GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

# GAUTENG DEPARTMENT OF EDUCATION

## PROVINCIAL EXAMINATION

## NOVEMBER 2016

## GRADE 11

# ACCOUNTING

**MARKS: 300**
**TIME: 3 hours**

**17 pages**

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**P.T.O.**

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## INSTRUCTIONS

1. Answer all the questions in the ANSWER BOOK provided.
2. Show all workings in order for part marks to be allocated.
3. Read the instructions carefully and follow them precisely.
4. Non-programmable calculators may be used.
5. All answers must be written in blue or black ink.
6. Mark allocation:

| QUESTION | MARKS | TIME IN MINUTES |
|---|---|---|
| 1 | 50 | 30 |
| 2 | 45 | 27 |
| 3 | 35 | 20 |
| 4 | 40 | 23 |
| 5 | 80 | 50 |
| 6 | 50 | 30 |
| **TOTAL** | **300** | **180** |

**QUESTION 1** **[50 MARKS; 30 MINUTES]**

## 1.1 CONCEPTS

Consider the descriptions A to E and choose the relevant item from the table below 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. Their financial year ends on 31 August 2016.

**REQUIRED**

1.2.1 All entries to be recorded in the cash journals must be shown directly in the Bank account. Balance the account properly on 31 August 2016.
**Note:** Correct names of contra accounts must be shown. [25]

1.2.2 Prepare the Bank Reconciliation Statement on 31 August 2016. [10]

1.2.3 Briefly explain the purpose of preparing a bank reconciliation statement. [02]

1.2.4 The creditors' control account showed a balance of R57 680 on 31 August 2016, before bank reconciliation. Determine the amount that would be reflected in the financial statements in respect of Creditors' Control on 31 August 2016. [04]

1.2.5 List TWO concerns regarding the internal control of cash in this business. [04]

**INFORMATION**

1 The Bank Reconciliation Statement on 31 July 2016 was prepared by an inexperienced bookkeeper

| | |
|---|---|
| Credit balance as per bank statement | R 13 400 |
| Outstanding deposit [25 July 2016] | 14 600 |
| Outstanding deposit [29 July 2016] | 23 500 |
| Cheques not presented for payment | |
| No. 599 [dated 15 January 2016] | 2 000 |
| No. 718 | 5 400 |
| No. 722 [dated 20 October 2016] | 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 2016:
- Cash Receipts Journal R29 120
- Cash Payments Journal R21 480

3 On comparing the Bank Reconciliation Statement for July 2016 with the Bank statement for August 2016 it was noted that:

- The errors had been corrected.
- The outstanding deposit of R14 600 appeared on the bank statement on 5 August 2016.
- The deposit of R23 500 does not appear on the August 2016 bank statement.
- Cheque number 718 and 746 had been presented for payment.
- Cheque number 599 was issued to Thokan Ltd, a creditor.

4 On comparing the Bank Statement for August 2016 with the Cash Journals for August 2016 the following differences were noted:

- A deposit of R 17 400 made on 31 August 2016 did not appear on the bank statement.
- The following cheques had not been presented for payment:
  No. 754 R3 000
  No. 757 R5 200
  No. 761 R6 000
  No. 763 R1 200 [dated 10 September 2016]

5 Cheque number 739 was issued to Kenny 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 2016. Kenny Motors picked up the cheque on 1 September 2016.

6 The cheque of a debtor, B. Jane 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 2016 was received from Tito Traders, a debtor.

8 An amount of R1 800 had been debited by the bank for a debit order in favour of Wiz 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 R 20 000.

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 Sibuya Insurers, R4 000.
- Rent was directly deposited into our Bank account by the tenant, N. Mayet, R6 800.

11 Calculate the balance as per bank statement from Wiz Bank on 31 August 2016.

**QUESTION 2** **[45 MARKS; 27 MINUTES]**

**ASSET DISPOSAL**

The information provided was extracted from the financial records of Star Traders. Their financial year ends on 29 February 2016.

**REQUIRED**

2.1 Explain the purpose of a fixed assets register. State TWO points. [04]

2.2 Calculate the accumulated depreciation and carrying value for the disposal of the printer. [08]

2.3 Calculate depreciation on equipment on 29 February 2016. [07]

2.4 Prepare the following ledger accounts:

- Accumulated depreciation on equipment [06]
- Asset Disposal [06]

2.5 Complete the tangible assets note on 29 February 2016. [14]

## INFORMATION

### A Incomplete Fixed Assets Note

| | Land and Buildings | Vehicles | Equipment |
|---|---|---|---|
| Cost | **2 400 000** | | **900 000** |
| Accumulated depreciation | | **(960 000)** | **(370 000)** |
| Carrying value | **2 400 000** | **640 000** | |
| | | | |
| **Movements** | | | |
| Additions | | | **100 000** |
| Disposals | | | |
| Depreciation | | | |
| Carrying value | | | |
| Cost | **1 700 000** | | **950 000** |
| Accumulated depreciation | | | |

### B Fixed Assets

**Vehicles**

A delivery vehicle costing R500 000 was bought on 1 December 2015. The business has had all the old vehicles for five years, including this financial year. No vehicles were sold during the year.

Vehicles are depreciated at 15% p.a. on cost and this rate has been maintained over the years.

**Equipment**

A printer bought on 1 June 2012 for R50 000, was sold for cash on 31 August 2015 at carrying value. A new printer was bought for R100 000 on 1 September 2016. Depreciation on equipment is written off at 20% per annum on the diminishing balance method.

**QUESTION 3** **[35 MARKS; 20 MINUTES]**

## 3.1 STOCK CONCEPTS

In each of the following sentences replace only **one word** to correct the sentence. Write down ONLY the correct word. Do not re-write the whole sentence. [05]

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.

## 3.2 INVENTORY SYSTEMS

The information provided below was drawn from the books of Fatima Traders.
The owner maintained an average mark-up of **40 % on cost** over the last few years.
The owner aimed to increase the stock turnover rate for the year ending 29 February 2016.

**REQUIRED**

3.2.1 Calculate the cost of sales. [10]

3.2.2 Calculate the gross profit. [04]

3.2.3 Calculate the stock turnover rate for 2016. [04]

3.2.4 Comment on the drop in the mark-up percentage in relation to the stock turnover rate. Provide TWO points. [04]

3.2.5 List TWO other ways in which the profits of a business can be increased. [04]

3.2.6 List TWO ways in which the turnover of the business can be increased. [04]

**INFORMATION**

A **Balances on 29 February 2016**

| | |
|---|---|
| Trading stock [28 February 2015] | 394 290 |
| Purchases | 2 127 870 |
| Carriage on purchases | 87 786 |
| Sales | 3 038 580 |

B Physical stocktaking was completed on 26 February 2016 and trading stock on hand amounted to R313 254. The following transactions were not entered in the books and must be taken into account:

Feb. 20 Trading stock bought on credit from Dimitri 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** | **2016** | **2015** |
|---|---|---|
| Mark-up percentage | 28% | 40% |
| Stock turnover rate | ? | 4.5 times |

**QUESTION 4** **[40 MARKS; 23 MINUTES]**

**CASH BUDGETS**

The following information was drawn from the accounting records of BMW Traders.

**REQUIRED**

4.1 What is the purpose of preparing a cash budget? [02]

4.2 Mention TWO expenses other than depreciation that will not be included under 'Payments' in the cash budget. [04]

4.3 Prepare the Debtors' Collection Schedule for the quarter ending 31 March 2016. [07]

4.4 Prepare the Cash Budget for the quarter ending 31 March 2016. [27]

## INFORMATION

### 1 Income Statement for the year ended 31 December 2015

| | |
|---|---|
| Turnover | R 896 000 |
| Cost of sales | 448 000 |
| Sundry expenses | ? |
| Fixed cash expenses | 268 800 |
| Depreciation (15% p.a. on cost) | 16 000 |

### 2 From the Balance Sheet on 31 December 2015

| | |
|---|---|
| Mortgage loan | R120 000 |
| Fixed deposit | 190 000 |
| Trade debtors | 79 200 |
| Trade creditors | 96 000 |
| Bank | 8 500 |
| Trading stock | 75 000 |
| Equipment | 208 000 |
| Accumulated depreciation on equipment | 101 000 |

**3 TOTAL SALES**

| ACTUAL SALES | | SALES FORECAST | |
|---|---|---|---|
| 2015 | | 2016 | |
| November | 80 000 | January | R72 000 |
| December | 88 000 | February | 68 000 |
| | | March | 76 000 |
| **10% of all sales are for cash** | | | |

4 Debtors are allowed 60 days credit, subject to a 5% discount on payments received during the current sales month.

**Average debtors' collection over the past three months is as follows:**
15% of the debtors settled their accounts during the current sales month.
60% settled their accounts during the month after the current sales month.
24% settled their accounts during the second month after the current sales month.
The remaining 1% is to be written-off as bad debts in the third month after sales.

**It is expected that this pattern will be maintained during the budget period.**

5 **Purchases and creditors**
Cost of sales is equal to 50% of turnover.
Cash purchases of trading stock will amount to 20% of all purchases.
It is business policy to maintain trading stock at the December 2015 level.
Credit purchases are settled 60 days after the date of purchase.

6 The repayment on the loan is R2 000 per month.

7 Salaries and wages comprise 80% of fixed cash expenses as per the income statement for the year ended 31 December 2015. It is expected that there will be a salary and wage increase of 10% with effect from 1 February 2016. The other fixed cash expenses will remain constant over the forecast period.

8 Advertising amounts to 2% of turnover for the month of sales.

9 Sundry expenses are expected to increase by 5% from 1 March 2016. Sundry expenses for March 2016 are expected to be R8 295.

10 Old equipment has been sold for R25 400. The purchaser has agreed to pay R10 400 in January 2016 and the remainder in two equal instalments over the next two months. New equipment costing R63 000 was bought on credit and will be paid in three equal instalments commencing in March 2016.

11 A fixed deposit of R50 000 will mature in February 2016.

12 The owner will be taking twice his normal cash drawings in March 2016 as he is planning a holiday.

**QUESTION 5** **[80 MARKS; 50 MINUTES]**

5.1 **FINANCIAL STATEMENTS**

E. Moi, a sole trader, is trading as Moi Traders. The financial year of the business ends on the last day of February each year.

**REQUIRED**

5.1.1 Prepare the Income Statement for the year ending 29 February 2016. [45]

5.1.2 Trade and other receivables [08]

5.1.3 Complete the Assets section of Balance Sheet. [10]

**Note**:

**INFORMATION**

| 1 | Pre-adjustment Trial Balance on 29 February 2016 | | |
|---|---|---|---|
| | **Balance Accounts Section** | **Debit** | **Credit** |
| | Capital | | 775 694 |
| | Fixed assets at carrying value [01 / 03 / 2015] | 942 260 | |
| | Loan: Union Bank [17% p.a.] | | 86 000 |
| | Fixed Deposit: Capital Bank [9% p.a.] | 50 000 | |
| | Trading stock | 51 000 | |
| | Debtors' control | 76 680 | |
| | Provision for bad debts | | 4 200 |
| | Bank | 54 000 | |
| | Cash float | 2 000 | |
| | Petty cash | 800 | |
| | Creditors' control | | 105 300 |
| | Creditors for salaries | | 7 398 |
| | SARS: PAYE | | 15 000 |
| | Pension Fund | | 12 780 |
| | **Nominal Accounts Section** | | |
| | Sales | | 1 715 450 |
| | Cost of sales | 1 093 000 | |
| | Debtors' allowances | 106 000 | |
| | Rent income | | 125 000 |
| | Salaries | 181 000 | |
| | Wages | 124 320 | |
| | Bad debts | 4 060 | |
| | Insurance | 28 200 | |
| | Audit fees | 46 000 | |
| | Consumable stores | 23 400 | |
| | Interest on current account | | 2 100 |
| | Discount allowed | 6 902 | |
| | Discount received | | 2 700 |
| | Sundry expenses | 62 000 | |
| | | 2 851 622 | 2 851 622 |

## 2 Adjustments and Additional Information

- Before stocktaking took place a customer returned stock that was previously sold to him for cash for R6 000. A credit note for this amount was issued to him but this has not been recorded in the books.The mark-up is 50% on cost.

- The accounting officer is paid the same remuneration per month for the whole year. On 23 February 2016 he took goods to the value of R2 000 for his personal use. The amount was charged to the Accountant's Fees account and the balance would be paid to him during March 2016.

- Physical stocktaking of inventories on 29 February 2016 revealed the following:

  - Consumable items to the value of R23 120 was used during the year
  - Trading inventory showed a surplus of R3 250

- Received a cheque for R4 620 from the insolvent estate of a debtor. His estate paid a first and final dividend of R0,30 in the Rand. No entries have been made.

- The provision for bad debts must be adjusted to R3 900.

- An employee resigned from the business on 31 January 2016. However, his salary for February 2016 was inadvertently processed but he has not been paid. Details of his salary are as follows:

| Deductions | | | Nett Salary |
|---|---|---|---|
| PAYE | Pension fund | UIF | |
| 2 800 | 890 | 112 | 7 398 |

The business contributes as follows:

- On a rand for rand basis to the pension fund
- 1% towards the UIF of the gross salary

**Note**:

All contributions by the business are debited to the salaries account.

- An insurance contract for R9 600 was taken out for the period 1 September 2015 to 31 August 2016.

- Depreciation of R44 230 on tangible assets must be provided for, for the year.

- The loan statement from Value Bank reflected the following information:
  Balance on 1 March 2015 R110 000
  Balance on 29 February 2016 R100 550

  Note:

  - Interest on loan is capitalized.
  - The business made regular monthly payments of R2 000 towards the loan account each month.
  - The loan will be reduced by R15 000 in the next financial year.

- The fixed deposit statement from Capital Bank reflected a closing balance of R56 340 on 29 February 2016. Interest was capitalized.

- Rent was received for one month in advance. Rent was increased by R500 per month with effect from 1 January 2016.

- Eyespec, a company that manufactures sunglasses, acknowledged that Moi Traders had sold the largest number of Amla Brand sunglasses during the current financial year and was awarded a commission of R20 000. The cheque would be received at a special function to be held on 15 March 2016.

## 5.2 RATIO ANALYSIS

Use the information taken from the books of Global Ltd. to answer the following questions.

**REQUIRED**

5.2.1 Calculate the Debt : Equity ratio for 2016 and supply a suitable explanation for your finding. [03]

5.2.2 Calculate the Acid Test Ratio for 2016. [03]

5.2.3 Calculate the period for which enough stock is on hand on 29 February 2016. The closing stock on 28 February 2015 was R150 000. [05]

5.2.4 Comment on the liquidity of the business. Use THREE relevant financial indicators to support your answer. [06]

## INFORMATION

**A Extract from the Income Statement for the year ended 29 February 2016**

| | |
|---|---|
| Turnover | 1 280 000 |
| Cost of sales | 650 000 |
| Operating expenses | ? |
| Net income | 72 000 |

**B Extract from the Balance Sheet on 29 February 2016**

| | |
|---|---|
| Owner's Equity | 900 000 |
| Non-current liabilities | 600 000 |
| Current liabilities [creditors only] | 150 000 |
| Tangible assets | 960 000 |
| Financial assets | 200 000 |
| Current assets | 250 000 |
| Inventories | 125 000 |
| Debtors | 85 000 |
| Cash | 40 000 |

**C Financial Indicators**

| | 2016 | 2015 |
|---|---|---|
| GP on turnover | 49,2% | |
| NP on turnover | 8,6% | |
| Solvency ratio | ? | |
| Debt : Equity ratio | ? | |
| Current ratio | 1,67 : 1 | |
| Acid test ratio | ? | |
| Stock turnover rate | 4.7 times | 5.6 times |
| Period for which enough stock is on hand | ? | 45 days |

**QUESTION 6** **[50 MARKS; 30 MINUTES]**
**MANUFACTURING ACCOUNTS**

The following information was drawn from the books of Metal Manufacturers on 29 February 2016. **The business uses a mark-up of 50% on cost.**

**REQUIRED**

6.1 Prepare the following ledger accounts.

6.1.1 Raw Materials Stock [06]

6.1.2 Work-in-Process Stock [11]

6.1.3 Finished Goods Stock [07]

6.1.4 Factory Overhead Cost [12]

**INFORMATION**

| **1. Balances** | **29 February 2016** | **1 March 2015** |
|---|---|---|
| Raw Materials Stock | 132 000 | 129 440 |
| Work-in-Process in Stock | 93 640 | ? |
| Finished Goods Stock | 68 000 | 36 000 |
| Consumable Stores on Hand [Indirect Materials] | 9 460 | 3 740 |

| **2. Summary of transactions for the year ended 29 February 2016** | |
|---|---|
| Raw Materials on credit | 981 440 |
| **Salaries** | |
| Factory manager | 228 000 |
| Office staff | 162 400 |
| **Wages** | |
| Direct labour | 248 360 |
| Indirect labour | 84 200 |
| Bad debts | 9 600 |
| Water and electricity | 52 400 |
| Rent expense | 180 800 |
| Indirect materials purchased during the year | 51 260 |
| Sundry factory expenses | 52 610 |
| Sale of finished goods | 2 700 000 |

## 3. ADDITIONAL INFORMATION

- Wages of R2 400 was owed to the factory cleaner on 29 February 2016.
- Raw materials are only bought on credit.
- Expenses in respect of water and electricity must be apportioned between the factory and the administration section in the ratio of 3:1 respectively.
- Rent expense must be apportioned according to floor space. The factory occupies 140 $m^2$ out of a total floor space of 200 $m^2$.

6.2 You are provided with information from the accounting records of Novelty Mug Manufacturers Ltd. on 31 December 2015. Their financial year ends on 31 December each year.
**No stocks were on hand at the beginning or end of the financial year.**

**REQUIRED**

6.2.1 Calculate the total direct labour cost. [03]

6.2.2 Calculate the factory overhead cost per unit. [03]

6.2.3 Calculate the break-even point. [04]

6.2.4 China Sand has been supplying the business with raw materials for the past seven years. Management has been approached by a new supplier who promises a 25% saving on raw materials cost. Mention TWO points that management should consider before changing suppliers. [04]

**INFORMATION**

1 A total of 2 000 mugs were produced during the year.

2 The selling price per mug is R51,20.

3 The costs for the 2 000 mugs were as follows:

| | Total | Per Unit |
|---|---|---|
| **Variable Costs** | **54 000** | **27,00** |
| Raw materials cost | 20 800 | 10,40 |
| Direct labour cost | ? | 13,60 |
| Selling and distribution cost | ? | 3,00 |
| | | |
| **Fixed Costs** | **26 000** | **?** |
| Factory overhead cost | 16 000 | ? |
| Administration cost | 10 000 | ? |
| | | |
| **Total Cost** | **80 000** | **40,00** |
| | | |

**TOTAL: 300**

**END**