GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PROVINCIAL EXAMINATION

GRADE 11

ACCOUNTING

MEMORANDUM

21 pages

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PROVINCIAL EXAMINATION

ACCOUNTING

MEMORANDUM

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
10. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
11. Be aware of candidates who provide valid alternatives beyond the marking guideline.
12. Codes: f = foreign item; p = placement / presentation.

QUESTION 1.1

1.1.1	False ✓	
1.1.2	True ✓	
1.1.3	False ✓	
1.1.4	True ✓	**4**

1.2.1 GENERAL LEDGER OF BLUE STORES

Dr **BANK** **Cr**

31	Interest on current account ✓	✓ 400	31	Balance	✓✓16 720	
	Rent Income ✓	✓ 18 000		Bank charges (680 + 200) ✓	✓ 880	
	Trading stock ✓	✓ 3 000		Debtors control ✓	✓ 1 600	
	Trading Stock ✓	✓ 4 000		Drawings ✓	✓ 6 000	
	Advertising ✓	✓ 2 000		Insurance ✓	✓ 9 000	
	Balance	10 800		Trading stock ✓	✓ 4 000	
		38 200			38 200	
				Balance	☑ 10 800	**23**

1.2.2 BANK RECONCILIATION STATEMENT ON 31 March 2017

	Debit	Credit
Balance as per Bank statement	48 880✓	
Outstanding deposits		✓52 980
Outstanding cheques		
No 0861	✓1 400	
No 1141	✓1 500	
No 1175	✓8 000	
No 1294	✓4 000	
Balance as per General ledger		☑10 800 See 1.2.1
	63 780	**63 780**

7

1.3.1 CREDITORS RECONCILIATION

	Creditors Ledger of LIKE Traders	Statement from SMILE Suppliers
Balances	**16 620**	**26 940**
A	✓✓ + 500	
B	✓✓ - 180	
C		✓✓ + 9 000
D		✓✓ - 7 000
E (6 000 + 6000) 1 mark each	✓✓+ 12 000	
Final balances / total	☑ 28 940 *operation*	☑ 28 940 *operation*
-1 For any amount shown in both columns to a max of -3		

12

1.5.2 **The owner of LIKE Traders is concerned that the bookkeeper could be defrauding the business through the credit system.**
List TWO internal control measures that can be applied in order to maintain control over creditors.

Any TWO valid points ✓✓ ✓✓

- Division of duties
- Proper authorisation of transactions
- Different people must take responsibility for purchasing items bought on credit and receiving the items
- Items received must be checked against invoices and delivery notes

4

50

QUESTION 2

2.1 INCOME STATEMENT FOR RANA TRADERS FOR THE YEAR ENDED 31 DECEMBER 2017		
Sales (**720 000** – 13 800✓ - 4200✓)	☑	702 000
Cost of sales (**400 000** - 2625✓)	☑	(397 375)
Gross Profit check operation	☑	304 625
Other Operating Income		51 000
Rent income (46 400✓ + 4400✓ ✓)	☑	50 800
Decrease in provision for bad debts (2 400 -2 200)	✓✓	200
Gross Operating income		355 625
Operating Expenses check operation	☑	(245 321)
Packing material	✓	5 350
Utilities (8 900 + 1 100)	✓✓	10 000
Bad debts (3 200✓ + 400✓)	☑	3 600
Bank charges (846 +250)	✓✓	1 096
Discount allowed (430 - 30)	✓✓	400
Trading stock deficit (70 000 + 2 625 - 64 700)	✓✓	7 925
Insurance (8 800✓ –1400✓)	☑	7 400
Salaries and wages (164 000✓ +11 600✓) (9200+2400)	☑	175 600
Employers contribution (10 800 + 350)	✓✓	11 150
Depreciation	✓	15 000
Telephone	✓	7 800
Operating Profit		110 304
Interest income (150✓+13 750✓+1 250✓) (15 000)	☑	15 150
Profit Before Interest Expense		125 454
Interest expense	✓ ✓	(15000)
Net Profit for the year check operation	☑	110 454

42

Penalty for foreign items (max - 2)

2.2.1	**Calculation of depreciation**	
(a)	**Depreciation on vehicles sold during the year.** 250 000 x 20/100 x 9/12	✓✓ 37 500
(b)	**Total depreciation for the year ended 29 February 2017** 1 000 000 x 20/100 = R200 000✓ + 37 500 see (a)	☑ 237 500

4

2.2.2 FIXED/TANGIBLE ASSETS	Land and buildings	Vehicles	Equipment	
Carrying value at beginning of year		✓ 450 000	**540 000**	
Cost	✓2 600 000	✓1 250 000	**900 000**	
Accumulated depreciation		**(800 000)**	**(360 000)**	
Movements				
Additions at cost	✓ 84 000			
Disposals at carrying value **250 000** – 170 000✓ - 37 500☑ see 2.2.1		☑ (42 500)		
Depreciation		☑ (237 500)	✓ (54 000)	
Carrying value at end of year	**2 684 000**	☑ 170 000	☑ 486 000	
Cost	**2 684 000**	☑ 1 000 000	**900 000**	
Accumulated depreciation		☑ (830 000)	☑ (414 000)	

14

2.2.3 BALANCE SHEET OF NEMESIS TRADERS ON 28 FEBRUARY 2017

ASSETS		
Non-current assets	☑ 3 610 000	
Fixed/Tangible assets	**3 340 000**	
Financial assets:		
Fixed deposit (**350 000** – 80 000)	✓ 270 000	
Current assets	**830 520**	
Inventory (**570 000** + 10 700✓)	☑ 580 700	
Trade and other receivables (**105 000** – 7 000✓ + 12 000✓ +1 320✓)	☑ 111 320	
Cash and cash equivalents (50 000✓ + 6 000✓ + 80 000✓ +2 500✓)	☑ 138 500	
Total assets	**4 440 520**	
EQUITY AND LIABILITIES		
Capital	**2 333 020**	
Non-current liabilities		
Long term loan **(1 800 000** – 96 000)	✓ 1 704 000	
Current liabilities	**403 500**	
Trade and other payables (**190 000**+ 18 000✓ + 6 500✓ + 9 000✓ + 84 000✓)	☑ 307 500	
Short term loan	✓ 96 000	
		20
Total equity and liabilities	**4 440 520**	

80

QUESTION 3.1

COLUMN A	COLUMN B
3.1.1	C✓
3.1.2	E✓
3.1.3	B✓
3.1.4	A✓
3.1.5	D✓

5

3.2.1 Calculate the following financial indicators for 2017.

A Acid test ratio

(1 320 000✓-920 000✓) : 440 000✓

400 000:440 000

0,9:1 ☑

4

B Debt – equity ratio

900 000✓: 2 110 000✓

= 0,4:1☑

3

C Operating expenses on sales

$$\frac{\checkmark\ 680\,000}{\checkmark 3\,900\,000} \times \frac{100}{1}$$

= 17,4%☑

3

D % return earned by Natalie

$$\frac{\checkmark\checkmark\ 343\,000}{\checkmark\checkmark\ 2\,200\,000} \times \frac{100}{1}$$

(1 000 000+165 000+1 000 000+35 000) ½✓

$$\frac{343\,000}{1\,100\,000} \times \frac{100}{1}$$

=31.18%☑

6

3.2.2 The partners are satisfied with the manner in which they controlled the operating expenses in 2017. Quote TWO financial indicators (actual figures and percentages) to support their opinion

Any two ✓✓ ✓✓

- Although the **operating expenses**✓ increased by **R20 000**✓ from (R 660 000 to R680 000),
- The % **operating expenses on sales**✓ decreased **from 20,6% to 17,4%**✓ indicating that the operating expenses were well controlled considering the increase in customers
- **The % operating profit on sales**✓ improved from **16,9% to 18,5%** ✓indicating that the good control of expenses resulted into an improved net profit. The business is now earning 18.5c in each R1,00 of sales compared to 16,9c in the previous year

4

3.2.3 Comment on the liquidity position of the business for 2017. Quote 2 financial indicators (actual figures or percentages) to support your answer. State two points?

Ratio ✓✓ Comment ✓✓

- The **current ratio**✓ increased from **1.6:1 to 2:9:1**✓. It is now too high as it is wasteful to keep so many current assets which do not earn a return.
- **The acid test ratio**✓ has been maintained at **0, 9:1 for both years**✓ indicating that the business, being a clothing store, can operate successfully at this level. However the big difference between the current ratio and acid test ratio indicates that high levels of stock are a problem. The business must aim to maintain stock at a more efficient level.

4

3.2.4 The partners thought it was a good idea to use more loans in 2017. Quote two financial indicators (actual figures or percentages) to support their opinion.

Ratio ✓✓ Comment ✓✓

- The **debt equity ratio**✓ has **increased from 0,1:1 to 0,4:1**✓. Although this is a significant increase the business is not in a risky situation as the equity is still more than a double the loans.
- The **interest rate on loans**✓ has not increased and is still **at 13 %** ✓which is lower than the % return the business is earning.

4

3.2.5 Comment on the % returns earned by the partners. Natalie is very satisfied with her return, but Raymond is disappointed. Quote financial indicators (actual figures or percentages) to support your answer.

- Natalie's return has increased significantly from 24% to 31, 18%✓ which greatly exceeds the returns on alternative investments.

- Raymond's return has dropped from 28,9 % to 23,1%.✓

2

35

QUESTION 4.1

4.1.1 Direct material cost: **18 000** + **650 000** – 35 000✓ + 12 300✓ – 20 000✓	☑625 300
4.1.2 Direct labour cost: **Normal time** 3 x 1 600 x 40 = 192 000✓✓ **Over time** 3✓ x 300 ✓ x (40✓ x 1.5✓) = 54 000	☑246 000

11

4.1.3 GENERAL LEDGER OF SPRING PARK

Dr FACTORY OVERHEAD COST Cr

2017 Jun	30	**Rent**	**68 500**	2017 June	30	Work in progress	☑346 760
		Maintenance	**46 700**				
		Depreciation	**12 800**				
		Repairs	✓ 1 300				
		Water and electricity (80 000 x 70/100)	✓✓56 000				
		Indirect materials (7 200✓ + 56 000✓ – 7 500✓) x 80/100	☑ 44 560				
		Sundry expenses (21 000 x 4/7)	✓✓12 000				
		Wages	✓23 000				
		Salaries (89 050 – 7150)	✓✓81 900				
			346 760				**346 760**
(-1) if advertising or office assistant salary appears here							

13

WORK IN PROCESS

2016 Jul	1	Balance	✓ 35 000	2017 Jun	30	Finished goods stock	☑1 212 000
2017 Jun	31	Direct material	☑625 300 see 4.1.1			Balance	41 060
		Direct labour	☑246 000 see 4.1.2				
		Factory overheads cost	☑346 760 see FOH account				
			1 253 060				**1 253 060**
	Jul	Balance	☑41 060				

6

4.2 PERRY TIES MANUFACTURERS

4.2.1 **Calculate the unit costs for 2017 denoted by (a), (b) and (c).**

No marks for workings.

(a) = R 11,36✓ accept R11,37

(b) = R 3.86✓

(c) = R 4,65✓ accept R4 ,66

3

4.2.2 **Compare the unit costs of 2017 with those of 2016. In each of the following cases give a possible reason (other than inflation) for the change:**

Alternative valid responses to be accepted – one reason for the change in each case

Description of the change is not acceptable e.g. increased from R5 ,94 - R7.27 – reason must be provided in each case

- **Direct materials cost per unit** ✓✓
  More efficient usage / Less wastage (better quality) /
  Cheaper supplier / Trade discounts for bulk purchase /
  Free delivery / Material obtained locally

- **Direct labour cost per unit** ✓✓
  Inefficiency in production (more workers per unit) /
  Wage rate correction (paid them higher wages) /
  Increase in overtime (at higher rate) / Incentives for hard work

- **Factory overhead costs per unit** ✓✓
  Greater number of units produced /
  Economies of scale (fixed costs do not increase with production) /
  Certain fixed costs were not incurred / they decreased
  Proper control of costs /
  Change in depreciation (in case of Dim Bal Method)

6

4.2.3 **Calculate the break-even point for 2017:**

✓328 000
(✓45,00-✓22.50)

= 14 578 ☑ if one part correct

Comment on the break-even point calculated above. Should the business be satisfied with the number of units that are currently being produced? Explain.

Yes ✓ - they are exceeding the BEP by a significant quantity.

44 000 - 14 578 = 29 422✓
Full marks if consistent with calculations above

6

45

QUESTION 5

5.1.1 Provide TWO items that will not be included in a cash budget. Provide a reason for your answer.

Any two ✓ ✓

- Bad debts
- Depreciation
- Discount received
- Discount allowed
- Profit on sale of an asset
- Loss on sale of an asset

REASON:

It is non-cash items ✓✓

4

5.1.2 Explain the difference between a Projected Income statement and a Cash budget.

Projected income statement calculates the projected profit or loss. ✓

Cash budget calculates the expected cash available to the business. ✓

2

5.1.3 Use the information given for the budgeted period. Comment on the debtor's collection policy in comparison to the creditor's payment policy.

Creditors are being paid 60 days after purchases.✓

Debtors are given up 90 days to settle accounts.✓

Creditors are being paid before debtors settle their account therefore the business might experience a cash flow problem. ✓✓

4

5.2.1 DEBTORS COLLECTION SCHEDULE FOR JULY AND AUGUST 2017

Month	Credit sales	July	August
May	225 000	✓ 56 250	✓ 22 500
June	300 000	✓176 400	✓ 75 000
July	275 000		✓ 161 700
August	325 000		
		☑ 232 650	☑ 259 200

7

5.2.2 CASH BUDGET FOR JULY AND AUGUST 2017

RECEIPTS	JULY	AUGUST
Cash sales	✓ 275 000	✓325 000
Receipt from Debtors	☑ 232 650	☑259 200
Rent income	**35 000**	✓✓38 500
Fixed deposit		✓35 000
Asset disposal income	✓65 000	
Total receipts (Award mark only if both amounts filled in) ☑	607 650	657 700
PAYMENTS		
Payment to Creditors	✓ 400 000	✓ 360 000
Salaries	✓✓ 57 750	**75 500**
Wages	✓ 57 750	✓ 57 750
Maintenance (Tangible assets)	**20 000**	**20 000**
Advertising	**18 000**	**16 500**
Drawings	**10 000**	**10 000**
Vehicle		✓ 90 000
Total payments (Award mark only if both amounts filled in) ☑	**563 500**	**629 750**
Cash surplus (shortfall)	☑ 44 150	☑ 27 950
Bank: opening balance	**(9 500)**	☑ 34 650
Bank: closing balance	☑ 34 650	☑ 62 600

22

5.2.3 Comment briefly on each of the items on the budget. Provide ONE point of advice regarding each item

Item	Comment ✓✓✓	Advice ✓✓✓
Advertising	Effectively managed. 3% of previous month's sales.	Maintain effective management. Improve further.
Maintenance	Not well managed. Increased by R10 000 in July and by R7 000 in August	Budget realistically. Improve control measures over maintenance to avoid major expenditure in the future. Enter into maintenance contracts.
Rent income	Collected less than budgeted for each month. Collection measures ineffective.	Improve collection by issuing reminders etc. Charge interest on overdue rent.
	Any acceptable answer	

6

45

QUESTION 6

6.1.1 Calculate the missing amounts A to C in the table below.

	Excluding VAT	Including VAT	VAT
1	**R320 000**	?	**A** 44800✓ (320000X14/100)
2	**R2 300**	**B** 2622✓ (322X114/14**)**	**R322**
3	**C** 6 300✓ (882X100/114)	**D** 7182✓ (882X114/14)	**R882**

4

6.1.2	**Explain the difference between Tax Avoidance and Tax Evasion.**
	TAX AVOIDANCE Legal activity✓ designed to arrange a tax payers affairs so as to reduce✓ the level of taxation for which he is liable**.** **TAX EVASION** Illegal activity✓ deliberately undertaken✓ to reduce or free oneself from a tax liability.

4

6.1.3	**The owner has 13 cash registers. The sales from the 13th cash register is taken by the owner daily. He does not declare this in his books. Advise him on his actions.**
	Any TWO ✓✓ ✓✓ • Illegal as he wants to avoid taxation • Unethical to engage in such transactions • Guilty of fraud • Getting caught will result in fines, and bad publicity for the company

4

6.2.1 GENERAL LEDGER OF DALY OUTFITTERS

Dr PURCHASES ACCOUNT Cr

2017				2017			
Feb	28	Creditors Control ✓	✓485 000	Feb	28	Creditors allowances ✓	✓ 2 560
		Bank ✓ (105 000 ✓ + 1 500 ✓)	☑106 500			Donation ✓	✓ 2 000
						Drawings ✓	✓ 1 200
						Trading account ✓	☑585 740
			591 500				**591 500**

14

6.2.2 Calculate the net sales for the year ending 29 February 2017.

520 000✓ + 5 100✓ +200 670✓ +2 400✓ -3 480✓ = 724 690☑

6

6.2.3 Prepare the trading Statement for the year ended 29 February 2017.

Sales	☑ 724 690
Less Cost of Sales	☑ 499 790
Opening stock	✓ 214 000
Purchases (from purchases account)	☑ 585 740
Customs duty	✓ 2 890
Carriage on purchases (5 750 ✓+ 800✓)	☑ 6 550
Closing stock	**(309 390)**
Gross Profit	☑ 224 900

9

6.2.4 Advantages of converting to the continuous inventory system.

Any 2 ✓✓ ✓✓

- Continuous inventory system will offer better control over stock.
- Stock can be verified per account with a physical stock count.
- Gross profit easy to calculate

4

45