

Final examination

Marks: 300

Time: 3 Hours

The paper comprises of four questions. Answer all questions.

Instructions

- Use the formats provided in order to reflect your answers.
- Workings must be shown in order to achieve partial marks.
- You must attempt to comply with suggested time allocations indicated for each question.
- Non-programmable calculators may be used.

Question	Marks	Time
1 Bank reconciliation and internal control	35	20 min
2 Debtors Collection Schedule, Cash Budget and comments	42	25 min
3 Partnership: Note to current account, Balance Sheet and comment	58	35 min
4 Partnership: Ratio and interpretations	42	25 min
5 Clubs: Membership fees and refreshment accounts	36	22 min
6 Manufacturing: calculations and ledger accounts	30	18 min
7 VAT, fixed assets, periodic inventory, ethics and internal control	57	35 min
TOTAL	300	180 min

Question 1

(20 minutes)

You are provided with information relating to Trendy Traders. They require your help in preparing their Bank Reconciliation Statement for September 20.9. Their financial year-end is 30 September 20.9. Trendy Traders has a current account with Mahle Bank. The bank provides a 1% p.a. interest on credit balances and 10.5% p.a. interest on overdraft.

Information

The Bank Reconciliation Statement on 31 August 20.8 reflected the following:

	R
Balance per Bank Statement (Cr)	22 000
Balance per BANK account in the ledger (Cr)	32 300
Outstanding deposit (dated 31 August 20.9)	27 600
Outstanding cheques:	
No. 7655 (dated 15 March 20.9)	2 500
No. 8210 (dated 20 August 20.9)	11 400
No. 115 (dated 31 October 20.9)	90 000

Comparing the September 20.9 Bank Statement from Mahle Bank with the CRJ and CPJ for September 20.9, the following were noted:

Item 1	A deposit of R27 600 appeared on the Bank Statement on 1 September 20.9 but not in the September 20.9 journals
Item 2	A deposit of R18 600 appeared in the CRJ on 29 September 20.9 but not on the September 20.9 Bank Statement.
Item 3	Commission income of R5 000 was deposited directly into the bank account of Trendy Traders by Fay Products. This appeared on the Bank Statement but not in the journals.
Item 4	Bank charges of R535 appeared on the Bank Statement but not in the journals.
Item 5	Interest of R205 was credited on the Bank Statement, but has not been entered in the journals.
Item 6	The Bank Statement reflected a dishonoured cheque of R1 900. This cheque was originally recorded in the CRJ on 5 September 20.9. It was received from R Rick in settlement of his debt of R2 250.
Item 7	The Bank Statement reflected a favourable balance of R60 000 on 15 September 20.9. Trendy Traders put through a direct transfer to Fleur Bank for R50 000 at 5.5% p.a. on this date in order to earn a higher return on a fixed deposit for six months. This transaction has been entered in the journals and on the Bank Statement.
Item 8	Cheque no. 7655 is stale and must be cancelled. The cheque was originally issued as a donation to the Caring Children's Home but it was lost in the post. It was decided to increase the donation and a new cheque, no. 8351, for R3 000 was issued to the Caring Children's Home. This has not yet been entered in the CPJ and the Caring Children's Home has not yet deposited the cheque.
Item 9	On 30 September 20.9, a debtor DE Lay, presented a cheque dated 30 October 20.9 for R6 100 in settlement of his debt. The Bank did not accept this cheque for deposit on 30 September 20.9. This cheque from DE Lay has not been entered in the journals.
Item 10	Cheque no. 8210 for R11 400 appeared on the September 20.9 Bank Statement but not in the September 20.9 journals.
Item 11	Cheque no. 8349 for R7 700 appeared in the September 20.9 CPJ but not on the September 20.9 Bank Statement.
Item 12	A sundry entry of R22 appeared on the Bank Statement on 16 September 20.9. This is a fraudulent entry by a Bank employee. The R22 also appeared on the Bank Statements on 16 July 20.9 and 16 August 20.9. Trendy Traders recorded these amounts as 'bank charges' in the CPJ for July 20.9 and August 20.9. Mahle Bank has agreed to reverse all three amounts immediately.
Item 13	The Bank Statement showed a favourable balance of R30 048 on 30 September 20.9

Required

- 1 Identify the items that must be entered in the CRJ. (8)
- 2 Identify the items that must be entered in the CPJ. (6)
- 3 Prepare the Bank Reconciliation Statement on 30 September 20.9 (9)
- 4 Explain how you would treat cheque no. 115 for R90 000 when preparing the financial statements on 30 September 20.9. (4)
- 5 In your opinion, was it wise of Trendy Traders to invest R50 000 on fixed deposit on 15 September 20.9? Explain your answer. Quote specific figures or details from the question to support your answer. (4)
- 6 Refer to the entry of R22 on the Bank Statement on 16 September 20.9 (see item 12). Trendy Traders received a phone call from the bank manager to ask about the quality of their service. What should Trendy Traders say to him? Provide two concerns. (4)

[35]

Question 2

(25 minutes)

You are provided with the information in respect of Diledi Traders, a business owned by Tumi Diledi. The business buys and sells fashionable accessories at cost price plus 60%.

Information

- 1 Provisional budgeted amounts

		September R	October R	November R	December R
Sales	Cash	R80 000	R96 000	?	R240 000
	Credit	R120 000	R144 000	R216 000	?
Inventory (purchasing)	Cash	-	-	R160 000	R210 000
	Credit	-	-	R40 000	R80 000
Drawings	Cash	-	-	R18 000	R20 500
	Inventory	-	-	R4 000	R7 500
Bad debt written off		-	-	R800	R1 160

Additional information

- Debtors paid their accounts as follows:
 - » 20% during the month of the transaction.
 - » 77% during the first month following the month of the transaction.
 - » The remainder will be written off in the second month following the month of transaction.
- Creditors are paid in full in the month of purchases to qualify for a 5% discount.
- Wages
 - » Bonuses are normally paid at the end of November. Employees receive a bonus of 60% of their normal wages.
 - » Two employees receive a monthly wage of R4 500 each. Wages are increased annually on 1 December. The increase is expected to amount to 7.5%.
 - » Since December is a busy time two temporary workers are employed to help. The additional wages will amount to a total of R5 000 for December.
- Diledi Traders plans to buy an additional vehicle for R450 000 on 1 November 20.9. 45% will be paid on 1 November and the balance will be paid in ten equal instalments commencing 1 December 20.9.
- The depreciation on vehicles for the year ending 31 December 20.9 is calculated at 20% p.a. on the diminishing balance method.
- A flat, that is part of the building, is let by Diledi Traders. The rental is received on the first day of each month by means of a stop order. The rent amounts to R5 500 per month. There is an increase of 15% on 1 December each year.
- The bank closing balance at the end of October 20.9 is R268 500.

Required

- 1 Calculate the collection from Debtors. (6)
- 2 Complete the Cash Budget of Diledi Traders for November and December 20.9. (31)
- 3 Name one operating expense, taken from the information provided, which appears in the Income Statement, but not in the Cash Budget. (2)
- 4 The employees feel that a 7.5% increase in their wages is unfair. Provide one reason why you agree with them. (3)

[42]

Question 3

(35 minutes)

Jai Ho and Nkosi Sikele are partners in the business trading as JN Traders. Their bookkeeper did not complete the Balance Sheet because he was on sick leave. The financial year ends on 28 February 20.9.

CHAPTER 11

R

Additional information on 28 February 20.9

- ## Unit 1 Sample tests and exams

- 7.2 Nkosi Sikele is entitled to:
- interest on capital of R6 000.
 - annual salary of R51 000.
 - share of remaining profit R22 050.

Partnership agreement

Nkosi Sikele intends to work full-time for JN Traders as his other business interests have closed down. This will mean:

- the partnership agreement will be changed to give Nkosi Sikele the same salary as that of Jai Ho.
- Nkosi Sikele will do the books in the future as he has an accounting qualification.
- the services of the existing bookkeeper, Bobby Jimmy, who currently earning R60 000 a year, will no longer be required. He will be offered early retirement and will receive a once-off payment of R75 000 from JN Traders and the pension fund will pay him a monthly pension equal to 70% of his salary.

Required

The following notes to the Balance Sheet on 28 February 20.9:

- 1

Complete the amounts to the CURRENT account for partner J Ho.

(13)
- 2

Balance Sheet on 28 February 20.9. (Show calculations in brackets).

(40)
- 3

Do you think that it will be advantageous for JN Traders to engage the services of partner Nkosi Sikele on a full-time basis and to allow Bobby Jimmy to retire? Give two reasons for your answer by referring to the Partnership Agreement.

(5)
- [58]

Question 4

(26 minutes)

The information provided was extracted from the financial statement of Ishfay Designers. Partners Isha and Fay started their interior design business in 20.6.

Information

EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.9

	20.9 R	20.8 R
Sales	570 000	600 000
Cost of sales	380 000	450 000

EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY 20.9

	20.9 R	20.8 R
Non-current assets	690 000	459 000
Current assets	160 000	145 000
TOTAL ASSETS	850 000	604 000
Equity	420 000	234 000
Capital: Isha	200 000	160 000
Capital: Fay	200 000	80 000
Current account: Isha	8 000 (Cr)	2 000 (Cr)
Current account: Fay	12 000 (Cr)	8 000 (Dr)
Non-current liabilities	360 000	280 000
Current liabilities	70 000	90 000
TOTAL EQUITIES AND LIABILITIES	850 000	604 000

Additional Information

- The net profit for the year amounted to R58 000.
- The TRADING STOCK account for 20.9 was R100 000 and 20.8, R60 000.
- The following financial indicators were calculated for 20.8

Ratio	Results
Return earned on partner's equity	24%
Return earned by partner: Isha	26%
Return earned by partner: Fay	23%
Debt : equity ratio	1.2 : 1
Current ratio	1.6 : 1
Acid test ratio	0.6 : 1
Turnover rate of inventory	9 times
Gross profit percentage on cost of sales	33 $\frac{1}{3}$ %

- The interest rate on the loan from Rand Bank is 21% p.a. and the interest paid during the current year amounted to R57 600.
- Partner Isha earned a total of R37 000 for the year 20.9.

Required

- Return on equity
 - Calculate the percentage return earned by the business for 20.9. (4)
 - Calculate the percentage earned by Isha. (4)
 - Comment on the above ratios. (4)
- Debt : equity ratio
 - Calculate the debt : equity ratio for 20.9. (3)
 - In your opinion was it good idea to increase the loan? Motivate. (4)
- Inventory and sales
 - Calculate the average rate of inventory turnover for 20.9. (3)
 - Did the business change its policy in setting its price? Briefly explain. (4)

- 3.3 Did the business policy have a favourable or unfavourable effect on the financial results of the business for 20.9. Explain briefly. (4)
- 4 Liquidity ratios
- 4.1 Calculate the current ratio for 20.9. (3)
- 4.2 Calculate the acid test ratio for 20.9. (3)
- 4.3 Comment briefly on the liquidity position of the business for 20.9. Explain also the effect that inventory has on the liquidity position for 20.9. (6)
- [42]

Question 5 (22 minutes)

The following information was taken from the books of Boots Hiking Club. The annual membership fee is R2 800 per member per year. The accounting period ends on 31 December each year.

Information

EXTRACT FROM: POST CLOSING BALANCE 31 DECEMBER 20.8

Expenses prepaid (Stationery R3 900; Wages R12 500)
 Inventory of refreshments (200 cans at a cost of R5 each)
 Income received in advance (Membership fees)
 Accrued income (Membership fees)
 Accrued expenses (Honorarium to secretary)

Debit R	Credit R
16 400	
1 000	
	5 600
11 200	
	6 000

EXTRACT FROM THE STATEMENT OF RECEIPTS AND PAYMENTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 20.9

	R
Receipts	
Membership fees: 20.8	8 400
20.9	112 000
2.10	28 000
Refreshments sold (at R7.50 per bottle)	29 250
Payments	
Refunds of fees to members who have resigned	11 200
Refreshments purchased (4 000 bottles of fruit juice)	20 000

EXTRACT FROM GENERAL LEDGER

Dr		REFRESHMENTS				Cr	
20.9				20.9			
Jan 1	Inventory on hand		1 000	Dec 31	Bank		29 250
Dec 31	Bank		20 000		Loss due to theft		?
	Income and expenditure		?		Inventory on hand		900
			?				?

Adjustments and additional information

1 Membership fees

- Membership fees still unpaid for the previous year must be written off and the names of the members must be removed from the member register with effect from 1 January 20.9.

2 Refreshments

- 4 000 cans were bought for cash during the year.
- There were 180 cans on hand on 31 December 20.9.
- The refreshments are sold at a profit of 50% on cost price.
- The chairman suspects that cans are missing.

Required

- 1 Complete the MEMBERSHIP FEES account. Close off / balance the account on 31 December 20.9. (18)

- 2 The club chairman feels that the club has the following problems regarding the collection of membership fees and control over refreshments:

2.1 Membership fees

- 2.1.1 State two points to support the chairman's concern over the membership fees. Quote figures from the information to support your answer. Note that there are 50 members in the club. (4)

- 2.1.2 What advice would you offer the chairman? State two points. (4)

2.2 Refreshments

- 2.2.1 Refer to the incomplete REFRESHMENTS account provided. Identify the number of cans that appear to be missing. Show a calculation to support your answer. (6)

- 2.2.2 What advice would you offer the chairman? State any two points. (4)

[36]

Question 6

(18 minutes)

The accounting period of Scented Wax Manufacturers ends the last day of February. In addition to the manufacturing section, the business also has a sales and an administrative section.

Information

Balances	28 Feb 20.9 R	29 Feb 20.8 R
Work-in-progress	18 173	22 000
Finished inventory	34 000	24 000

Transactions during the year	R
Purchases of raw materials for cash	590 000
Carriage on purchases of raw materials for cash	44 500
Purchases of factory lubricants (consumable stores) for cash	18 600
Purchases of cleaning material for administrative use	12 400
Purchases of factory equipment on 31 August 20.8	150 000
Production wages	307 200
Salaries: factory staff (including medical aid and UIF)	140 900
Administrative staff	160 000
Sales staff	300 000
Insurance	36 950
Water and electricity	65 200
Sundry expenses: factory	76 000
Administration	32 500
Maintenance cost: factory	32 440
Sales of finished goods	4 140 000

Additional information

- The balance of consumable stores on 28 February 20.8 was in respect of factory lubricants.
- The employer contributes to the UIF 1% of the employees' wages/salaries and to the medical aid on a Rand for Rand basis. Employees belong to MA4U (Medical Aid 4 You). Monthly contributions are:

Option Blueberry R800

Option Blackberry R600

Option Mulberry R500

All wage earners signed up for the Blackberry option and all salary earners for the Blueberry option.

Employees are as follows:

The factory workers are employed from 1 March 20.8. An additional worker was appointed on 25 February 20.9.

1 × factory foreman

2 × administrative staff

2 × sales persons.

- 3 The following wage of a new employee, who started on 25 February 20.9, was excluded erroneously from the Wage Journal. No entry has yet been made.

	R
Gross Wages	1 600
SARS (PAYE)	240
Medical Aid	300
UIF	16

- 4 During the year 230 000 identical items were manufactured.
- 5 DIRECT MATERIAL and FACTORY OVERHEADS accounts as it appears in the General Ledger:

GENERAL LEDGER OF SCENTED WAX MANUFACTURER
BALANCE SHEET ACCOUNTS SECTION

Dr	DIRECT MATERIAL STOCK				B1	Cr
20.8 Mar 1	Balance	b/d	32 000	20.9 Feb 28	Direct material issued	c/d
20.9 Feb 28	Bank		590 000		Balance	51 825
	Creditors control		23 325			
	Bank		44 500			
			689 825			689 825
20.9 Jul 1	Balance	b/d	51 825			

COST ACCOUNTS SECTION
MANUFACTURING OVERHEADS

					C3	
20.9 Feb 28	Indirect labour		140 900	20.9 Feb 28	Work-in-progress inventory	497 335
	Factory: Water and electricity		52 160			
	Depreciation		159 000			
	Factory: Maintenance		32 400			
	Insurance		18 475			
	Sundry expense		76 000			
	Indirect material		18 400			
			497 335			497 335

Required

- 1 Calculate the direct labour costs. (10)
- 2 Prepare the following General Ledger accounts: (12)
- WORK-IN-PROGRESS INVENTORY (8)
- FINISHED GOODS INVENTORY [30]

Question 7

(35 minutes)

You are provided with information relating to Teak Stores. Teak Stores sell clothing and accessories.

Information

- 1 The financial year of the business is 31 August.
- 2 The fixed asset register reflects that the business had two vehicles at the start of the financial year. The following balances appeared in the General Ledger on 1 September 20.8:
Vehicles (at cost) R720 000
Accumulated depreciation on vehicles R440 000
- 3 The depreciation rate on vehicles is 20% p.a. on cost.
- 4 Carriage on purchases for the year amounted to R342 000 for the year.
- 5 The TRADING STOCK account had a balance of R155 000 on 1 September 20.8.
- 6 Stock taking on 31 August 20.9 showed inventory on hand to be R120 000.
- 7 The following accounts appeared in the General Ledger:

GENERAL LEDGER OF TEAK STORES

Dr				SALES				Cr	
				20.9 Aug 1	Balance	b/d	1 880 000		
					?	DJ8	636 000		
					Bank	CRJ8	331 200		
							<u>2 847 200</u>		

PURCHASES

20.9 Feb 28	Balance	b/d	1 175 000	20.9 Feb 28	Creditors allowances	CAJ	45 000
	Bank	CPJ	210 000		Drawings: Tumi	GJ	24 000
	?	CJ	107 500		Donations	GJ	21 000
					Trading stock	GJ	1 402 500
			<u>1 492 500</u>				<u>1 492 500</u>

ASSET DISPOSAL

20.9 May 31	Vehicle	GJ8	450 000	20.9 May 31	?	GJ8	337 500
					Drawings: Tulani	GJ8	112 500

Required

- 1 Is the business a sole trader, partnership or company? Give a reason for your answer. (3)
- 2 Does this business use the perpetual inventory system or the periodic inventory system? Explain briefly. (3)
- 3 In your opinion, which inventory system offer a greater internal control over inventory. Explain briefly. (4)
- 4 What was the mark-up percentage used by Teak Stores up to the end of July 20.9? (9)

- 5 Teak Stores purchase ties from manufacturer for R120 each. (3)
- 5.1 Calculate the selling price of the tie, excluding VAT. (3)
- 5.2 Calculate the amount of VAT the business has to pay on the tie. (3)
- 5.3 Calculate the amount that will be reflected on the price tag of the tie. (3)
- 5.4 As internal auditor briefly explain one problem that could occur in a business regarding VAT. (2)
- 6 Name the account which will be debited as a result of the entry of R636 000 on the credit side of the SALES account. (2)
- 7 Name the account which will be credited as the result of the entry of R107 500 on the debit side of the PURCHASES account. (2)
- 8 Which account will be debited as a result of the entry of R337 500 on the credit side of the ASSET DISPOSAL account? (2)
- 9 In what manner was the vehicle sold, for example, cash, sold on credit, taken over by an owner or traded in? Give a reason for your answer. (3)
- 10 How old was the vehicle which has now been sold? State the number of years and months. (5)
- 11 Calculate:
- 11.1 The depreciation on the remaining vehicle for the year ended 31 August 20.9. (4)
- 11.2 The depreciation amount stated in the Income Statement for the year ended 31 August 20.9. (5)
- 12 Briefly explain how the fixed asset register assists in maintaining internal control over fixed assets. (4)

[57]

TOTAL: 300