

**MEMORANDUM****MARKS: 300****TIME: 3 HOURS****QUESTION I**

- 1** Item 3: Commission income R5 000 ✓✓  
 Item 5: Interest income R205 Foreign ✓✓  
 Item 8: Cancelled cheque R2 500 ✓✓  
 Item 12: Fraudulent entry R44 (or R66) ✓✓
- 2** Item 4: Bank charges R535 ✓✓  
 Item 6: Dishonoured cheque R1 900 ✓✓  
 Item 8: Replacement cheque R3 000 ✓✓
- 3** **BANK RECONCILIATION STATEMENT ON 30 SEPTEMBER 20.9**

	Debit R	Credit r
Credit balance according to Bank Statement		✓ 30 048
Credit late deposit		✓ 18 600
Debit outstanding cheques		
No. 8349	✓ 7 700	
8351	✓ 3 000	
8247	✓ 68 000	
Fraudulent entry to be corrected		✓✓ 66
Credit balance as per Bank account		✓✓ 29 986
	78 700	78 700

- 4** Debit Bank ✓✓ and Credit Creditors control ✓✓
- 5** No ✓. Bank overdraft will exist next month when the post-dated cheque of R68 000 is presented. Interest on fixed deposit of 5.5% p.a. is lower than interest on overdraft of 10.5% per year. Possibility of cash flow problems.  
 Accept any reasonable answer. ✓✓✓
- 6** Concern over lack of internal control, Poor management, Lack of confidence, Incompetence of bank official, Fraud, Compliment on their concern or quick response to rectify problem, Good service ✓✓✓✓ (35)

# QUESTION 2

## 1 Calculation of collection from debtors

MONTH	CREDIT SALES	NOVEMBER	DECEMBER
October	$144\,000 \times 77\%$	✓ 110 880	
November	$216\,000 \times 20\%$	✓ 43 200	✓ 166 320
	$216\,000 \times 77\%$		
December	$360\,000 \times 20\%$		✓ 72 000
		✓ 154 080	✓ 238 320

(6)

## 2

### CASH RECEIPTS

Cash sales

Receipts from debtors

Rent Income

$(R5\,500 \times 1.15 = R6\,325)$

### TOTAL RECEIPTS

### CASH PAYMENTS

Cash purchases of trading stock

Payments to creditors  $(R40\,000 \times 95\%)$

$(R80\,000 \times 95\%)$

Drawings

Wages  $((R4\,500 \times 2) + R5\,400)$

$(RR9\,000 \times 1.075) + 5\,000$

Vehicle  $(45\% \times R450\,000)$

$((R450\,000 - R202\,500) \div 10)$

### TOTAL PAYMENTS

Cash surplus (shortfall)

Bank – opening balance

Bank – closing balance

November 20.9	December 20.9
✓✓ 144 000	✓ 240 000
✓ 154 080	✓ 238 320
✓ 5 500	✓✓ 6 325
303 580	484 645
✓ 160 000	✓ 210 000
✓✓ 38 000	
	✓✓ 76 000
✓ 18 000	✓ 20 500
✓✓ 14 400	
	✓✓✓ 14 675
✓✓ 202 500	
	✓✓ 24 750
(432 900)	(345 925)
✓ (129 320)	✓ 138 720
✓ 268 500	✓ 139 180
✓ 139 180	✓ 277 900

(31)

## 3 Bad Debts / Depreciation / Discount Received. Accept any reasonable answer ✓✓

(2)

The sales figures for November and December are high.

The business has a surplus of R138 720 at the end of December.

Drawings by owner of R18 000 and R20 500 is high.

Accept any reasonable answer ✓✓✓

(3)

# QUESTION 3

## 1 CURRENT ACCOUNT

Appropriation of net profit

Net profit as per Income Statement

Partner' Salaries

Interest on capital

Bonus

Primary distribution of profits

Final distribution of profits

Drawings for the year

Undrawn profits for the year

Balance at the beginning of the year

J Ho R	N Sikele R
✓ 133 250	79 050
✓✓ 79 800	51 000
✓✓ 5 750	6 000
✓ 32 000	
✓ 117 550	57 000
✓ 14 700	22 050
✓✓ (131 100)	(77 000)
✓ 1 150	2 050
✓ 8 700	(2 000)
✓ 9 850	50

(13)

## 2

### JN TRADERS

BALANCE SHEET ON 28 FEBRUARY 20.9

#### ASSETS

##### Non-current assets

Tangible assets (R261 700 ✓ – R88 760 ✓ – R50 000 ✓)

Financial assets (R68 000 ✓ – R18 000 ✓)

##### Current assets

Inventories (R56 700 ✓ + R1 700 ✓ – R400 ✓)

Trade and other receivables (R7 000 ✓ + R2 760 ✓)

Cash and cash equivalents (R3 000 ✓ + R18 000 ✓)

#### TOTAL ASSETS

#### EQUITY AND LIABILITIES

##### Owners' Equity

Capital (R50 000 ✓ + R75 000 ✓)

Current accounts (R9 850 ✓ + R50 ✓)

##### Non-current liabilities

Mortgage loan (R54 000 ✓ – R7 500 ✓)

##### Current liabilities

Trade and other payables (R65 600 ✓ + R3 800 ✓)

Bank overdraft (R2 700 ✓ + R700 ✓)

Short term loans / Instalment on loan

#### TOTAL EQUITY AND LIABILITIES

Note	R
	✓ 172 940
3	✓ 122 940
	✓ 50 000
	✓ 88 760
4	✓ 58 000
5	✓ 9 760
6	✓ 21 000
	✓ 261 700
	✓ 134 900
7	✓ 125 000
8	✓ 9 900
	✓ 46 500
	✓ 46 500
	✓ 80 300
9	✓ 69 400
	✓ 3 400
	✓ 7 500
	✓ 261 700

(40)

## 3

Yes ✓. Partner Nkosi will be more committed to business.

Spends more time and energies in building up the business.

More skills to the business.

Financial savings.

Previous salary bill for 3 persons was R190 000.

New salary bill for 3 persons would be R159 600.

Once off pension payments will be made up in the next 3 years ✓✓ ✓✓

(5)

## QUESTION 4

**1** Return on equity

**1.1** Percentage return earned by the business for 20.9.

$$\frac{\frac{R58\ 000}{\frac{1}{2}(R23\ 000 + R0\ 000)} \times \frac{100}{1}}{\frac{R58\ 000}{R327\ 000} \times \frac{100}{1}} = 17.7\%$$

**1.2** Percentage earned by Isha.

$$\frac{\frac{R37\ 000}{\frac{1}{2}(R160\ 000 + R2\ 000 + R200\ 000 + R8\ 000)}}{\frac{R37\ 000}{R185\ 000} \times \frac{100}{1}} \times \frac{100}{1} = 20\%$$

**1.3** The return earned on business decreased from 2 to 17.7% ✓

The returned earned by partner Isha also decreased from 26% to 20% ✓

However, this is greater than outside investment.

The increase in capital resulted in the decrease in percentage. ✓✓ (12)

**2** Debt: equity ratio

**2.1** Debt: equity ratio for 20.9

R360 000 ✓ : R0 000 ✓

0.86 : 1 ✓

**2.2** The debt equity ratio improved from 1.2 : 1 to 0.86 : 1 ✓✓

For every R1 equity the business owes 86 cents in debts.

**2.3** No ✓. The interest rate is 21% p.a. The interest earned on capital is less than the interest on borrowed capital. It was not a good idea to have borrowed the additional loan. ✓✓✓ (7)

**3** Stock and Sales

**3.1** Average rate of stock turnover for 20.9

$$\frac{\frac{R380\ 000}{\frac{1}{2}(R60\ 000 + R100\ 000)}}{\frac{R380\ 000}{R80\ 000} \times \frac{100}{1}} = 75\ \text{times}\ \checkmark$$

**3.2** Yes ✓.  $\frac{R580\ 000 - R380\ 000}{R380\ 000} \times \frac{100}{1} = \frac{R190\ 000}{R380\ 000} \times \frac{100}{1} = 50\%$  ✓✓

**3.3** The selling policy changed from  $33\frac{1}{3}\%$  to 50% on cost of sales. ✓

**3.4** No ✓. The return on equity decreased from 2 to 17.7. The turnover rate on stock decreased from 9 times to 75 times. The increased in the mark-up percentage had an unfavourable effect on the financial results. ✓✓✓ (11)

**4** Liquidity ratios

**4.1** Current ratio for 20.9 = R160 000 ✓ : R70 000 ✓ = 2.29 : 1 ✓

**4.2** Acid test ratio for 20.9

$$(R160\ 000 - R100\ 000 \checkmark) : R70\ 000 \checkmark = R60\ 000 : R70\ 000 = 0.86 : 1 \checkmark$$

**4.3** The current ratio 2.29 : 1 is more than the acceptable ratio of 2 : 1.

The current ratio has improved from 1.6 : 1 to 2.29 : 1 ✓✓

The acid test ratio 0.86 : 1 is less than the acceptable ratio of 1 : 1.

The acid test ratio has improved from 0.6 : 1 to 0.86 : 1 ✓✓

The business will experience some difficulties in meeting its short-term obligations

The large investment in stock has contributed to this unsatisfactory result. ✓✓ (12)

# QUESTION 5

1

GENERAL LEDGER OF BOOTS HIKING CLUB				MEMBERSHIP FEES				
Dr								Cr
20.9				20.9				
Jan 1	Accrued income ✓	GJ	✓11 200	Jan 1	Income Received in Advance ✓	GJ	✓5 600	
Dec 31	Income received in advance ✓	GJ	✓28 000	Dec 31	Bank ✓	CRJ	✓148 400	
	Bank ✓	CPJ	✓11 200		Membership fees written off ✓	GJ	✓2 800	
	Income and expenditure ✓	GJ	✓✓123 200		Accrued Income ✓ (6 × R2 800)	GJ	✓✓16 800	
			173 600				173 600	

(18)

- 2.1** 4 members resigned and their membership fees paid back. Accrued income for six members was outstanding for the year. ✓✓✓✓
- 2.2** Investigate the reasons for resignation of members and solve them. Encourage members to pay fees timeously / charge interest / discounts / pay in instalments / pay by debit order / render a service in lieu of fees, etc. ✓✓✓✓ (8)
- 2.3**  $R29\,250 \div R7,50 = 3\,900$  ✓  
 $200 \checkmark + 4\,000 \checkmark - 3\,900 \checkmark - 180 \checkmark = 120$  cans ✓
- 2.4** Monthly stock counts. Improved physical security of the stock room ✓✓✓✓ (10)

# QUESTION 6

## DIRECT LABOUR COSTS

	R	
Factory wages (R307 200 ✓ + R1 600 ✓)	✓ 308 800	
Medical Aid ((R600 × 12 × 4) ✓ + R300 ✓)	✓ 29 100	
UIF contribution ((1% × 307 200) ✓ + (1% × 1 600) ✓)	✓ 3 088	
	✓ 340 988	

(10)

WORK-IN-PROCESS STOCK				B2				Cr
Dr								
20.8				20.9				
Mar 1	Balance	b/d	✓22 000	Feb 28	Finished goods stock ✓	GJ	✓✓1 480 000	
					Balance	c/d	✓18 323	
20.9								
Feb 28	Direct materials cost ✓	GJ	✓638 000					
	Direct labour cost ✓	GJ	✓340 988					
	Factory overhead cost ✓	GJ	✓497 335					
			1 498 323				1 498 323	
20.9								
Mar 1	Balance	b/d	✓18 173					

(12)

Dr				FINISHED GOODS STOCK		B3		Cr
20.8	Mar 1	Balance	b/d	✓24 000	20.9	Feb 28	Cost of sales✓	GJ ✓✓1 470 000
20.9	Feb 28	Work-in-process stock✓	GJ	✓1 480 000			Balance	c/d ✓34 000
				1 504 000				1 504 000
20.9	Mar 1	Balance	b/d	✓34 000				

(8)

## QUESTION 7

**1** Partnership✓ – refer to Asset Disposal Account: Drawings: Tulani ✓✓ (3)

**2.1** Periodic Inventory System✓: use of Purchases / carriage on purchases ✓✓

**2.2** Perpetual inventory system the Trading Stock account is written up daily and show how much Trading Stock should be on hand. This can be checked by means of stocktaking. It is best used for businesses dealing with valuable items and businesses selling large volumes of merchandise with a relatively low unit (bar codes used).

Periodic inventory system is used for businesses that deal in large volumes of goods with relatively small unit price. The cost of sales can only be calculated after a physical stock account is done.

Marks awarded according to motivation. ✓✓✓✓ (7)

**3.1** R155 000 ✓+ R1 402 500 ✓+ R342 000 ✓– R120 000✓ = R1 779 500

R2 847 200✓ – R1 779 500☐ = R1 067 700☐

$\frac{R1\ 067\ 700}{R1\ 779\ 500} \times \frac{100}{1} \text{ ☐} = 60\% \text{ ☐}$  (9)

**4.1**  $\frac{160}{100} \text{ ☐} \times \frac{R120}{1} \text{ ✓} = R192 \text{ ☐}$

**4.2**  $\frac{14}{100} \text{ ✓} \times \frac{R192}{1} \text{ ☐} = R26,88 \text{ ☐}$

**4.3** R192☐ + R26,88☐ = R218,88☐

**4.4** Underpaying SARS VAT collection / Errors in the collection of VAT  
Any reasonable answer ✓✓ (11)

**5** Debtors control ✓✓ (2)

**6** Creditors control ✓✓ (2)

**7** Accumulated depreciation on vehicles ✓✓ (2)

**8** Taken over by partner. ✓ Refer to entry: Drawings: Tulani ✓✓ (3)

**9** Years =  $\frac{\text{Accumulated depreciation} \times 100}{\text{Cost} \times \text{Rate}}$   
 $= \frac{337\ 500 \times 100}{450\ 000 \times 20} \text{ ✓}$   
 $= 3.75 \text{ years } \text{ ✓}$   
 $= 3 \text{ years } \text{ ✓ } 9 \text{ months } \text{ ✓}$  (5)

$$\begin{aligned}
 \mathbf{10.1} \quad & \frac{(720\,000 - 450\,000)}{1} \checkmark \times \frac{20}{100} \times \frac{1}{1} \\
 & = \frac{270\,000}{1} \checkmark \times \frac{20}{100} \checkmark \times \frac{1}{1} \\
 & = R54\,000 \checkmark
 \end{aligned}$$

$$\begin{aligned}
 \mathbf{10.2} \quad & \frac{450\,000}{1} \times \frac{20}{100} \checkmark \times \frac{9}{12} \checkmark \\
 & = R67\,500 \checkmark
 \end{aligned}$$

$$\text{Therefore } R67\,500 + R54\,000 \checkmark = R121\,500 \checkmark \quad (9)$$

- 11** List all the assets owned by the business  
 Each asset must have a unique name clearly identifying the asset  
 Data on the location, age and assessment value, performance, condition and risk recorded  
 Record regular monitoring information – e.g. when last the asset was serviced, how much it has been used ✓✓✓✓ (4)  
 [Total: 300]