



Province of the
EASTERN CAPE
EDUCATION

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REPUBLIC OF SOUTH AFRICA

CHIEF DIRECTORATE – CURRICULUM MANAGEMENT

**GRADE 12 LEARNER SUPPORT
PROGRAMME**

**REVISION AND REMEDIAL TEACHING
INSTRUMENT:
QUESTIONS AND ANSWERS**

SUBJECT: ACCOUNTING

June 2009

This document consists of 14 pages.

Strictly not for test/examination purposes

INSTRUCTIONS AND INFORMATION

1. You are provided with a question paper and an answer book.
2. This question paper comprises FIVE compulsory questions. Answer ALL the questions.
3. Use the formats 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 must attempt to comply with the suggested time allocation guide.
6. Non-programmable calculators may be used.
7. You may use dark pencil or blue/black ink to answer questions.

QUESTION 1: 40 marks; 24 minutes

The topic of the question is:	The learning outcomes covered are:
Reconciliations	LO1 Financial information AS4 Analyse and interpret bank, debtors and creditors reconciliation LO3 Managing resources AS5 Code of ethics, role of professional bodies AS6 Apply internal control

QUESTION 2: 31 marks; 18 minutes

The topic of the question is:	The learning outcomes covered are:
Fixed assets and internal control	LO1 Financial information AS3 Interpret and report on asset disposal AS5 Prepare and analyse asset disposal

QUESTION 3: 103 marks; 62 minutes

The topic of the question is:	The learning outcomes covered are:
Company financial statements	LO1 Financial information AS5 Prepare, analyse and interpret financial statements

QUESTION 4: 95 marks; 57 minutes

The topic of the question is:	The learning outcomes covered are:
Cash flow statement and ratio analysis	LO1 Financial information AS5 Prepare, analyse and interpret financial statements

QUESTION 5: 31 marks; 19 minutes

The topic of the question is:	The learning outcomes covered are:
Cash budget	LO2 Managerial accounting AS3 Analyse and interpret cash budgets

QUESTION 1**1.1 BANK RECONCILIATION (22 marks; 13 minutes)**

You are provided with information relating to Sharu Traders.

REQUIRED:

Study the information and answer the questions which follow.

INFORMATION:**SHARU TRADERS****Bank Reconciliation Statement on 31 August 2008**

	Amount
Credit balance as per bank statement	6 500
Outstanding deposits	12 190
Outstanding cheques	
No. 203 (dated 21 February 2008)	2 120
No. 381 (dated 2 August 2008)	7 910
No. 429 (dated 19 August 2008)	6 430
No. 442 (dated 21 September 2008)	4 700
Debit amount wrongly credited on the Bank statement	330
Credit balance as per Bank account	?

QUESTIONS

- 1.1 1.1.1 Provide TWO reasons why you think it is important for a business to reconcile its Bank account every month. (4)
- 1.1.2 Does Sharu Traders have a favourable or unfavourable bank balance according to the bank statement? (2)
- 1.1.3 Explain why the deposit of R12 190 appears in the Bank Reconciliation Statement for August 2008. (2)
- 1.1.4 The Bank reconciliation shows the item: "Debit amount wrongly credited on the bank statement, R330." Give an example of the type of error that the bank could have made. (3)
- 1.1.5 If cheque no. 203 does not appear on the Bank statement for September 2008, what action will you take and why? (4)
- 1.1.6 Sharu Traders received a cheque for R999 from a debtor in settlement of his account. This cheque was dated for 16 September 2008. Why does this cheque not appear in the Bank reconciliation statement? (4)

- 1.1.7 If the financial year ends on 31 August 2008, how will you treat cheque no. 442? (3)

1.2 CREDITORS RECONCILIATION (18 marks; 11 minutes)

Reconcile the Creditors control account balance with the Creditors list total on 31 May 2009. Show the changes in the list by using the incorrect balance provided. The incorrect balance in the Creditors list on 31 May 2009 is R36 471.

Creditors control

2009					2009				
May	31	Bank & discount received		148 680	May	1	Balance		35 385
		Total returns		2 310		31	Total purchases		151 500
		Journal debits		612			Bank (refunds)		420
		Balance	c/d	36 210			Journal credits		225
				<u>187 920</u>					<u>187 920</u>
					Jun	1	Balance	b/d	36 210

Errors and omissions

- The Creditors Journal was overcast by R360.
- A debit note of R275 was not entered in the Creditors Allowances Journal at all.
- A debtor with a credit balance of R135 was included in the list of creditors by mistake.
- An amount of R309 in the Creditors Journal was incorrectly posted to a creditor's account as R390.
- The debtors control column of R195 in the Cash Payments Journal was erroneously posted to the Creditors control account.
- Transfer the credit balance of R60 of a debtor in the Debtors Ledger to his account in the Creditors Ledger.

QUESTION 2**FIXED ASSETS AND INTERNAL CONTROL (31 marks; 21 minutes)**

Ace Ventura runs a manufacturing business called Ace Manufacturer which manufactures shoes. He is concerned that his revenue has not met his budget of R1 100 000. He claims that the maintenance cost has exceeded the budget. All three machines are performing the same job. The following information was extracted from the ledger, the fixed assets register and other records on 30 June 2008. Depreciation is calculated at 20% on cost.

REQUIRED:

- 2.1 Consider the information provided below. Mention ONE aspect in favour of each problem.
- Hint:** (a) One point in favour of each machine (1 x 3) (3)
 (b) Quote amounts to support your answer (1 x 3) (3)

INFORMATION:

Assets	Machine 1	Machine 2	Machine 3
Name of operator	Salu	Akshay	Chota
Date purchased	1 July 2002	1 July 2006	1 Jan 2008
Cost price of machinery	70 000	180 000	130 000
Accumulated depreciation(1 July 2007)	69 999	36 000	?
Amount of revenue brought in	240 000	400 000	320 000
Number of units produced per annum	60 000	100 000	80 000
Maintenance cost for the year	110 000	90 000	85 000

- 2.2 Ace Ventura is planning to trade-in **Machine 1** for R500. This machine will be replaced by a new **machine** on 1 July 2008.
- 2.2.1 In your opinion is the decision taken by Mr Ventura to trade-in **Machine 1** correct? Give TWO reasons to justify your answer and quote appropriate figures. (5)
- 2.2.2 Prepare the Asset Disposal Account if **Machine 1** is disposed. (11)
- 2.3 Calculate *pro rata* depreciation for **Machine 1** at 30 June 2008. (3)
- 2.4 Calculate depreciation for **Machine 2** at 30 June 2008. (2)
- 2.5 The owner also has a fleet of trucks and other fixed assets (equipment, property). It is difficult to control it all by himself. List FOUR internal control measures he should take to control the assets. (4)

QUESTION 3**COMPANY FINANCIAL STATEMENTS****(103 marks; 62 minutes)**

Funky Stores Ltd has an authorised share capital of 1 000 000 shares at 100 cents each. Funky Stores Ltd uses the continuous inventory system. Their financial year ends on 28 February 2009.

INFORMATION:**Pre-adjustment Trial Balance of Funky Stores Ltd on 28 February 2009**

BALANCE SHEET SECTION	DEBIT	CREDIT
Ordinary share capital		500 000
Share premium		30 000
Retained income		92 498
Loan: AB Bank (12% p.a.)		50 000
Land and Buildings @ cost	482 000	
Vehicles @ cost	240 000	
Equipment @cost	135 940	
Accumulated depreciation on vehicles		49 000
Accumulated depreciation on equipment		30 980
Trading stock	69 140	
Debtors control	47 750	
Provision for bad debts		1 680
Bank		6 570
Petty cash	500	
Cash float	894	
Creditors control		37 300
SARS (PAYE)		2 698
SARS (Income Tax)	39 314	
Pension fund		850
NOMINAL ACCOUNTS SECTION		
Sales		1 111 560
Debtors allowances	43 120	
Cost of sales	509 360	
Salaries	287 340	
Packing material	5 096	
Discount allowed	700	
Discount received		1 240
Advertising	4 940	
Insurance	11 240	
Rent income		26 180
Interest on fixed deposit		974
Stationery	8 516	
Pension fund contributions	3 750	
Medical aid contribution	1 930	
Ordinary share dividend	50 000	
	1 881 530	1 881 530

ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. A physical stocktaking shows the value of stock on hand as R65 080, while stationery on hand is valued at R870.
2. R1 500 is still owing to Sportnet for carriage on goods purchased.
3. The account of H. Terry must be written off as irrecoverable, R930.
4. Provision for bad debts must be adjusted to R1 828.
5. A cheque received from a debtor on 25 February 2009 was dishonoured by the bank. No entry has yet been made for this. The cheque for R650 was in settlement of his account of R700. It has since been decided to write off his account as irrecoverable.
6. Insurance includes an amount paid for March 2009. Take into account that the monthly insurance premium was increased by 15% on 1 September 2008.
7. An account for advertising for R5 520 has been received. This is for an advertising campaign for the period 1 February 2009 to 30 April 2009.
8. An employee was left out of the Salaries Journal for February 2009. The details are as follows:

Gross salary p.a	R150 000
PAYE deduction	36%
Pension fund deduction	8%
Medical aid deduction	640

The business contributes R1,50 to the pension fund for every R1 paid in by the employee. The business also contributes to the medical aid an amount equal to the amount deducted from the employee's salary.
9. Depreciation is written off on equipment at 15% per annum on the diminished balance.
10. Depreciation must be written off on vehicles at 25% on the cost price.
11. The tenant has paid rent for the period 1 March 2008 to 30 April 2009.
12. Provide for the outstanding interest on loan.
13. An amount of R20 000 was transferred to fixed deposit during the year. No entries were made for the transfer. However, the interest amount of R974 was received and recorded.
14. The income tax is calculated at 25% of net income.

15. It was decided that the total dividend per share will be 15c. Provide for the outstanding dividends.

REQUIRED:

- 3.1 Prepare the **Income Statement** of Funky Stores Ltd for the year ended 28 February 2009. (59)
- 3.2 **Prepare the following notes to the financial statements on 28 February 2009:**
- 3.2.1 Stock/Inventory (3)
- 3.2.2 Trade and other receivables/Debtors (8)
- 3.2.3 Trade and other payables/Creditors (20)
- 3.2.4 Retained income/Accumulated profits (11)
- 3.2.5 Share capital (2)

NOTE: The final balance for SARS (income tax) must be shown as a note to the financial statements as either part of Trade and other receivables or Trade and other payable.

QUESTION 4**INTERPRETATION AND REPORTING****(95 marks; 57 minutes)**

An extract from the Income Statement and the Post-closing trial balance of Fifa Stores Limited for the year ended February 20.8 and February 2009 are supplied. Fifa Stores Limited is registered with an authorised share capital of 2 000 000 shares of R1 each.

REQUIRED:

Answer the questions that follow.

Information:

Extract from the Income Statement for the years ended 28 February.

	2009	2008
Sales	1 289 600	1 248 480
Cost of sales	644 800	624 240
Depreciation: Vehicles	32 800	28 800
Interest on borrowed money	63 360	30 400
Net profit before tax	97 860	99 488
Net profit after tax	50 880	51 728

Extract from the Post-closing Trial Balance on 28 February.

	2009	2008
Ordinary share capital	316 000	216 000
Ordinary share premium	20 000	
Retained income	83 360	45 120
Long term loan	288 000	160 000
Equipment (carrying value)	265 920	193 280
Vehicles (carrying value)	131 360	183 360
Trading stock	40 640	43 520
Debtors control	250 400	118 300
Prepaid expenses	4 320	4 900
SARS (income tax) Dr	7 360	-
SARS (income tax) Cr	-	15 200
Bank	109 280	7 360
Creditors control	91 520	103 920
Income received in advance	8 160	6 880
Shareholders for dividends	2 240	3 600

ADDITIONAL INFORMATION:

1. Vehicles were sold during the year at carrying value but no vehicles were purchases. No equipment was sold during the year.
2. Interim dividend of R10 400 was paid and declared during the year.

QUESTIONS:

- 4.1 Who is responsible for the preparation of the cash flow statement? (2)
- 4.2 Calculate the proceeds on the disposal of the vehicle. (4)
- 4.3 Prepare the following notes to the Cash flow Statement for 2009.
 - 4.3.1 Cash generated from operations. (14)
 - 4.3.2 Taxation paid (4)
- 4.4 Among the items reflected as inflow of cash in the cash flow statement, list any TWO items other than the proceeds from sale of shares. (4)
- 4.5 Calculate:
 - 4.5.1 The number of shares issued during the year. (4)
 - 4.5.2 The price that the shareholders paid for these shares. (4)
 - 4.5.3 Give TWO possible reasons as to why a shareholder would consider selling his shares if the Johannesburg Stock Exchange price drops to R1,08. (4)
- 4.6 The directors are of the opinion that the liquidity position is satisfactory.
 - 4.6.1 Calculate the current ratio for 2009. (4)
 - 4.6.2 Calculate the acid-test ratio for 2009. (4)
 - 4.6.3 Comment briefly on the liquidity position. Do you agree with the directors' opinion? The following were calculated for the previous year.
Current ratio 0,7 : 1
Acid-test ratio 0,3 : 1 (11)

- 4.7 Calculate:
- 4.7.1 the earnings per share for 2009. (4)
 - 4.7.2 the dividends per share for 2009. (4)
- 4.8 Calculate:
- 4.8.1 Calculate the return on capital employed for 2009. (8)
 - 4.8.2 Assume the interest rate to be 30%. Will the shareholders agree with the directors' decision with regard to the long term loan? Substantiate your answer. (4)
 - 4.8.3 Give TWO possible reasons for the huge difference between the two indicators calculated in QUESTION 4.8.1 and QUESTION 4.8.2. (4)
- 4.9 Calculate:
- 4.9.1 the percentage mark-up for 2009. (2)
 - 4.9.2 the net profit as a % of turnover. (2)
- 4.10 At an Annual General Meeting what decision are taken with regards to the following:
- 4.10.1 Directors (2)
 - 4.10.2 Auditors (2)
 - 4.10.3 Dividends (2)
 - 4.10.4 Who has the major say in the above matters and why? (2)

QUESTION 5**BUDGETS****(31 marks; 19 minutes)**

Study the following extract from the cash budget of Pinky Traders, a supermarket situated in a busy shopping complex.

INFORMATIONEXTRACT FROM CASH BUDGET

	July		August	
	Budget	Actual	Budget	Actual
Sales	250 000	240 000	300 000	(A)
Purchases	75 000	80 000	(B)	70 000
Rent income	30 000	30 000	36 000	28 000
Salaries (6 employees)	30 000	30 000	(C)	(D)
Advertising	20 000	20 100	22 000	12 500
Repairs to vehicles	14 000	12 000	15 800	24 000
Drawings	30 600	18 000	20 000	5 800

Additional information

1. Actual sales for August were 15% below the budget.
2. Goods are sold for cash only.
3. 40% of all purchases are made on credit.
4. A mark-up of 100% is used for budgeting.
5.
 - 5.1 Employees get paid equally. In August an additional employee will join staff from the middle of the month.
 - 5.2 All employees will be given a 12% increase with effect from 1 August.
 - 5.3 Salaries were the only item in the budget that was well controlled.

Answer the following questions:

5. 5.1 Calculate the missing figures in the cash budget. The missing figures are indicated (A) – (D). (16)
- 5.2 Give TWO possible reasons for the sales decreasing in August from the information given in the table above. (4)
- 5.3 Give TWO possible reasons for the difference in advertising expenditure. (4)
- 5.4 Was Repairs well controlled? Give TWO possible reasons for your answer. (5)
- 5.5 Give TWO positives Drawings will have in the business. (2)

TOTAL: 300