GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PROVINCIAL EXAMINATION

NOVEMBER 2018

GRADE 11

ACCOUNTING

TIME: 3 hours

MARKS: 300

18 pages

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INSTRUCTIONS

1. Answer ALL the questions.
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 ink.
6. This question paper consists of 18 pages.
7. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

Question	Topic	Marks	Time in minutes
1	Reconciliations	55	33 minutes
2	Inventory	50	30 minutes
3	Financial Statements: Income Statement & Balance Sheet	90	55 minutes
4	Analysis and interpretation of financial indicators	25	15 minutes
5	Manufacturing	45	27 minutes
6	Budgeting	35	20 minutes
Total		**300**	**180 minutes**

QUESTION 1: RECONCILIATIONS (55 marks; 33 minutes)

1.1 BANK RECONCILIATION (37 marks; 22 minutes)

1.1.1 What is the purpose of preparing a Bank Reconciliation Statement? (2)

1.1.2 You are provided with the information relating to Rina Traders.

REQUIRED:

(a) Calculate the bank balance in the books of Rina Traders on 31 December 2017. (2)

(b) Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for January 2018. (20)

(c) Prepare the Bank Reconciliation Statement on 31 January 2018. (8)

(d) Refer to cheque no. 270 in the Bank Reconciliation Statement of December 2017. How will this cheque be recorded in the financial statements for the year ending February 2018? Explain. (5)

INFORMATION:

A. Bank Reconciliation Statement on 31 December 2017:

Credit balance as per bank statement	3 055
Credit outstanding deposit	9 990
Debit outstanding cheques and EFT:	
No. 15 (dated 20 June 2017)	2 800
No. 191	1 600
No. 270 (dated 5 March 2018)	1 938
EFT	1 772
Balance as per Bank Account	????

B. Provisional totals for January 2018:

CASH RECEIPTS	22 100
CASH PAYMENTS	17 300

C. Comparison of the Bank Reconciliation on 31 December 2017 and the Bank Statement for January 2018 from Best Bank showed the following:

1 The following items appeared on the January 2018 Bank Statement:

- Outstanding deposit, R9 990
- EFT, R1 772

2 Cheque number 15 for a donation to BH Children's Home did not appear on the Bank Statement for January.

3 Cheque number 191 issued on 25 October 2018 in favour of Zizzy Aircons for repairs was lost, it was stopped and replaced with cheque number 302 for R2 000. No entries have been made and the new cheque has not yet been presented for payment.

D. A comparison of the Bank Statement for January 2018 with the Cash Journals for January 2018 showed the following differences:

1. The following entries appeared on the Bank Statement only:

- Bank charges, R630
- Interest on credit balance, R145

2. Cheque number 269 issued to Easy Municipality in payment for water and electricity, was entered as R1 727 in the Cash Payments Journal. The cheque is correctly recorded in the Bank Statement as R1 227.

3. A tenant, N. Utella, deposited of R2 500, via EFT, into the account of Rina Traders.

4. A cheque for R460 drawn by debtor, I. Donpay in settlement of his account of R490, was dishonoured by the bank due to insufficient funds.

5. A debit order for R1 900 in favour of Furious Motors for the monthly instalment of the owner's private vehicle.

6. Outstanding cheques and EFTs:

- No. 303 for R1 627
- No. 305 for R1 545
- EFT, R1 380

7. A deposit of R2 000 made on 31 January 2018 does not appear on the Bank Statement.

8. Calculate the balance on the Bank Statement for the end of January 2018 in the Bank Reconciliation Statement.

1.2 CREDTORS' RECONCILIATION (18 marks 11 minutes)

Shade Traders received a statement of account from a creditor, Sun Suppliers. The balance on the statement did not agree with that on the account of Sun Suppliers in the Creditors' Ledger.

REQUIRED:

1.2.1 Complete the table in the ANSWER BOOK to reconcile the Creditors' Ledger with the Creditors' Statement.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-).

Total the columns with the correct balances as at the end of March 2018. (10)

1.2.2 The owner of Shade Traders is unhappy with the errors made by the bookkeeper. Briefly explain TWO measures that the bookkeeper can implement to maintain good control over creditors to avoid this from happening in the future. (4)

1.2.3 Shade Traders is experiencing cash-flow problems and is currently in a position where they are unable to pay their creditors on time. They allow their customers credit terms of 60 days. Suggest TWO ways in which the liquidity of the business can be improved. (4)

INFORMATION:

Creditors' Ledger balance of Shade Traders	R 5 600
Creditors' Statement balance of Sun Suppliers	R 4 640

A comparison between the Creditors' Ledger and the statement of account showed the following differences:

A. An invoice of R5 980 was recorded in the Creditors' Journal by Shade Traders on 29 March 2018. The statement of account from Sun Suppliers was dated 25 March 2018.

B. Shade Traders entered a discount of R600 relating to a payment of R3 000 on 15 March 2018. Sun Suppliers did not approve this discount stating that the payment was received late.

C. An invoice for R8 780 received from Sun Suppliers was correctly recorded in the Creditors' Ledger. This amount was incorrectly recorded on the statement as R7 880.

D. A cheque for R1 260 received from Shade Traders was incorrectly recorded as an invoice in the Creditor's Statement.

E. The statement of account reflected returns valued at R720. The Creditors' Ledger showed R270. It was discovered that Shade Traders made the error.

F. The Creditors' Statement reflected outstanding interest of R250.

G. The Creditors' Ledger reflected a cheque of R3 000 which was for another creditor, Sunny Wholesalers.

QUESTION 2: INVENTORY **(50 marks; 30 minutes)**

2.1 Provide the missing word in each of the following sentences. (10)

A	Cost of sales is recorded with each sale in the … inventory system.
B	Physical stocktaking is necessary to verify stock in the … inventory system.
C	Physical stocktaking is necessary to calculate cost of sales in the … inventory system.
D	Stock shortages will reflect a … gross profit in the periodic inventory system.
E	Stock deficits can be detected easily in the … inventory system.

2.2 The following information was taken from the books of Bags Galore on 28 February 2018. The business sells handbags of exclusive brands. The business uses the periodic inventory system and prices goods at **70%** on cost.

2.2.1 Calculate the **net sales** for the year. (5)

2.2.2 Calculate the **net purchases** for the year. (6)

2.2.3 Calculate the **closing stock** on 28 February 2018. Show all calculations. (6)

2.2.4 Prepare the **Trading Account** on 28 February 2018. (15)

2.2.5 The owner is unsure whether the previous bookkeeper was using the correct inventory system. Provide TWO reasons to convince the owner that the Continuous Inventory System is best suited for his business. (4)

2.2.6 Provide a reason other than theft of stock for the drop in gross profit on sales and state the consequences for the business. (4)

INFORMATION:

A. Transactions for the year ended 28 February 2018:

Trading Stock (1 March 2017)	341 000
Purchases	1 850 000
Carriage on Purchases	27 510
Carriage on sales	15 390
Sales	3 190 700
Debtors' Allowances	26 620

B. ADDITIONAL INFORMATION TO BE TAKEN INTO ACCOUNT:

1. Goods costing R8 000 were donated to the local school.

2. Bags costing R4 200 taken by the owner for personal use was credited to sales.

3. Received an invoice from Xpress Delivery for transporting merchandise:

    - To the business, R1 290
    - To customers, R600

4. No entry was made for a debit note issued to a creditor, R2 750.

5. Physical stock as per stocktaking on 28 February 2018 was R298 000.

6. The following transactions took place on 28 February 2018 after stocktaking was done:

    - Sales of goods discounted by 10%, R38 250.
    - Purchase of goods, R23 630

7. Financial indicators:

Year ending	**2018**	**2017**
Gross profit on sales	38%	53%

QUESTION 3: FINANCIAL STATEMENTS (90 marks; 55 minutes)

This question consists out of TWO independent questions.

3.1 INCOME STATEMENT (37 marks; 22 minutes)

The information provided was extracted from the accounting records of Star Traders. The financial year of the business ends in February each year. The business specializes in selling electronic components for various radios and televisions.

REQUIRED:

Prepare the Income Statement for the year ended on 28 February 2018. (37)

INFORMATION:

A. PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2018

Balance Sheet Accounts Section	Debit	Credit
Capital		952 800
Drawings	265 000	
Land and buildings	1 269 100	
Loan: Infinity Bank		131 520
Equipment at cost	192 000	
Accumulated depreciation on equipment [1/3/2017]		91 200
Fixed Deposit: Infinity Bank [8% p.a.]	100 000	
Trading stock	316 240	
Debtors' control	119 300	
Provision for bad debts		5 000
Creditors' control		220 840
Bank		25 480
Petty cash	1 800	
Cash float	6 000	
Consumable stores on hand [Packing material]	40 000	

Nominal Accounts Section		
Sales		2 292 660
Cost of sales	1 066 880	
Debtors' allowances	29 520	
Rent income		247 650
Commission income		22 680
Discount received		7 620
Interest income [Overdue debtors' accounts]		19 600
Interest on fixed deposit		10 000
Bad debts recovered		6 400
Discount allowed	9 060	
Vehicle expenses	47 200	
Salaries	336 800	
Packing material	14 000	
Advertising	39 240	
Bad debts	10 000	
Repairs	26 400	
Interest on overdraft	29 260	
Sundry expenses	265 200	
Depreciation	15 120	

B. Adjustments and additional information:

1. No entries were made for goods sold on credit for R11 200. The mark-up is 75% on cost.

2. A cheque for R2 800 was received from the insolvent estate of a debtor as a final dividend of R0.40 in the rand. **The balance must be written off.**

3. Provision for bad debts must be adjusted to R4 600.

4. Stock on hand according to physical stocktaking on 28 February 2018:
   - Trading stock, R312 440
   - 80% of packing material was used during the year.

   NOTE: The reversal for packing material on hand on 1 March 2017 was not done.

5. Rent was decreased by 10% with effect from 1 January 2018. Rent income includes rent for March 2018.

6. An advertising contract for R14 400 was paid for the period 1 January 2018 to 31 December 2018.

7. Payments in respect of internet services and the telephone are included in the Sundry Expenses account.
   The Telephone account of R4 060 for February 2018 will only be paid in March 2018.

8. Commission on sales of R7 320 from TV Teck Ltd. is due to the business.

9. The bookkeeper has correctly posted the gross salary to the General Ledger, but neglected to post the Deductions and Contributions.

   Extract from the Salaries Journal for February 2018:

PAYE	22 500
Pension Fund deductions	6 300
UIF deduction	900

   Note: The business contributes a third towards the Pension Fund and on a rand-to-rand basis for the UIF.

   All expenses related to salaries are recorded in one expense account.

10. Loan: Infinity Bank (Interest is capitalized.)

    - Repayments for the year including interest R28 080
    - Balance as per loan statement from Infinity Bank on 28 February 2018, R152 560

11. Depreciation on Equipment amounted to R15 120 for the year.

3.2 **BALANCE SHEET** **(53 marks; 33 minutes)**

The following information was taken from the accounting records of Newton Traders, a partnership owned by Naude and Dlamini. Their financial year ended on 28 February 2018.

REQUIRED:

3.2.1 Explain how a Fixed Asset Register will assist the internal auditor in his duties. (2)

3.2.2 Newton Traders intends selling their premises at cost price to improve the cash flow of the business.
Do you support this decision? Give a reason for your answer. (3)

3.2.3 Calculate the depreciation on vehicles for the financial year ended 28 February 2018. (9)

3.2.4 Prepare the note for Tangible Assets. Show all calculations. (11)

3.2.5 Complete the Balance Sheet on 28 February 2018. Show all workings in brackets. (28)

INFORMATION:

A. List of balances on 28 February 2018:

	DEBIT	CREDIT
Capital: Naude		**?**
Capital: Dlamini		**?**
Current Account: Naude (28 February 2018)	34 400	
Current Account: Dlamini (28 February 2018)		88 700
Land and buildings	922 820	
Vehicles (1 March 2017)	500 000	
Equipment	410 320	
Accumulated depreciation on Vehicles		172 000
Accumulated depreciation on Equipment		123 900
Fixed Deposit: ZA Bank (9% p.a.)	220 000	
Loan: United Bank		440 000
Trading stock	84 760	
Consumable stores on hand	1 000	
Debtors' control	126 000	
Creditors' control		43 200
SARS: PAYE		2 400
Pension fund		1 800
Bank		11 000
Cash float	800	
Provision for bad debts		6 300
Prepaid expenses	6 400	
Accrued expenses		7 400

B. Adjustments and additional information:

All adjustments were taken into consideration when the Income Statement was prepared, except for the following:

1. A PAYE deduction of R1 600 for a temporary employee was not posted to the ledger.

2. The loan would be reduced in the next financial year.

3. A fixed deposit of R100 000 will mature on 31 May 2018.

4. Adjust the bank balance with the following amounts:

    - Bank charges, R600
    - Interest on overdraft, R400
    - Deposit by S Moodley (previously written-off), R2 600

5. An old vehicle with a cost price of R180 000 and a carrying value of R115 200 on 28 February 2017 was traded-in on 30 September 2017 for R71 000. The cost of the new vehicle was R150 000. Vehicles are depreciated at 20% per annum on carrying value.

6. Equipment was purchased during the year.

7. Calculate depreciation on vehicles at 20% per annum on book value.

8. Depreciation on Equipment for the year, R61 540.

9. The Current Ratio for 2018 was 2,7 : 1

QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL INDICATORS

(25 marks; 15 minutes)

The following information was extracted from the records of Slimfit Traders, owned by partner S.Slim and F.Fit. The financial year ends on 28 February 2018.

REQUIRED:

4.1 Comment on the operating efficiency of the business. Quote TWO indicators with figures to support your answer. (4)

4.2 Calculate the Acid-Test Ratio for February 2018. (4)

4.3 Comment on the Liquidity position of the business. Name TWO financial indicators with figures to support your answer. (4)

4.4 Calculate the Debt-Equity Ratio and comment on the gearing of the partnership. Use figures to support your answer. (7)

4.5 Calculate S. Slim's return on his investment. Comment on it. (6)

INFORMATION:

A. Extract from the Balance Sheet on 28 February 2018:

Partners' Capital Contribution (Equal contribution)	900 000
Current Account: Slim	14 250(DR)
Current Account: Fit	16 000(CR)
Partner Slim's earnings	185 000
Non-Current Liabilities	600 000
Current Liabilities (Creditors only)	90 000
Current Assets	230 000
Inventories	120 000
Debtors	80 000
Cash	30 000

B. Financial Indicators:

	2018	**2017**
Gross profit on cost of sales	85%	85%
Gross profit on turnover	47,79%	44,2%
Net profit on turnover	8,6%	7,2%
Debt : Equity ratio	**?**	0.82 :1
Current ratio	1.67:1	1,84:1
Acid-test ratio	**?**	1,32:1
Stock turnover rate	5.6 times	4.7 times
Period for which enough stock is on hand	33 days	45 days
Fixed Deposit Interest Rate	9%	9%

QUESTION 5: MANUFACTURING (45 marks; 27 minutes)

This question consists of TWO independent questions.

5.1 GENERAL LEDGER ACCOUNTS (35 marks: 21 minutes)

Round-tree Manufacturers manufacture and sell soccer and netball balls. The financial year ended on 30 June 2018.

REQUIRED:

5.1.1 Calculate the raw materials used for production. (4)

5.1.2 Complete the following accounts in the General Ledger:

(a) Factory overheads cost (14)
(b) Work-in-process stock (10)
(c) Finished goods stock (7)

INFORMATION:

A. Balances:

	1 July 2017	30 June 2018
Raw material stock	138 800	73 600
Work-in-process stock	31 200	**?**
Finished goods stock	93 200	**?**
Indirect material (on hand)	23 600	16 800

B. Transactions for the year ended 30 June 2018:

Raw materials purchased for cash	382 000
Carriage on purchases of raw materials (cash)	11 600
Raw materials issued for production	**?**
Indirect materials purchased for cash	69 200
Direct wages	368 000
Wages of a cleaner: Sales Department	23 925
Salaries – sales staff	74 400
Advertising	12 400
Rent expense	46 400
Factory maintenance	26 000
Water and electricity	50 000
Depreciation on factory machinery	26 400
Commission on sales (3% of sales)	41 400

C. Additional information:

1. Rent must be allocated in proportion to the floor space occupied. The factory uses 600 square meters and the remaining 400 square meters is shared between the other two departments.

2. Cleaners' wages are appointed in the ratio of 14:11:5 between the factory, sales and administration departments.

3. The factory uses 75% of the water and electricity.

4. 14 300 units were produced at a cost of R70 per unit.

5. Cost of sales is equal to 70% of sales.

5.2 BREAK-EVEN POINT (10 marks: 6 minutes)

Katlego Monjape started his own business. He makes and sells personalised key rings.

REQUIRED:

5.2.1 Explain to Katlego why it is necessary to calculate the break-even point. (2)

5.2.2 Calculate the break-even point achieved by Katlego. (6)

5.2.3 Comment on the level of production achieved by Katlego. (2)

INFORMATION:

Production and sales figures at the end of 2018.

Details	Total	Per unit
Direct material costs	R 9 800	R 10
Direct labour costs	R 5 880	R 6
Factory overheads	R 6 860	
Selling and distribution costs	R 2 940	R 3
Administration costs	R 700	
Sales: 2018 = 1 100 units 2017 = 900 units	R30 800	R28
Break-even point: 2017	870 units	

QUESTION 6: BUDGETING **(35 marks; 20 minutes)**

The information provided is drawn from the accounting records of Reddawn Traders.

REQUIRED:

6.1 Prepare the Debtors' Collection Schedule for the period 1 January 2018 to 28 February 2018. (9)

6.2 Prepare the Cash Budget for the period 1 January 2018 to 28 February 2018. (22)

6.3 What is the purpose of preparing a cash budget? (2)

6.4 List TWO expenses that cannot be included in a cash budget. Provide a reason. (2)

INFORMATION:

A.

	ACTUAL		BUDGETED	
2017/2018	**November**	**December**	**January**	**February**
Total sales	180 000	170 000	200 000	220 000
Total purchases			?	?
Rent income	3 000	3 000	?	?
Drawings [cash]	10 000	10 000	?	?
Other operating expenses			?	38 500

B. 10% of all sales are for cash.

C. Mark-up is 60% on cost.

D. PURCHASES

- All goods are purchased on credit. Trading stock is kept constant.
- Creditors are paid in the month following the purchases to earn a 5% discount.

E. Debtors are allowed 30 days' credit terms.

F. Collections are according to the following pattern:

- 10% is collected in the month of the transaction.
- 50% is collected in the month after the transaction month.
- 40% is collected in the second month after the month of sale.

G. A used vehicle was sold to a debtor on credit for R50 000. The loss on sale of asset amounted to R6 000. A cheque for the full amount, dated 25 January 2018, was received from the debtor.

H. The rental agreement makes provision for an annual increase of 15%, commencing on 1 February 2018.

I. An advertising contract is planned for the budget period. The advertising expenditure of R12 000 will be settled in two equal payments.

J. Other operating expenses would increase by 10% as from 1 February 2018.

K. The owner's drawings:

- He draws twice his monthly cash drawings of R10 000 during January to pay his son's school fees.
- Trading stock to the value of R10 000 will be drawn during February to be given as a donation in his private capacity.

L. Staff bonuses amounting to R24 000 will be paid in February 2018.

M. The final payment of R20 000 on the loan will be made on 31 January 2018.

N. The bank account showed an unfavourable balance of R29 000 on 31 December 2017.

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