GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PROVINCIAL EXAMINATION

GRADE 11

ACCOUNTING

MARKS: 300
TIME: 3 hours

21 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 of each question carefully and follow them precisely.

4 Non-programmable calculators may be used.

5 All answers must be written in blue or black 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	Reconciliation and Internal Control	50	30 minutes
2	Financial Statements and Asset Disposal	80	48 minutes
3	Analysis and Interpretation on Financial Statements	35	21 minutes
4	Manufacturing	45	27 minutes
5	Cash Budget	45	27 minutes
6	VAT and Inventory	45	27 minutes
TOTAL		**300**	**180 minutes**

QUESTION 1

RECONCILIATIONS AND INTERNAL CONTROL (50 marks; 30 minutes)

1.1 Read the statements given below. In each case, indicate whether the statement is TRUE or FALSE. (4)

1.1.1 A credit note is a document issued by a customer who returns goods to a supplier.

1.1.2 A post-dated cheque received must be recorded in the Post-dated cheques received register until its due date.

1.1.3 Interest on overdraft is not regarded as Bank Charges because it is not regarded as a finance cost.

1.1.4 A debit balance on the Bank Statement means that the balance is unfavourable.

1.2 An inexperienced bookkeeper of Blue Stores closed off the Cash Journals for March 2017 before comparing with the Bank Statement and posted to the general ledger.

REQUIRED:

1.2.1 Enter the necessary transactions directly in the Bank account to update the records. **Commence the bank account with the provisional balance on 31 March 2017. Contra accounts for the individual entries must be clearly indicated in the Bank account.** (23)

1.2.2 Prepare a Bank reconciliation statement on 31 March 2017. (7)

INFORMATION:

Bank Reconciliation Statement on 28 February 2017	
Debit balance according to the bank statement	25 600
Credit outstanding deposits	13 500
Debit outstanding cheques	
61 (15 September 2016)	4 000
118 (6 April 2017)	2 000
650 (18 February 2017)	3 700
Balance according to bank account	**?**

Provisional totals / balance on 31 March 2017

Bank column in Cash Receipt Journal	**R103 000**
Bank column in Cash Payments Journal	**R97 920**
Bank Account in General Ledger on 31 March 2017	**?**

A The following items appeared on the Bank statement for March 2017 but not in the Cash Journals:

- Service fees, R680; cash handling fees, R200; interest on credit balances, R400.
- A cheque from J Maposa for R1 600, in settlement of his account of R1 700 was dishonoured on account of insufficient funds.
- A tenant, A Colbyn, had deposited R18 000 directly into the account of Blue Stores.
- Cheque no 961 for R6 900 had been entered into the Cash payments journal as R9 900 for merchandise purchased. The bank statement was correct.
- Stop order for R15 000 payable to Allsure Insurers. R6 000 of this is for the owner's personal vehicle.

B A comparison of the bank statement with the bank reconciliation statement on 28 February 2017 shows the following:

- The deposit of R13 500 appears on the Bank statement.
- Cheque no. 650 was presented for payment.
- Cheque no. 61 issued to J Mudi for goods purchased during September 2016. The cheque must be cancelled and replaced with cheque no. 1294. The supplier has not collected the cheque as yet.
- Cheque no. 118 had been issued to Daily News for advertising. The advertisement had not been placed. Blue Stores decided to withdraw the advertisement and cancel the cheque.

C The following items appeared in the Cash Receipts Journal and Cash Payments Journal only, but not on the Bank statement:

- Cash deposit, R52 980
- Cheques:

Cheque No.	Amount	Date
861	R1 400	8 February 2017
1141	R1 500	15 March 2017
1175	R8 000	15 April 2017

D The bank statement shows an unfavourable balance of R48 880 on 31 March 2017.

QUESTION 1.3

CREDITORS' RECONCILIATION

The statement received from creditor, Smile Suppliers, on 28 February 2017 reflects that Like Traders owes them R26 940. The creditor's ledger in the books of Like Traders reflects that they only owe Smile Suppliers R16 620.

REQUIRED:

1.3.1 Show the changes to the balances in the creditors' ledger and the creditors' statement.

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or a decrease. Calculate the correct balance/total at the end. (12)

1.3.2 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. (4)

INFORMATION

On investigation the following was discovered:

A. The cheque issued to Smile Suppliers in settlement of the January account was not received by them within the stipulated time. Smile Suppliers did not allow the discount of R500.

B. Returns recorded as R2 440 in the Creditors' Ledger of Like Traders was correctly recorded as R2 620 on the statement received from Smile Suppliers.

C. An invoice received from Smile Suppliers was correctly recorded as R10 000 by Like Traders. The statement received from Smile Suppliers incorrectly recorded it as R1 000.

D. A cheque of R7 000 issued by Like Traders has not yet been recorded on the statement received from Smile Suppliers.

E. An invoice for R6 000 received from Smile Suppliers was incorrectly recorded as a credit note by the bookkeeper of Like Traders.

QUESTION 2 FINANCIAL STATEMENT (80 marks; 48 minutes)

The financial year of RANA Traders ends on 31 December 2017.

REQUIRED

2.1 Prepare the Income Statement for the year ended 28 February 2017. (42)

INFORMATION

1. PRE-ADJUSTMENT TRIAL BALANCE ON 31 DECEMBER 2017

BALANCE SHEET SECTION	**Debit**	**Credit**
Capital		2 122 800
Drawings	569 491	
Land and Buildings	120 000	
Vehicles	476 000	
Equipment (at cost)	230 000	
Accumulated depreciation on vehicles		89 600
Accumulated depreciation on equipment		86 000
Loan : Bank of Africa		410 000
Fixed Deposit: Bank of Africa (10% p.a.)	150 000	
Trading stock	70 000	
Debtors' control	55 500	
Provision for bad debts		2 400
Bank	61 048	
Petty cash	350	
Creditors' control		25 621
NOMINAL ACCOUNTS SECTION		
Sales		720 000
Cost of sales	400 000	
Debtors' allowances	13 800	
Rent income		46 400
Salaries and wages	164 000	
Employer's contribution	10 800	
Bad debts	3 200	
Utilities	8 900	
Discount allowed	430	
Telephone	7 800	
Insurance	8 800	
Packing material	8 206	
Bank charges	846	
Interest on Fixed deposit		13 750
	3 439 171	**3 439 171**

2. ADJUSTMENTS AND ADDITIONAL INFORMATION

1 A debtor, Heyman, returned damaged goods with a selling price of R4 200. The mark-up was 60% on cost. This transaction has not been recorded.

2 Packing material costing R5 350 was used during the accounting period.

3 On 31 December 2017, physical stock count revealed that trading stock to the value of R64 700 was on hand.

4 The tenant has paid rent until 30 November 2017. The rent was increased by 10% from 1 June 2017.

5 The utilities account for December 2017 has not been paid, R1 100.

6 Received R600 from the insolvent estate of M Hand, 40 cents of every rand must be written off.

7 **The Bank statement from Tony Bank reflected the following**:

- Bank charges R250
- Interest on current account R150
- Unpaid cheque of R350 which was received in settlement of R380.

8 Provision for bad debts must be adjusted to R2 200.

9 Insurance includes a premium of R2 400 paid for the period 1 August 2017 to 31 July 2017.

10 One employee is omitted in the Salaries Journal for December 2017

Net Salary	Deductions	Employers Contributions	Gross salary
R9 200	R2 400	R350	?

11 Received the loan statement from the Bank of Africa

Balance on 01 January 2017	R 270 000
Capitalised interest	?
Repayments during the year including interest	70 000
Balance on 31 December 2017	215 000

12 Depreciation on Tangible assets was R15 000 for the year.

13 Interest on fixed deposit for December 2017 was not recorded. Interest on fixed deposit is not capitalised.

QUESTION 2.2 BALANCE SHEET AND ASSET DISPOSAL

You are provided with information relating to Nemesis Traders for the year ended 28 February 2017.

REQUIRED:

2.2.1 Calculate depreciation on vehicles as follows:

(a) On vehicles sold during the year
(b) Total depreciation for the year ended 28 February 2017. (4)

2.2.2 Complete the Fixed asset Note on 28 February 2017. (14)

2.2.3 Complete the Balance sheet on 28 February 2017. Show workings in brackets where notes are not required. (20)

INFORMATION;

1. LIST OF BALANCE OF NEMESIS TRADERS ON 28 FEBRUARY 2017

Capital	2 426 520
Drawings	460 000
Loan: ABSA Bank	1 800 000
Fixed Deposit: ABSA Bank	350 000
Land and Buildings (1 March 2016)	2 600 000
Equipment (1 March 2016)	900 000
Vehicles (1 March 2016)	1 250 000
Accumulated depreciation on Equipment (1 March 2016)	360 000
Accumulated depreciation on Vehicles (1 March 2016)	800 000
Trading stock	570 000
Debtors' Control	105 000
Provision for bad debts	7 000
Savings account	50 000
Bank overdraft	40 000
Cash float	6 000
Creditors' control	190 000
SARS: PAYE	9 000
Consumable stores on hand	10 700
Accrued Income	12 000
Prepaid expenses	1 320
Accrued expenses	6 500
Income received in advance	18 000

2. ADJUSTMENTS AND ADDITIONAL INFORMATION

A No entries have been made for an old vehicle which was sold at book value on 30 November 2016. The fixed asset register reflected the following in respect of the vehicle that was sold:

Asset: Ford Ranger Registration: SN 582 AB GP	
Cost price	R250 000
Accumulated depreciation on 1 March 2016	R170 000
Depreciation: 20% p.a. on cost price	

B Depreciation on equipment is calculated at 10% on diminished balance method. No new equipment was purchased during the year.

C The capital amount of the loan will be reduced by R96 000 in the next financial year.

D No entries were made for extensions to the building by MB Construction for R84 000 on credit.

E A fixed deposit of R80 000 will mature in the next financial year.

QUESTION 3

CONCEPTS AND ANALYSIS OF TRANSACTIONS (35 marks; 21 minutes)

3.1 **MATCHING ITEMS – CONCEPTS**

Concepts are listed in COLUMN A and explanations are listed in COLUMN B. Choose an explanation from COLUMN B that matches a concept in COLUMN A.

Write only the letter next to the question number in the ANSWER BOOK. (5)

COLUMN A		COLUMN B	
3.1.1	Gearing	A	The ability of the business to settle its current debts.
3.1.2	Return on Equity	B	The ability of the business to settle all its debts.
3.1.3	Solvency	C	The extent to which a business uses external loans to fund its operations.
3.1.4	Liquidity	D	The ability of the business to control its income and running expenses.
3.1.5	Operating Efficiency	E	The extent to which the owners have been rewarded for their investment in a business.

3.2	**You are provided with information relating to Swag Clothing for the year ended 29 February 2017 together with comparative figures for 2016. The business is owned by partners Raymond and Natalie.**

3.2.1 Calculate the following financial indicators for 2017.

A Acid test ratio (4)
B Debt equity ratio (3)
C Operating expenses on sales (3)
D % Return earned by Natalie (6)

3.2.2 The partners are satisfied with the manner in which they controlled the operating expenses in 2017. Quote TWO financial indicators to support their opinion. (4)

3.2.3 Comment on the liquidity position of the business for 2017. Quote TWO financial indicators to support your answer. (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. (4)

3.2.5 Comment on the % returns earned by the business. **Natalie** is very satisfied with her returns, but **Raymond** is disappointed. Quote financial indicators / figures to support your answer. (2)

Extracts from the financial statements	28 Feb 2017	29 Feb 2016
Sales (60% on credit)	R3 900 000	R3 200 000
Operating expenses	680 000	660 000
Interest on loan (13% p.a.)	117 000	26 000
Non-current assets	2 130 000	1 930 000
Current assets	1 320 000	510 000
Trading stock	920 000	230 000
Partners' Equity	2 110 000	2 000 000
Non-current liabilities (Loans)	900 000	200 000
Current liabilities	440 000	320 000

PARTNER: NATALIE	28 Feb 2017	29 Feb 2016
Capital	1 000 000	1 000 000
Current account at year end	165 000	35 000
Partners salaries	170 000	110 000
Interest on capital (5% p.a.)	50 000	50 000
Bonus	83 000	0
Share in remaining profit	40 000	72 000

Financial indicators	28 Feb 2017	29 Feb 2016
Current ratio	2.9:1	1.6:1
Acid test ratio	**A**	0.9:1
Stock turnover rate	4 times	9 times
Debt Equity ratio	**B**	0,1:1
Interest on loans	13%	13%
% Operating expenses on sales	**C**	20,6%
% Operating profit on sales	18,5%	16,9%
% Net profit on sales	15,5%	16,1%
% Return earned by NATALIE	**D**	24,0%
% Return earned by RAYMOND	23,1%	28,9%

QUESTION 4 MANUFACTURING (45 marks; 27 minutes)

4.1 You are provided with information from the accounting records of Spring Park Production. They specialise in producing footwear exclusively for professional athletes.

REQUIRED:

4.1.1 Calculate the amount of raw materials issued for production in 2017. (4)

4.1.2 Calculate the Direct labour cost. (7)

4.1.3 Prepare the following accounts in the General Ledger:

- Factory Overheads cost (13)
- Work-in-Process stock (6)

Note: Balance / close off the accounts properly on 30 June 2017.

INFORMATION:

1. The following balances appeared in the books of Spring Park.

	30 June 2017	**1 July 2016**
Direct/Raw material stock	20 000	18 000
Work-in-progress stock	?	35 000
Indirect material stock	7 500	7 200

2. **Transactions for the year:**

Raw materials purchased during the year	650 000
Carriage on purchases	12 300
Factory rent paid	68 500
Advertising paid	23 500
Factory maintenance paid	46 700
Water and electricity paid	80 000
Indirect material purchased	56 000
Sundry expenses paid	21 000
Factory foreman salary	89 050
The office assistant's salary for the year	130 000

3. ADDITIONAL INFORMATION:

A Included in the amount for raw materials are goods that were not ordered therefore returned to the suppliers, R35 000.

B Repairs to machinery amounting to R1 300 were completed in June 2017, but will only be paid in July 2017.

C Water and electricity is to be split between the factory, 70% and the office 30%.

D 80% of the indirect materials were used in the factory and the rest in the office.

E Depreciation for the year

- Office equipment, R9 500
- Factory machinery , R12 800

F Sundry expenses must be allocated to the floor space used. The ratio of the space used by the factory, office and sales department is 4 : 2 : 1.

G Wages earned by the cleaner, R46 000. She spends 50% of her time cleaning the factory.

H Three factory workers were employed. They each work 1 600 hours normal time during the year at R40 per hour. They each worked 300 hours overtime at a rate of 50% more than the normal rate.

I The factory foreman's salary includes her salary for July 2017 as she went on leave on 30 June 2017. She received an increase of R650 per month with effect 1 January 2017. She has been employed.

J Goods to the value of R1 212 000 were produced during the year.

QUESTION 4.2 UNIT COSTS

REQUIRED:

4.2.1 Calculate the unit costs for 2017 indicated as (a), (b) and (c) in the table in **information 4** below. (3)

4.2.2 Compare the unit costs of 2017 with those of 2016. Some of the unit costs have been affected by inflation (increased prices). In each of the following cases give a possible reason (other than inflation) for the change:

- Direct materials cost per unit
- Direct labour cost per unit
- Factory overhead costs per unit (6)

4.2.3 Break-even point:

- Calculate the break-even point for 2017. (4)
- Comment on the break-even point for 2017. (2)

INFORMATION:

1. Perry Ties Manufacturers made and sold 44 000 Ties during the year ended 28 February 2017. They produced 35 000 Ties in the previous year.

2. All Ties were sold at a fixed price of R45 each in 2016 and 2017.

3. All finished items were sold. There was no work-in-process at the beginning or end of the financial year.

4. The following total and unit costs were identified:

	2017		2016	
	Total cost	**Unit cost**	**Total cost**	**Unit cost**
Variable costs:	**R990 000**	**R22,50**	**R807 000**	**R23,05**
Direct materials cost	500 000	**(a)**	465 000	13,28
Direct labour cost	320 000	7,27	208 000	5,94
Selling and distribution cost	170 000	**(b)**	134 000	3,82
Fixed costs:	**328 000**	**7,45**	**292 000**	**8,34**
Factory overhead costs	205 000	**(c)**	205 000	5.85
Administration cost	123 000	2,79	87 000	2,48
Total costs	R1 318 000	R29,95	R1 099 000	R31,40
Total no. of units produced	**44 000**		**35 000**	

QUESTION 5 BUDGETS (45 marks; 27 minutes)

The following information was drawn from the books of Sabie Traders.

REQUIRED

5.1.1 Provide TWO items that will not be included in a cash budget. Provide a reason for each item. (4)

5.1.2 Explain the difference between a Projected Income statement and a Cash budget. (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. (4)

5.2 Use the information given to prepare the following:

5.2.1 The debtors' collection schedule for July 2017 and August 2017. (7)

5.2.2 The cash budget for July 2017 and August 2017. (22)

5.2.3 Comment briefly on advertising, maintenance of tangible assets and rent income appearing on the budget. Provide ONE point of advice regarding each item. **Refer to Information K.** (6)

INFORMATION:

1.	**ACTUAL**		**BUDGETED**	
	MAY	**JUNE**	**JULY**	**AUGUST**
Sales	450 000	600 000	550 000	650 000
Cost of sales	300 000	400 000	360 000	430 000
Wages	55 000	55 000	?	?
Drawings (cash)	10 000	10 000	10 000	10 000
Rent Income	23 000	20 000	35 000	?
Advertising			18 000	16 500
Maintenance (Tangible assets)	R18 500	15 200	20 000	20 000

2. ADDITIONAL INFORMATION:

A Unfavourable bank balance on 30 June 2017 was R9 500.

B Credit sales are expected to be 50% of total sales.

C Expected receipts from debtors are as follows:

- 60% pay one month after the sale (30 days) and receive a 2% discount.
- 25% pay two months after the sale (60 days).
- 10% pay three months after the sale (90 days).
- 5% will be regarded as irrecoverable in the fourth month after sale.

D Trading stock sold each month is replenished in the same month. All goods are purchased on credit and creditors are paid in full one month after the date of purchase.

E Rent income increases annually on 1 August 2017 by 10%.

F The annual wages increase of 5% is effective from 1 July 2017.

G An employee earning R17 750 pm will be traveling abroad during July 2017. He will receive his salary during August 2017.

H A fixed deposit of R35 000 is due to mature on 15 August 2017.

I A vehicle was sold on 25 June 2017. However, the cheque received for R65 000 was post-dated for 25 July 2017.

J A new vehicle costing R450 000 will be bought on 1 August 2017. A cash deposit of 20% of the purchase price will be paid on the date of purchase and thereafter 24 equal instalments will be made commencing on 1 September 2017.

K With reference to Question 5.2.3 the following information is provided.

ITEMS	ACTUAL FIGURES	
	JULY	AUGUST
Advertising	18 300	17 200
Maintenance (Tangible assets)	30 000	27 000
Rent Income	23 300	18 500

QUESTION 6 VAT AND INVENTORY (45 marks, 27 minutes)

6.1 **VAT AND ETHICS**

You are provided with extracts from the books of Willow Stationers, a registered VAT vendor. Goods are subject to 14% VAT

REQUIRED:

6.1.1 Calculate the missing amounts marked **A - D** on the table given below. (4)

6.1.2 Explain the difference between **Tax Avoidance** and **Tax Evasion.** (4)

6.1.3 The owner has 13 cash registers. The cash from sales on the 13th cash register is taken by the owner daily. He does not declare this in his books. Advise him on his actions. (4)

INFORMATION

	Excluding VAT	Including VAT	VAT
1	**R320 000**	?	**A**
2	**R2 300**	**B**	**R322**
3	**C**	**D**	**R882**

6.2 INVENTORY SYSTEM

The following information was taken from the books of Daly Outfitters on 28 February 2017. The business sells handmade bags and accessories. The owner asked you to help prepare the final accounts as his bookkeeper could not cope. He uses the **periodic inventory system** and prices his articles at a mark-up of 50% on cost.

REQUIRED:

6.2.1 Prepare the purchases account on 28 February 2017. Close it off properly. (14)

6.2.2 Calculate the net sales for the year ending 28 February 2017. (6)

6.2.3 Prepare the Trading Statement for the year ended 28 February 2017. Note: Show the calculation for cost of sales on the answer sheet. (9)

6.2.4 Daly wants your opinion on converting the bookkeeping system to the continuous inventory system. Write a short recommendation to her, listing at least TWO advantages of the continuous inventory system over the periodic inventory system. (4)

1. INFORMATION

Daly Molefe supplied the following information and documents for the year.	
Trading stock (opening balance) 1 March 2017	214 000
Invoices received for stock purchased on credit from local manufacturers	485 000
Cash purchases for the year including goods imported	105 000
Debit notes issued to manufacturers for goods returned to them	2 560
Total cash sales of merchandise for the year as per cash register	520 000
Total invoices issued for credit sales	200 670
Goods retuned by customers – full credit given	3 480
Customs duty paid for consignment of handbags imported	2 890
Carriage paid for merchandise transported to the store	5 750
Carriage on goods sold	4 200

2. ADDITIONAL INFORMATION:

1. Daly informed you that he had donated stock with a selling price of R3 000 to the local school during the year, but this had not yet been recorded.

2. He has also informed you that he had withdrawn stock at cost price to the value of R1 200 during the accounting period. As the bookkeeper did not know how to record this, it was not recorded.

3. An account of R800 was received from Quick Traders for the transport of goods purchased.

4. Daly did stocktaking on 27 February 2017. The value of stock on hand was R312 890.

5. The following transactions took place on 28 February 2017 – **after the stocktaking.** These entries were not recorded in the books.

    5.1 Total cash sales for the day, R5 100

    5.2 Total credit sales for the day, R2 400

    5.3 Cash purchases R1 500 at cost price

END