GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2015

10710

ACCOUNTING

MARKS: 300
TIME: 3 hours

Pages 21

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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. You are provided with a question paper and an ANSWER BOOK in which to answer ALL the questions.
2. This question paper comprises SIX compulsory questions.
   Answer ALL the questions.
3. Use the format provided in the answer book in order to reflect your answers.
4. Where applicable, workings must be shown in order to achieve part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.

Use the information in the table as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 20 minutes	
Main topic of the question	**This question integrates:**
Bank and creditors' reconciliation and interpretation	**Financial accounting** Reconciliation and interpretation of reconciliations **Managing resources** Internal control

QUESTION 2: 45 marks; 25 minutes	
Main topic of the question	**This question integrates:**
Manufacturing	**Managerial accounting** Direct material cost Factory overheads Production cost statement Analysis and interpretation of unit costs and break-even point **Managing resources** Internal control

QUESTION 3: 65 marks; 40 minutes	
Main topic of the question	**This question integrates:**
Company Financial Statements	**Financial accounting** Balance sheet and Audit report

QUESTION 4: 70 marks; 45 minutes	
Main topic of the question	**This question integrates:**
Cash Flow and Interpretation of Information	**Financial accounting** Cash Flow Statement Calculations and financial indicators Analysis and interpretation

QUESTION 5: 50 marks; 30 minutes	
Main topic of the question	**This question integrates:**
Cash Budget	**Managerial accounting** Analyse and interpret a cash budget **Managing resources** Internal control and internal audit

QUESTION 6: 35 marks; 20 minutes	
Main topic of the question	**This question integrates:**
Stock Valuation	**Managing resources** Inventory valuation: FIFO and internal control problem-solving

QUESTION 1: RECONCILIATIONS (35 marks; 20 minutes)

1.1 BANK RECONCILIATION

You are provided with information from the accounting records of Kin Traders.

REQUIRED:

1.1.1 List TWO reasons for preparing the Bank Reconciliation Statement as an internal control process. (2)

1.1.2 State the adjustment that would be made to the figures on the financial statements on 30 June 2015 in respect of the post-dated cheques issued. Refer to the Bank Reconciliation Statement for June 2015. Include actual figures in your answer. (4)

1.1.3 Study the given items. Show, whether these items will be entered in the
- Cash Receipts journal
- Cash Payments journal
- Or whether no entry will be made in the journals. Place an X in the column to indicate this.

Show the amount that will be entered in the journal where appropriate.
(The first item has been done for you.) (9)

1.1.4 Prepare the Bank reconciliation statement on 31 July 2015. (7)

1.1.5 In August 2015 the internal auditor discovered that the outstanding deposit of R20 500 on the Bank Reconciliation Statement on 31 July 2015 appeared as R5 500 on the Bank Statement. (Item 3) The amount on the Bank Statement is correct. List ONE concern that you have as an internal auditor. Provide ONE suitable control measure to prevent this from happening in future. Explain fully. (3)

INFORMATION:

A. Bank Reconciliation Statement of Kin Traders on 30 June 2015.

Dr Balance as per Bank statement	3 700
Dr Balance as per Bank account	2 000
Outstanding deposit (30 June 2015)	18 200
Outstanding cheques	
No 1329 (dated 12 January 2015)	2 100
No 1596 (dated 16 August 2015)	7 000
No 1632 (dated 31 July 2015)	3 400

B. After comparing the July bank statement with the Cash Receipts Journal and the Cash Payments Journal for July, the following differences were noted:

Item 1 The bank statement showed a favourable balance of R21 370 on 31 July 2015.

Item 2 A deposit of R18 200 appears on the bank statement on 1 July 2015, but not in the journals for July 2015.

Item 3 A deposit of R20 500, dated 10 July appears in the Cash Receipts Journal for July 2015, but not on the bank statement for July 2015.

Item 4 An EFT for R5 300 for rent received from T Mbutu only appeared on the bank statement.

Item 5 Bank charges of R1 450 appears on the bank statement, but not in the journals for July 2015.

Item 6 The bank statement reflected a dishonoured cheque of R720. The cheque was received in settlement from a debtor who owed R770.

Item 7 Cheque no. 1329 issued as a donation to Stateside Crèche was replaced with cheque no. 1640 on 25 July 2015. The donation was increased by R400. The cheque was delivered to the crèche on 1 August 2015. No entries were made.

Item 8 Cheque no. 1632, dated 31 July 2015, appeared on the bank statement, but not in the journals for July 2015.

Item 9 Cheque no. 1690 for R6 100, dated 28 July 2015, appears in the Cash Payments Journal, but not on the bank statement.

1.2 CREDITORS' RECONCILIATION

The following information was drawn from the books of Bapedi Traders. The Creditors' control account and the Creditors' List of Bapedi Traders were prepared by an inexperienced bookkeeper.

REQUIRED:

1.2.1 Why should the balance of the Creditors' Control account correspond with the total of the Creditors' List? (2)

1.2.2 Calculate the correct balances of the Creditors' Control account and the Creditors' List. (8)

INFORMATION:

An inspection of the information at the end of July 2015 revealed the following:

(a) Creditors' Control balance, R49 560
Creditors' List total, R36 410

(b) Due to an adding mistake, the Creditors' List was overcast by R520.

(c) An invoice for consumable stores purchased for R3 160 from Madiba Traders has not been entered in the journals.

(d) Trading stock returned to Sam Ltd for R690 was correctly entered in the Creditors' Allowances Journal. The amount was incorrectly posted to the account of Sam Ltd as R960.

(e) The total of the Creditors' control column in the Cash Payments Journal (CPJ) is R6 700. The bookkeeper had mistakenly posted it to the credit side of the Creditors' control account.

35

QUESTION 2: MANUFACTURING **(45 marks ; 25 minutes)**

Waste Traders manufactures bags from organic, recycled materials. Waste Traders uses the **Perpetual Stock** system and a mark-up of **100%** on cost.

REQUIRED:

2.1 Match the **description** from **COLUMN B** to the **concept** in **COLUMN A**. Write only the letter (A–E) next to the question number (2.1.1–2.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
2.1.1 Factory overheads	A Raw materials issued to the factory
2.1.2 Direct labour costs	B Pension contributions of secretary
2.1.3 Selling and distribution costs	C Wages of employees involved in the production process
2.1.4 Administration costs	D Bad debts
	E The salary of a factory foreman

(4)

2.2 Calculate the correct Factory Overhead Cost. (10)

2.3 Prepare the Production Cost Statement for the year-ended 30 June 2015. (12)

2.4 Calculate the following:

2.4.1 Selling price per unit (3)

2.4.2 Cost of Sales (3)

2.4.3 Variable cost per unit (3)

2.4.4 Break-even point (4)

2.5 Waste Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.

2.5.1 Explain what you understand by the term “break-even point”. (2)

2.5.2 Explain the effect that the above decision will have on the **fixed cost** per unit and the **break-even point**. (4)

INFORMATION:

A.

Balances / totals on 30 June	2015	2014
Raw Material Stock	92 400	78 900
Work-in-Process Stock	?	175 000
Finished goods stock	759 000	542 000
Factory overhead cost	362 790	
Production Wages	990 000	

B. Raw Materials Stock purchases of R553 500 includes carriage on purchases of R40 000.

C. Production wages totalling R90 000 was not recorded.

D. Factory Overhead Cost was incorrectly calculated. The following adjustments must be taken into account:

- Depreciation on Factory Plant and Equipment amounting to R84 030 was omitted.
- Indirect Materials included R3 500 worth of materials bought for the next financial year.
- Advertising cost of R17 320 was included as R12 790.
- The utilities amount of R10 290 in the Factory Overhead Cost account was apportioned in the ratio of 2:1:1 between the factory and other departments respectively. It should have been in the ratio 4:2:1

E.

UNITS PRODUCED AND SOLD	Value	Units
Cost of Finished goods produced	R1 872 000	374 400
Sales (mark-up = 100% on cost)	R3 564 000	396 000

F.

COSTS AND BREAK EVEN	
Fixed Costs	R682 500
Variable Costs	R2 059 200
Administration Costs	R250 500
Selling and Distribution Costs	?
Break-Even Point	?

QUESTION 3: COMPANY FINANCIAL STATEMENTS (65 marks; 40 minutes)

You are provided with information relating to King Limited. The company sells clothing and sews garments for their customers. Their financial year ends on 30 June each year.

REQUIRED:

3.1 Calculate the following:

3.1.1 Cost of vehicles sold. (2)
3.1.2 Accumulated depreciation on vehicles sold. (4)
3.1.3 Carrying value of vehicles sold. (3)

3.2 Prepare the Income Statement for the year ended 30 June 2015. (35)

3.3 Prepare the following notes to the financial statements on 30 June 2015:

3.3.1 Fixed/tangible Assets (7)
3.3.2 Ordinary Share Capital (7)
3.3.3 Retained Income (7)

INFORMATION:

1. Extract from Pre-Adjustment Trial Balance on 30 June 2015	
Balance Sheet Accounts Section	
Ordinary share capital	R 3 600 000
Retained income	255 274
Land and buildings	10 200 000
Vehicles	810 000
Accumulated depreciation on vehicles	387 600
Mortgage loan from Keli Bank	652 000
Trading stock	325 000
Debtors' control	39 090
Nominal Accounts Section	
Sales	2 892 200
Cost of sales	1 492 200
Debtors' allowances	52 000
Fee income (sewing charges)	145 235
Rent income	172 500
Interest income	3 500
Salaries and wages	288 090
Audit fees	52 000
Directors' fees	375 000
Consumable stores	104 100
Depreciation	?
Bank charges	6 740
Ordinary share dividends	45 000
Profit on sale asset disposal	?

2. **Adjustments and additional information:**

A. The auditors are owed a further R23 000 after completing the audit.

B. A credit note for R900 dated 28 June 2015 was issued to a debtor, C. Plain, for unsatisfactory sewing on a suit jacket. The transaction was not recorded.

C. The physical stock count on 30 June 2015 revealed the following on hand:
- Trading stock, R315 000
- Consumable stores, R4 000

D. A retired employee was inadvertently included in the Salaries Journal for June 2015. The details from his pay-slip were:

Net salary	18 375
PAYE deduction	4 500
Pension deduction	1 875
UIF deduction	250

The business contributions were:

- Pension Fund: 10,5% of gross salary
- UIF: Rand-for-rand basis

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

E. The loan statement from Keli Bank on 30 June 2015 reflects the following:

Loan statement from Keli Bank ***on 30 June 2015***	
Balance on 1 July 2014	R665 600
Total payments during the year	R103 200
Balance on 30 June 2015	R652 000

- The interest for the year must be capitalized.
- A capital amount of R50 000 will be paid towards the loan in the next financial year.

F. The tenant owes the rent for June 2015. The rent was increased by R1 500 per month on 1 January 2015.

G. **Fixed/Tangible Assets**

- Balances on 1 July 2014:

Land and buildings	11 000 000
Vehicles	900 000
Accumulated depreciation on vehicles	390 000

- A vehicle, bought on 1 July 2013, was sold for cash on 31 December 2014 at a profit of R5 000.
- A new vehicle for R200 000 was bought on 30 June 2015.
- Depreciation on vehicle is written off at 20% p.a. on the diminishing balance method.

H. Income tax for the year was calculated at 30% of the net profit.

I. **Ordinary Shares**

- The company is authorized to sell 1 000 000 shares.
- There were 550 000 shares in issue on 1 July 2014, R3 025 000.
- A further 50 000 shares were issued at R11,50 during March 2015.
- The board of directors bought back 40 000 shares at R8,50 from the estate of a shareholder during June 2015. These shares were entitled to a final dividend.

J. A final dividend of 35c per share was declared.

65

QUESTION 4: CASH FLOW AND INTERPRETATION OF INFORMATION

(70 marks; 45 minutes)

4.1 Choose one word/term from the following to complete the sentences given below:

Unqualified, qualified, limited liability, unlimited liability, interest, directors, shareholders, dependent, independent, dividends.

4.1.1 The fact that shareholders can only lose the capital invested by them is called …

4.1.2 The … appoint external auditors.

4.1.3 The external auditors must be … of the entity being audited.

4.1.4 The audit report states: "With the exception of a few aspects, shareholders can rely on the figures in the financial statements." This will be regarded as a/an ... report. (4)

4.2 **XOLISE TRADERS LIMITED**

The information was taken from the accounting records of Xolise Traders Limited. The financial year ends annually on 28 February. The company is registered with a share capital of 600 000 ordinary shares.

REQUIRED:

4.2.1 Complete the Reconciliation of Net Profit before Tax and Cash Generated from Operations on 28 February 2015. (12)

4.2.2 Calculate the tangible/fixed assets purchased during 2015. (5)

4.2.3 Complete the Cash Flow Statement on 28 February 2015. (12)

4.2.4 Calculate the following on 28 February 2015:

- Earnings per share (3)
- Dividends per share (4)
- Net Asset value per share (3)
- Return on average capital employed (8)
- The debt-equity ratio (3)

4.2.5 Briefly comment on the liquidity of the company. Quote TWO financial indicators (with actual figures/ratios/percentages) to support your comment. (4)

4.2.6 What major decisions by the directors are reflected in the Cash Flow Statement? State TWO decisions and quote the relevant figures. Also explain how EACH of these decisions would benefit the company in future. (6)

4.2.7 The company is slow in repaying the loan. Explain why this is a good decision. Quote TWO financial indicators with figures to support your answer. (6)

INFORMATION:

1. Extract from the Income Statement for the year ended 28 February 2015	
Net profit before tax	1 283 100
Net profit after tax	987 000
Depreciation on tangible/fixed assets	65 000
Interest paid	42 600

2. Extract from the Balance Sheet on 28 February	2015	2014
Tangible (Fixed) assets at carrying value	**3 002 000**	**2 330 200**
Current Assets	**1 347 400**	**1 289 600**
Inventory	850 400	710 800
Trade and other receivables	489 000	540 200
Cash and cash equivalents	8 000	38 600
Ordinary shareholders' equity	**3 534 000**	**2 880 000**
Ordinary share capital	3 111 400	2 551 400
Retained income	422 600	328 600
Loan: Bid Bank (17% p.a.)	**340 000**	**370 000**
Current Liabilities	**475 400**	**369 800**
Trade and other payables	429 400	369 800
Bank overdraft	46 000	-

3. Trade and other receivables	489 000	540 200
Trade Debtors	475 000	530 000
Prepaid expenses	14 000	8 000
SARS (Income Tax)	-	2 200
4. Trade and other payables	**429 400**	**369 800**
Trade creditors	89 500	81 700
Accrued expenses	7 300	9 100
SARS (Income Tax)	3 600	-
Shareholders for dividends	329 000	279 000

5. Tangible/fixed assets comprise of Land and buildings, Vehicles and Equipment. Equipment and Land and Buildings were purchased during the year. A vehicle costing R170 000 was sold at book value. The accumulated depreciation on the vehicle sold was R67 000.

6. Interim dividends were not declared during the 2014 financial year.
Interim dividends paid during the 2015 financial year amounted to R564 000.

7. On 1 March 2014 there were 400 000 ordinary shares registered on the JSE. On 1 March 2014 they issued a further 70 000 shares.

8. Financial Indicators	**2015**	**2014**
Current ratio	2,83 : 1	3,48 : 1
Acid test ratio	1,04 : 1	1,56 : 1
Stock turnover rate	5 times	3 times
Earnings per share	?	158 cents
Dividends per share	?	70 cents
Return on total capital employed	?	25,4%
Debt-equity ratio	?	0,12 : 1
Net asset value per share	?	720 cents
Market value of the share	758 cents	620 cents

65

QUESTION 5: CASH BUDGETS **(50 marks; 30 minutes)**

5.1 VARIA TRADERS

You are provided with information from the books of Varia Traders. Their financial year ends on 31 December each year

REQUIRED:

5.1.1 Why is it necessary to prepare a Cash Budget? (1)

5.1.2 Why does depreciation and profit on sale of asset not appear in the Cash Budget? (1)

5.1.3 Name TWO items other than **depreciation** and **profit on sale of asset** which will appear in the Projected Income Statement but will not be included in the Cash Budget. (2)

5.1.4 Complete the Debtors' Collection Schedule for February 2015. (8)

5.1.5 Complete the Cash Budget for January and February 2015. (20)

INFORMATION:

A. **CASH BUDGET FOR JANUARY AND FEBRUARY 2015**		
CASH RECEIPTS	**JANUARY**	**FEBRUARY**
Cash sales	**168 000**	
Cash received from debtors	**52 400**	
Rent income		
TOTAL RECEIPTS		
CASH PAYMENTS		
Payments to creditors		**81 000**
Sundry expenses		
New assets purchased	**25 315**	
Salaries and wages	**61 600**	
TOTAL PAYMENTS		
CASH SURPLUS (SHORTFALL)		
Bank (opening balance)	**(19 000)**	
Bank (closing balance)		

B. **Balances on 31 December 2014:**

Fixed Deposit: Kuba Bank	120 000
Creditors control	70 000
Income received in advance (Rent Income)	12 000
Accrued expenses (Sundry expenses)	17 700

C. **Sales and Purchases**

Actual and Projected Credit Sales (Credit sales are 25% of total sales)		Credit Purchases
Month	Credit Sales	
November 2014	57 000	
December 2014	57 500	70 000
January 2015	56 000	81 000
February 2015	54 600	74 000

D. Debtors are expected to pay as follows:
- 50% in the transaction month, subject to 5% discount
- 30% in the month following the transaction month
- 15% in the second month after the transaction month
- 5% will be written off as bad debts after the third month.

E. All goods are bought on credit. Creditors are paid one month after the month of purchase.

F. The monthly Rent Income of R25 000 will increase by 10% on 1 January 2015.

G. Sundry expenses are expected to increase by R700 per month on 1 January 2015. Sundry expenses are paid after one month.

H. Two full time employees each earn R30 800 per month. On 1 February 2015 an extra person will be employed at half the cost of the other employees.

I. The fixed deposit matures on 1 February 2015. The amount of R123 600 is receivable at maturity.

J. Interest on the bank account is paid or received every month and is calculated on the balance as at the 1st day of each month as follows:

- 18% per annum on unfavourable balance (overdraft)
- 6% per annum on favourable balance.

5.2 CAT TRADERS

You are provided with information relating to Cat Traders. The financial year ends on 30 June 2015. Lu Cat, the owner, appointed Gary Cooper as the new credit controller on 1 July 2014.

5.2.1 Briefly explain how the preparation of a Debtors' collection schedule and a Debtors' age analysis could help Gary to control the accounts of debtors. (4)

5.2.2 The balance of the Debtors' control account was R38 900 on 1 July 2014, the beginning of the financial year and R71 100 on 30 June 2015, the end of the financial year.

(i) Calculate the average Debtors' collection period (in days) for the financial year ending 30 June 2015. (4)

(ii) Briefly explain whether Lu would be satisfied with the collection period. Give a reason for your answer. (2)

5.2.3 Refer to information C and D below.
From the information, identify ONE problem the owner is faced with from the Debtors' Age Analysis and ONE from the Debtors' control account. Quote information and figures to support your answer. Provide ONE solution to each of the problems. (8)

INFORMATION:

A. **Credit terms and credit limits**
It is the policy of the business to keep the credit limit of all debtors to R12 000. It is expected that debtors will settle their accounts within 30 days.

B. **Sales during the financial year ending 30 June 2015**
- Total sales for the year, R640 000.
- 25% of the total sales is for cash, the rest is on credit.

C.

DEBTORS' AGE ANALYSIS ON 30 JUNE 2015
- Credit limit on all Debtors' accounts is R12 000
- Credit terms are 30 days

Name	Total	Current	30 days	60 days	60 days+
R Ramba	12 000	12 000			
L Meebos	28 000	11 000	3 000	1 000	13 000
B Balula	7 700			7 700	
P Pieters	9 600	8 200	1 400		
N Ntombi	13 800	6 800	4 500	2 500	
	71 100	38 000	8 900	11 200	13 000

D. **General Ledger of Cat Traders**

Debtors' Control					
2015 June 1	Balance b/d	85 800	2015 June 30	Bank & discount	58 500
June 30	Sales	49 500		Debtors' allowances	8 000
	Bank	6 700		Sundries (Bad Debts)	4 900
	Sundries	500		Balance c/d	71 100
		142 500			142 500
July 1	Balance b/d	71 100			

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QUESTION 6: STOCK SYSTEMS (35 marks; 20 minutes)

6.1 JUST LEATHER

You are provided with information relating to Just Leather. The business is owned and managed by the owner I. Skin. Skin buys and sells leather jackets and exclusive handbags.

REQUIRED:

6.1.1 Calculate the value of the closing stock as follows:

- Leather jackets (use the weighted average method) (5)
- Handbags (use the FIFO method) (5)

6.1.2 Calculate the following for the handbags:

- Cost of sales (7)
- Gross profit (3)
- Mark-up % achieved (3)

6.1.3 Skin suspects that a number of handbags have been shop-lifted. Calculate the number of bags stolen. (3)

INFORMATION:

A. The leather jackets are bought from a South African supplier, and the handbags are imported from the USA.

B. The leather jackets are valued using the Weighted Average method and the handbags are valued using the First-in First-out method (FIFO).

C. The stocks were valued as follows at the beginning and at the end of the financial year.

	Leather jackets			**Handbags**			
	No. of units	**Per unit**	**TOTAL (Including carriage)**	**No. of units**	**Per unit**	**Exchange rate**	**TOTAL (Including purchase expenses)**
1 Mar 2014	80	R550	R44 000	100	$45	R11,50=$1	R51 750
28 Feb 2015	200	?	?	240	?		?

D. Purchases during the financial year

	Leather jackets			Handbags			
	No. of units	**Unit cost**	**TOTAL COST (excluding transport)**	**No. of units**	**Unit cost**	**Exchange rate**	**TOTAL COST (excluding purchases expenses)**
07/03/2014	200	R560	R112 000	80	$50	R11,00=$1	R44 000
25/06/2014	250	R620	R155 000	220	$50	R11,50=$1	R126 500
02/02/2015	150	R700	R105 000	100	$55	R11,90=$1	R65 450
TOTALS	600		R372 000	400			R235 950

E. Purchases expenses:

- Carriage on purchases for the leather jackets was R13 000 and handbags were imported at carriage of R20 per handbag.
- Customs and import duties on handbags paid during the accounting period, R12 000.

F. During the financial year, the following sales were made:

Leather jackets: 480 units at R1 000 each = R480 000
Handbags: 235 units at R900 each = R211 500

G. Skin has started to prepare the following information:

	Leather jackets	**Handbags**
Sales	R480 000	R211 500
Cost of sales	R321 750	?
Gross profit	R158 250	?
Mark-up % on cost	49,18%	?

6.2 EYE SPY TRADERS

Eye Spy Traders sells one type of camera. The owner, Mrs. I. Watch, has three branches situated in Soweto, Kagiso and Hillbrow. The three branches are managed by Thembi, Diane and Karabo respectively.

Mrs I. Watch has obtained the annual figures/amounts from the three branches for the financial period ending 28 February 2015.

REQUIRED:

Identify **ONE** problem in relation to each branch, quoting figures/amounts to support each problem. In each case, offer the owner advice on how to solve the problem. (9)

Note: All cameras are sold for cash.

INFORMATION			
CAMERAS	**SOWETO (Thembi)**	**KAGISO (Diane)**	**HILLBROW (Karabo)**
Cameras available for sale	1 960	1 600	1 160
Cameras sold during the year	1 560	300	1 000
Cameras returned during the year	20	20	0
Stock on 28 February 2015	340	1 280	160
Total cash sales	R18 720 000	R3 600 000	R11 360 000
Cost price per camera	R8 000	R8 000	R8 000
Selling price per camera	R12 000	R12 000	R12 000
Advertising costs per year	R40 000	R40 000	R40 000
Salary of manager per month	R25 000	R25 000	R25 000

35

TOTAL: 300 MARKS

END