

Mid-year examination

Marks: 300

Time: 3 Hours

You are provided with a question paper and an answer book.

Instructions

- The paper comprises of four questions. Answer all questions.
- Use the formats provided in order to reflect your answers.
- Workings must be shown in order to achieve part-marks.
- You must attempt to comply with suggested time allocations indicated for each question.
- Non-programmable calculators may be used.

Question	Section	Marks	Time
1	Creditors Reconciliation, internal control	34	20
2	Bank Reconciliation and ethics	36	22
3	Partnership calculations, Financial Statements and comments	120	72
4	Membership fees, entrance fees comments and calculations, Statement of Receipts and Payments	55	33
5	Journal entries for assets disposal Ratio Analysis and interpretation	55	33
TOTAL		300	180 min

Question 1

(20 minutes)

The following relates to CSI Traders and creditor, Vries Stores.

Information

Comparing the statement from Vries Stores and the Creditors Ledger of CSI Traders, the following errors have been discovered:

- Balance as per statement from Vries Stores is R18 386.
- The credit balance in the Creditors Ledger is R12 120.
- Vries Stores calculated their balance on the statement incorrectly as R18 386 instead of R13 886.
- Inventory purchased on 1 June for R3 450 was recorded as R4 350.
- Cheque 201 was paid a few days late resulting in no discount granted by Vries Stores. The discount, R1 250, was recorded in the Creditors Ledger.
- Vries Stores charged CSI Traders R156 interest on their overdue account.
- Credit note 133 for R370 from Vries Stores was recorded as invoice 133.
- Invoice 189, R600, was for stationery purchased from Max Stores. It was erroneously entered into Vries Stores.

- A 20% discount was approved on the purchases for R4 000 made on 27 June 20.7. This was not taken into account by CSI Traders.
- Invoice No. 134, R2 000, was not reflected on the statement from Vries Stores.
- CSI Traders made a payment of R5 000 on 30 March 20.9 and this was not recorded by Vries Stores.
- Debit note 144, R400, was not reflected on the statement from Vries Stores.

Required

- 1 Draw up the Creditors Reconciliation Statement on 31 March 20.9. (13)
 - 2 Complete Vries Stores' account in the Creditors Ledger of CSI Traders. (15)
 - 3 Provide three points for good internal control relating to creditors. (6)
- [34]**

Question 2

(22 minutes)

You are provided with information relating to Vuyo Stores. They require your help with their Bank Reconciliation for May 20.9.

Information

The following information appeared in the Bank Statement of Vuyo Stores on 30 April 20.9:

	R
Balance per Bank Statement (Dr)	5 000
Balance per BANK account in the ledger (Dr)	2 000
Outstanding deposit dated 30 April 20.9	20 500
Outstanding cheques:	
No. 1077 dated 30 November 20.8	1 200
No. 2854 dated 5 August 20.9	8 000
No. 3086 dated 30 April 20.9	4 300

On comparing the May 20.9 Bank Statement with the CRJ and CPJ for May 20.9, the following differences were noted:

- Item 1 A deposit of R25 000 appeared in the Bank Statement on 1 May 20.9 but not in the May journals.
- Item 2 A deposit of R11 300 appeared in the CRJ on 31 May 20.9 but not in the Bank Statement.
- Item 3 Rent income of R3 600 from A Mxinwa appeared on the Bank Statement but not in the journals.
- Item 4 Bank charges of R450 appeared on the Bank Statement but not in the journals.
- Item 5 The Bank Statement reflected a dishonoured cheque for R520. This cheque was originally recorded in the CRJ on 25 April 20.9. The drawer was N Nono.

- Item 6 Cheque no. 1077 is stale and must be cancelled. The cheque was originally issued as a donation to the East Nursery School which has closed down.
- Item 7 Cheque no. 3086 for R4 300 dated 30 April 20.9 appeared in the Bank Statement but not in the May 20.9 journals.
- Item 8 Cheques appeared in the CPJ but not on the Bank Statement:
 Cheque no. 3215 for R6 200 dated 29 May 20.9.
 Cheque no. 3217 for R8 000 dated 31 August 20.9.
- Item 9 The Bank Statement reflected a favourable balance of R1 100 on 31 May 20.9.

Required

- 1 Identify the two items to be entered in the May 20.9 CRJ. (4)
- 2 Identify the two items to be entered in the May 20.9 CPJ. (4)
- 3 Prepare the Bank Reconciliation Statement on 31 May 20.9. (16)
- 4 Explain how you would treat cheque no. 3217 when preparing the Financial Statements (see item 8). (4)
- 5 Debtor, Fay Khan, complained that her statement from the business reflects a payment of R6 000 instead of R7 500. Upon investigation, the CRJ reflects that a payment of R6 000 was received and a discount of R1 500 was given.
- 5.1 This is unacceptable. Give a reason for what could have happened. (2)
- 5.2 Briefly explain why it is vitally necessary to prepare a Bank Reconciliation Statement each month. Mention two main points. (6)

[36]

Question 3 (72 minutes)

Y Yele and L Lela are partners in a business, Yelela Traders. The financial year of the partnership concern ends annually at the end of February.

Information

GENERAL LEDGER OF YELELA TRADERS							
Dr				CAPITAL ACCOUNT: Y YELE			
				Cr			
			20.8				
			Mar 1	Balance	b/d	100 000	
			Sep 30	Bank		50 000	
						150 000	

CAPITAL ACCOUNT: L LELA									
Dr				Cr					
20.8					20.8				
Dec	1	Bank		50 000	Mar	1	Balance	b/d	150 000
20.9									
Feb	28	Balance	c/d	100 000					
				150 000					150 000
					20.9				
					Mar	1	Balance	b/d	100 000

CURRENT ACCOUNT: Y YELE							
20.9 Feb 28	Drawings: Y Yele Balance	c/d	48 000 123 215	20.8 Mar	Balance	b/d	75 340
				20.9 Feb 28	Interest on capital		20 000
					Salaries		48 000
					Appropriation		27 875
			171 215				171 215
				20.9 Mar 1	Balance	b/d	123 215

CURRENT ACCOUNT: L LELA							
20.9 Feb 28	Drawings: L Lela Balance	c/d	55 000 ?	20.8 Mar 1	Balance	b/d	40 290
				20.9 Feb 28	Interest on capital		?
					Salaries		?
					Appropriation		48 000
							?
				20.9 Mar 1	Balance	b/d	?

YELELA TRADERS
PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.9

	Debit R	Credit R
Balance Sheet Accounts Section		
Capital: Y Yele		?
Capital: L Lela		?
Current account: Y Yele		?
Current account: L Lela		?
Drawings: Y Yele	?	
Drawings: L Lela	?	
Land and buildings	380 000	
Vehicles	180 000	
Equipment	72 000	
Accumulated depreciation: vehicles		45 400
Accumulated depreciation: equipment		18 100
Mortgage Loan: WP Bank		80 000
Loan: WC Bank		100 000
Fixed deposit: GW Bank	30 000	
Inventory	77 300	
Debtors control	35 850	
Creditors control		21 245
Bank	2 500	
Provision for bad debt		1 650
Nominal Accounts Section		
Sales		878 550
Cost of sales	514 800	
Debtors allowances	22 550	
Stationery	7 510	
Repairs	4 300	
Bad debt	1 210	
Provision for bad debt adjustment		225
Asset disposal		12 000
Pension fund contributions	6 400	
Telephone	3 700	
Interest on mortgage loan	13 500	
Insurance	4 610	
Rent income		26 600
Interest on current account		940
Salaries	86 400	
Bank charges	4 710	
	1 550 340	1 550 340

Adjustments

- 1 A credit invoice received from Zoom Suppliers has not yet been recorded in the books. The following details appeared on the invoice:

	R
Inventory	3 000
Less 15% trade discount	<u>450</u>
	2 550
Carriage on purchases	<u>250</u>
	<u>2 800</u>

The merchandise was received and included during the physical stocktake.

- 2 A debtor, M Mango, returned unsuitable goods to the value of R5 000 on 27 February 20.9. These goods were marked up at 25% on cost. No entries were made for this transaction.

- 3 A physical stocktaking on 28 February 20.9 showed the following inventory on hand:

Inventory, R77 100 and Stationery, R1 040

- 4 J Faithful, a debtor whose debt had been written off during October 20.8, paid the amount of R500 on 26 February 20.9. This amount was credited against DEBTORS CONTROL.
- 5 The provision for bad debt had to be increased by R255. On 27 February 20.9 the bookkeeper made the following entry in the General Journal and posted it:

	Debit R	Credit R
Provision for bad debts	225	
Provision for bad debts adjustment		225

- 6 The details of an employee who was employed on 1 February 20.9 were omitted from the Salaries Journal for February 20.9 by mistake. The following details are applicable:

	R
Gross salary	2 400
PAYE deduction	480
Pension fund	200

For every R1 that the employee contributes to the pension fund, the employer contributes R1. No payment was made in this regard.

- 7 Repairs to the roof of the building, R5 000, have been debited to LAND AND BUILDINGS by mistake.
- 8 The mortgage bond is payable annually on 1 December in instalments of R20 000. Interest is payable at 18% p.a. The loan from WC Bank was taken out on 27 February 20.9 at an interest rate of payable 15% p.a., quarterly.
- 9 Part of the building has been let since 1 August 20.8 for R3 325 per month.
- 10 Interest on fixed deposit amounts to R 4 500 per annum. The investment was made on 31 August 20.8.
- 11 Insurance includes a premium of R2 400 which was paid for the period 1 January 20.9 to 30 June 20.9.
- 12 Depreciation is calculated as follows:
- 12.1 On equipment at 20% p.a. on cost.
- 12.2 On vehicles at 15% p.a. on the diminishing balance. A vehicle, cost price R45 000 and accumulated depreciation on 1 March 20.5 R34 000, was sold for cash on 31 August 20.8 for R12 000. The bookkeeper recorded the transaction by debiting BANK and crediting ASSET DISPOSAL with R12 000.

Required

- 1 Take all the necessary information into account and answer the following questions: (Please indicate all calculations, as part marks will be allocated.)
- 1.1 The partnership agreement stipulates, amongst others, that partners are entitled to interest on capital at a fixed rate for both partners. Calculate the rate of interest on capital. (9)
- 1.2 Calculate L Lela's entitlement of the primary distribution. (4)
- 1.3 The final profit must be shared between the partners equally. Calculate the share of the remaining net profit that partner L Lela will receive. (2)
- 1.4 Calculate the balance in the current account of partner L Lela on 28 February 20.9. (11)
- 1.5 What is the net profit as calculated in the Income Statement for the year ended 28 February 20.9? (8)
- 2 Prepare the Income Statement of Yelela Traders for the year ended 28 February 20.9. (65)
- 3 Prepare the notes to the Balance Sheet for Trade and other payables. (18)
- 4 Do you think the business made the correct decision when they took a new loan from WC Bank? Motivate. (3)

[120]

Question 4

(33 minutes)

Information

GENERAL LEDGER OF GOLD REEF DARTS CLUB

Dr				ENTRANCE FEES				Cr			
20.9				20.9				20.9			
Dec	31	Accumulated fund		Dec	31	Bank		Dec	31	Bank	
			1 050								1 050

				MEMBERSHIP FEES							
20.9				20.9				20.9			
Jan	1	Accrued income	260	Jan	1	Income received in advance	195	Jan	1	Income received in advance	195
Dec	31	Income received in advance	390	Dec	31	Bank	7 025	Dec	31	Bank	7 025
		Bank	35			Membership fees written off	130			Membership fees written off	130
		Income and expenditure	7 150			Refreshments	30			Refreshments	30
						Accrued income	455			Accrued income	455
			7 835				7 835				7 835

NOTE: Membership fees are R65 per member per year. Each new member pays an entrance fee of R150 before being accepted as a member. All the new members joined at the beginning of the year and no members resigned from the club.

Required

Study the ledger accounts and answer the following questions:

- 1.1 How many new members joined at the beginning of the 20.9 financial year? (2)
- 1.2 How many members does the club have, excluding memberships written off? (2)
- 1.3 What will the amount be for Membership fees in the Statement of Receipts and Payments? (2)
- 1.4 There is an amount of R7 150 on the debit side of the MEMBERSHIP FEES account. Explain why the contra account of this amount is strictly speaking incorrect and explain what the correct details should be. (3)
- 1.5 Give one possible explanation for the entry of R35 on the debit side of the MEMBERSHIP FEES account. (2)
- 1.6 Give one possible explanation for the entry of R30 on the credit side of the MEMBERSHIP FEES account. (2)
- 1.7 How many members paid their 20.8 membership fees during 20.9? (2)
- 1.8 Explain why there is an “Accrued income” entry on both sides of the MEMBERSHIP FEES Account. (3)
- 1.9 Explain why it is unlikely that there will be an accrued income entry in the ENTRANCE FEES Account. (2)

[20]

2 STATEMENT OF RECEIPTS AND PAYMENTS

Information

Balances on 1 January 20.9:

	R
Capital fund	28 728
Fixed deposit	16 400
Bank account (Dr)	2 348
Savings account	4 464
Income received in advance (Membership fees)	360
Accrued income (Membership fees)	240
Inventory of refreshments	80

Summary of transactions and other information for 20.9

- 20 new members joined the club during the year. All members paid the R150 per member, entrance fee.
- Membership fees received during the year amounted to R25 800. Included in this amount is R450 for 2.10 and R180 for 20.9.
- The amount of membership fees still owing for 20.8 must be written off as irrecoverable.
- Membership fees of R300 for 20.9 have not been received.

- Wages paid, R14 320. Included in this amount is the caretaker's wages for eleven months, R10 560. The amount for December 20.9 was still due to the caretaker and was not paid to him by the end of the year.
- Sports equipment purchased by cheque, R2 184.
- Sports equipment purchased on credit, R5 736.
- Old sports equipment sold for cash, R1 512.
- Tickets sold for the annual dinner, R3 768.
- Total costs of annual dinner paid, R3 144.
- Donations received, R2 352. A promised donation of R400 has not been received.
- Rental of R7 280 for the premises has been paid for thirteen months to 31 January 2.10.
- Refreshments purchased during the year and paid in cash, R3 912.
- Refreshments purchased on credit during the year, R1 632.
- Refreshments donated to the club by members during the year, R816.
- Refreshments sold for cash to members during the year, R8 928.
- Refreshments sold on credit during the year, R713.
- Refreshments on hand at the end of the year according to the inventory, R228.
- Honorarium paid to secretary, R288.
- Honorarium approved for the treasurer, but not yet paid, R240.
- Payments to creditors, R5 064.
- Stationery bought during the year and paid in cash, R570.
- Stationery on hand on 31 December 20.9 according to the inventory, R50.
- Affiliation fees paid for 20.9 and 20.10, R90 per year.
- Accounts for water and electricity paid during the year, R1 728.
- Bank charges during the year, R66.
- On 31 December 20.9 R130 interest was received on the savings account.
- On 1 July 20.9 R4 000 was withdrawn from the savings account and invested on fixed deposit at 14% p.a. interest.
- The interest on fixed deposit at 14% p.a. was received for the period 1 January 20.9 to 30 June 20.9. Interest for the rest of the year had not been received.

Required

Use the information taken from the books of Speed Sports Club and draw up the Statement of Receipts and Payments for the year ended 31 December 20.9. (35) [55]

Question 5

(33 minutes)

- 5.1 On 1 March 20.9 the information provided appeared in the Asset Register of Makieti Traders. The financial year ends on the last day of February each year.

Information

Vehicles (B4)	Date of purchase	Cost Price	Accumulated depreciation	Carrying value (Book value)
CAM 9876	20.6 /03/01	R150 000	R73 200	R76 800
CAM 4567	20.7/03/01	R220 000	R79 200	?
Total: All vehicles		R370 000	?	?

Depreciation is calculated at 20% p.a. on the diminishing balance method. On 1 June 20.9 CAM 9876 was sold on credit to Ndevu Motors for R75 000. A new vehicle, CAM 3216, was bought from Rudolf Motors on 31 August 20.9 for R550 000.

Required

Show all the journal entries on 1 June 20.9 to record the sale transaction. Narrations may be omitted.

(30)

5.2 Ratio analysis

Information

The following financial indicators of AC Cook School are provided.

No.	Indicators	Current year's indicators	Previous year's indicators
1	% Gross profit on cost of sales	40%	30 %
2	% Operating expenses on sales	29.41%	26%
3	% Operating profit on sales	7.25%	6%
4	% Net profit on sales	5.08%	3%
5	% Return on equity	25.43%	17%
6	% Return earned by Adam	4.3%	12%
7	% Return earned by Callum	69.29%	30%
8	Solvency ratio	1.65 : 1	1.5 : 1
9	Debt : equity ratio	0.99 : 1	1.3 : 1
10	Current ratio	2.64 : 1	3.1 : 1
11	Acid test ratio	0.64 : 1	1.1 : 1
12	Debtors collection period	66 days	23 days
13	Creditors payment period	97 days	61 days

Required

1 Quote the appropriate indicators and comment on the:

1.1 the returns earned by the business

1.2 the returns earned by each partner

1.3 Whether the partners should be satisfied.

(6)

- 2 Comment on the liquidity of the business. Is this satisfactory? Explain by quoting the appropriate indicators. (5)
- 3 Quote the appropriate indicator(s) and comment on the solvency of the business. Is the current solvency satisfactory? (4)
- 4 There are many areas of concern for the partners. Mention two of these areas and provide the partners with possible remedies to improve the current situation. (10)

[55]

TOTAL: 300
