Cash Payments Journal but inadvertently posted to Walk Wholesalers' account. Rectify the error.
- F. The total of the Creditors' Allowance Journal was undercast by R11 000.
- G. Credit purchases of merchandise to the value of R36 600 from Walk Wholesalers were wrongly entered as R63 600 in the Creditors' Journal and posted as such.

QUESTION 3**ASSET DISPOSAL AND INTERNAL CONTROL****(50 marks; 30 minutes)**

You are provided with the following information of Bonanza Traders. The financial year ends on 29 February 2016.

REQUIRED:

- 3.1 Refer to information (A to D).
- 3.1.1 Calculate Depreciation on Equipment sold on 31 August 2016. (2)
- 3.1.2 Calculate the TOTAL Depreciation on Equipment on 29 February 2016. (6)
- 3.2 Draw up the following accounts in the general ledger.
Close off / balance the accounts on 29 February 2016.
- 3.2.1 Equipment Account (5)
- 3.2.2 Accumulated Depreciation on Equipment (8)
- 3.2.3 Asset Disposal (8)
- 3.3 Refer to information (D).
- Complete the missing amounts indicated by * in the Fixed Asset note to the financial statement for the year ended 29 February 2016 in your ANSWER BOOK. (15)
- 3.4 The owner discovered the actual distances travelled far exceed their scheduled points of delivery by 40%. Name THREE control measures that they can introduce to solve this problem. (3x2) (6)

INFORMATION:

- A. Extensions were made to the buildings during the year.
- B. An additional vehicle was bought on 31 August 2015 for R200 000.
- C. On 1 September 2015 old equipment with an original cost price of R80 000 and a book value of R20 000 (28 February 2015) was traded-in against new equipment worth R140 000. After the trade-in, Bonanza Traders still owed the creditor R121 000.

D. NOTE TO FIXED ASSETS

| | LAND & BUILDINGS | VEHICLES | EQUIPMENT |
|-----------------------------|---------------------------------|------------------|------------------|
| Carrying value at beginning | 450 000 | * | 240 000 |
| • Cost | 450 000 | 800 000 | 510 000 |
| • Accumulated depreciation | | (260 000) | * |
| Movements | | | |
| Additions at cost | * | * | * |
| * | | 0 | * |
| Depreciation | 0 | * | * |
| Carrying value at end | 500 000 | * | * |
| • Cost | 500 000 | 1 000 000 | * |
| • Accumulated depreciation | 0 | (388 000) | * |

Depreciation

- | | |
|--|--|
| ▪ Vehicles are depreciated at 20% per annum on book value. | |
| ▪ Equipment is depreciated at 15% per annum on cost price. | |

QUESTION 4**PARTNERSHIPS****(40 Marks; 24 Minutes)**

- 4.1 Read each of the following statements and choose a term/phrase from the table below, that best describes the statement. (5)

| | | | |
|----------------------|---------------|------------------------|-------------|
| finance cost | matching | secondary distribution | reliability |
| partners' earnings | going concern | limited liability | materiality |
| primary distribution | | | |

- 4.1.1 Financial statements are prepared on the assumption that a business will continue for the foreseeable future.
- 4.1.2 The income statement is prepared for a specified period.
- 4.1.3 Interest on loan is paid on borrowed funds.
- 4.1.4 In a partnership, net profit is appropriated for salaries, interest on capital, bonus and share in remaining profit.
- 4.1.5 Financial statements should be available as close as possible to the date of the period for which they are prepared.
- 4.2 The following information was taken from the financial records of Extreme Traders, a partnership with A Gifford and N Ndlovu as partners.

REQUIRED:

Use the information provided to complete the following notes to the financial statements.

- 4.2.1 Capital (6)
- 4.2.2 Current account (29)

INFORMATION:

- A** The following balances and totals appeared in the Post-adjustment Trial Balance of Extreme Traders on 29 February 2016.

| | |
|---|------------|
| Capital: Gifford | 700 000 |
| Capital: Ndlovu | 900 000 |
| Current account: Gifford (1 March 2015) | 140 000 |
| Current account: Ndlovu (1 March 2015) | 90 000(dr) |
| Drawings: Gifford | 177 800 |
| Drawings: Ndlovu | 215 600 |
| Net profit according to the Profit and Loss account | 1 285 500 |

- B** Partner Gifford decreased his capital by R180 000 on 31 August 2015. This was properly recorded. No entry has been made for partner Ndlovu's increase in capital by R250 000 on 1 January 2016.
- C** Trading stock to the value of R10 000 was taken by partner Ndlovu and incorrectly debited to the account of Gifford.
- D** The partnership agreement stipulates the following:
- Both partners are entitled to interest on capital of 9% per annum.
 - Partner Gifford withdrew a total of R546 000 as his salary. This includes his salary for March 2016. Partner Ndlovu is awarded a salary of R350 000 per year.
 - A bonus of R30 000 was awarded to partner Ndlovu during the year.
- E** Gifford's share in the remaining profit is R147 390. Profits are shared in the ratio of 3:2 between Gifford and Ndlovu.

QUESTION 5**FINANCIAL STATEMENTS****(75 Marks; 45 Minutes)**

The information provided concerns Flashgordon Traders for the year ended 29 February 2016.

REQUIRED:

- 5.1 Complete the Income Statement for the year ended 29 February 2016. (50)
- 5.2 The following notes to the financial statements:
- 5.2.1 Trade and other receivables (8)
- 5.2.2 Trade and other payables (17)

INFORMATION:**FLASHGORDON TRADERS****PRE-ADJUSTMENT TRIAL BALANCE AS AT 29 FEBRUARY 2016**

| | Fol | DR | CR |
|---------------------------------------|-----|---------|---------|
| BALANCE SHEET ACCOUNTS | | | |
| Capital | B1 | | 790 000 |
| Drawings | B2 | 238 375 | |
| Vehicles | B3 | 410 000 | |
| Equipment | B4 | 280 000 | |
| Accumulated depreciation on vehicles | B5 | | 270 000 |
| Accumulated depreciation on equipment | B6 | | 95 000 |
| Fixed Deposit: Nedbank | B7 | 400 000 | |
| Trading stock | B8 | 246 800 | |
| Debtors' control | B9 | 34 560 | |
| Provision for bad debts | B10 | | 2 500 |
| Bank | B11 | 620 890 | |
| Loan: Nedbank | B12 | | 620 000 |
| Creditors' control | B13 | | 32 000 |
| Creditors for salaries | B14 | | 18 375 |
| UIF | B15 | | 2 000 |
| Pension fund | B16 | | 15 000 |

| NOMINAL ACCOUNT SECTION | | | |
|--------------------------------|-----|------------------|------------------|
| Sales | N1 | | 1 280 000 |
| Cost of sales | N2 | 642 000 | |
| Debtors' allowances | N3 | 6 500 | |
| Bad debts recovered | N4 | | 700 |
| Water and electricity | N5 | 8 900 | |
| Insurance | N6 | 8 800 | |
| Bad debts | N7 | 4 300 | |
| Donations | N8 | 2 400 | |
| Discount received | N9 | | 1 600 |
| Discount allowed | N10 | 1 800 | |
| Stationery | N11 | 17 300 | |
| Rent income | N12 | | 79 650 |
| Bank charges | N13 | 8 410 | |
| Telephone | N14 | 10 900 | |
| Interest on overdraft | N15 | 4 800 | |
| Interest on fixed deposit | N16 | | 28 000 |
| Salaries and wages | N17 | 288 090 | |
| | | 3 234 825 | 3 234 825 |

ADDITIONAL INFORMATION AND ADJUSTMENTS

- A** Before the stock count was done Flashgordon donated stock, bought at a cost price of R1 600, to the primary school. No entry was made.
- B** A physical stock count on 29 February 2016 revealed the following to be on hand:
- Trading stock R236 000
Stationery R3 900
- C** Depreciation for the year totalled, R124 850.
- D** The rent income was increased by R550 per month from 1 January 2016. The rent for March 2016 has already been received.
- E** Commission income due to the business is R15 000.
- F** The telephone account for February 2016 was received but has not been paid, R1 300.

- G** The account for water and electricity for February 2016 from the city council, R1 200, was not paid.
- H** Insurance included a premium of R1 320 paid for the period 1 October 2015 to 30 September 2016.
- I** Write off further bad debts of R560.
- J** Provision for bad debts must be adjusted to R1 800.
- K** Mr Jay, a debtor whose account had previously been written off, deposited R7 200 into the account of the business.
- L** Services fees for the month amounted to R290.
- M** A retired employee was inadvertently included in the salaries journal for February 2016. The details from his payslip were:

| | DEDUCTIONS | CONTRIBUTIONS |
|--------------|------------|----------------------|
| PAYE | 4 500 | |
| Pension fund | 1 875 | 10 % of gross salary |
| UIF | 250 | rand-for-rand |
| Net salary | 18 375 | |

NOTE: All contributions are debited to the salaries and wages account.

- N** On 29 February 2016 the Bank Reconciliation Statement reflected post-dated cheques totalling R7 280 payable in the next financial year.
- O** A cheque issued to a creditor for R1 800 settling our account of R2 000 was dishonoured and sent back by the bank marked R/D.
- P** The loan statement shows the following information on 28 February 2016:

| | |
|---|---------|
| Balance on 1 March 2015 | 680 000 |
| Interest capitalised | ? |
| Repayments during the year including interest | 117 600 |
| Balance on 29 February 2016 | 620 000 |

The business will make a capital repayment of R60 000 in the next financial year.

QUESTION 6**ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS****(50 Marks; 30 Minutes)**

- 6.1 Complete each of the following statements by supplying the missing word/s.
Note: Do not re-write the sentences. Write only the missing words. (10)
- 6.1.1 Gross profit on ... is calculated to verify the mark-up.
- 6.1.2 A drop in percentage between gross profit on turnover and operating profit on turnover is mainly caused by
- 6.1.3 Solvency is equal to
- 6.1.4 A fixed deposit that matures on the last day of the financial year will show an improvement in the ... ratio
- 6.1.5 The continuous inventory system requires physical stock-taking to determine

You are provided with information relating to Sea Point Traders for the year ended 29 February 2016. The partners are M Flynn and T Blake.

1) Financial indicators calculated for the past two years.

| | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| % Mark up on cost | 75% | 75% |
| % Gross profit on sales | 45% | 45% |
| % Operating expenses on sales | 47,2% | 30% |
| % Operating profit on sales | 18% | 22% |
| % Net profit on sales | 15% | 17,5% |
| Solvency ratio | 2:1 | 1:1 |
| Debt/equity ratio | 1,3:1 | 0,9:1 |
| Current ratio | 2,1:1 | 2,1:1 |
| Acid-test ratio | 1,2:1 | 1,2:1 |
| Stock turnover rate | 7 times | 5 times |
| % Return on average equity | ? | 37,5% |
| % Return earned by Blake | 25,5% | 30% |
| % Return earned by Flynn | 20,53 | 24,9% |
| % Net profit withdrawn by partners | ? | 45% |
| Debtors' collection period | 55 days | 65 days |
| Creditors' payment period | 50 days | 40 days |

2) Figures from the Financial Statement

| | 2015 | 2016 |
|-------------------------------|------------------|------------------|
| Capital | 3 560 000 | 2 960 000 |
| Blake | 1 800 000 | 1 200 000 |
| Flynn | 1 760 000 | 1 760 000 |
| Current Account | 790 000 | 660 000 |
| Blake | 420 000 | 360 000 |
| Flynn | 370 000 | 300 000 |
| Total Partners' equity | 4 350 000 | 3 620 000 |

| | Blake | Flynn | Total |
|---------------------------|----------------|----------------|----------------|
| Earnings per partner 2016 | | | |
| Partners' Salaries | 390 000 | 290 000 | 680 000 |
| Interest on Capital | 115 000 | 85 000 | 200 000 |
| Share of remaining profit | 55 000 | 55 000 | 110 000 |
| | 560 000 | 430 000 | 990 000 |
| | | | |
| Drawings | 210 000 | 175 000 | 385 000 |

- 6.2 Should the partners be satisfied with the stock turnover rate? Explain by quoting the financial indicators for both years to support your answer. (3)
- 6.3 Comment on the Debtors' Collection period and the Creditors' payment period. (3)
- 6.4 In your opinion, has the business been able to control its operating expenses well in 2016? Quote figures from both years to support your answer. (4)
- 6.5 Supply reasons for the difference between the percentage operating expenses on sales and the percentage net profit on sales. (2)
- 6.6 Calculate the percentage return earned by the business on average equity for 2016. (5)
- 6.7 The percentage return earned by Flynn on his average equity is 20.53%. Provide a calculation to prove that this calculation is correct. (5)
- 6.8 Comment on the percentage return earned by Flynn. Quote a financial indicator for both years to support your answer. (4)
- 6.9 Comment on the debt/equity ratio. Quote a financial indicator for both years to support your answer. (3)
- 6.10 What percentage of the net income did the partners withdraw from the business in 2016? (3)
- 6.11 Comment on the profitability of the business. Quote THREE financial indicators and figures to support your answer. (8)

TOTAL: 300

END