

NORMAN HENSILWOOD HIGH SCHOOL EXAMINATIONS



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|------------------|-------------------|
| DATE | JUNE 2011 |
| GRADE | 11 |
| SUBJECT | ACCOUNTING |
| TIME | 3 HOURS |
| MARKS | 300 |
| EXAMINER | Y. MILLER |
| MODERATOR | L. VAN WYK |

D. [Signature]
Principal
23/5/2011

[Signature]
Moderator
24/5/11

INSTRUCTIONS:

1. You are provided with a question paper and an ANSWER BOOK.
2. This question paper comprises of SIX 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.

MARKS: 300
MINUTES: 180

| | |
|---|------------------------|
| QUESTION 1: 56 marks; 35 minutes | |
| The topic of the question is: | Bank Reconciliation |
| QUESTION 2: 60 marks; 40 minutes | |
| The topic of the question is: | Financial Statements |
| QUESTION 3: 50marks; 30 minutes | |
| The topic of the question is: | Partnerships- Analysis |
| QUESTION 4: 20 marks; 10 minutes | |
| The topic of the question is: | Partnership-Theory |
| QUESTION 5: 70 marks; 30 minutes | |
| The topic of the question is: | Clubs |
| QUESTION 6: 44 marks; 35 minutes | |
| The topic of the question is: | Asset Disposal |

| | | |
|-------------------|----------------------------|-------------------------------|
| QUESTION 1 | BANK RECONCILIATION | (56 Marks; 35 minutes) |
|-------------------|----------------------------|-------------------------------|

Umtata Traders received the monthly bank statement from Standard Bank on 30 June 2010.

INSTRUCTIONS:

- 1.1 Complete the Cash Receipts Journal and Cash Payments Journal for June 2010. (Only the Bank and Sundry columns are required. Total the Bank columns only.) [20]
- 1.2 Draw up the Bank account in the General Ledger on 30 June 2010. [7]
- 1.3 Draw up the Bank Reconciliation Statement as at 30 June 2010. [13]
- 1.4 Answer the questions which follow. [16]

INFORMATION:

1. Items that appeared in the bank reconciliation statement as at 31 May 2010:
- | | |
|---|-----------------|
| Favourable balance as per bank statement | R 600 |
| Outstanding cheques: No. 46 | 720 |
| No. 49 | 180 |
| Outstanding deposit | 1300 |
| Debit balance as per Bank account in the General Ledger | 1000 |

2. On 30 June 2010 the provisional totals from the cash journals were as follows:

| Cash Receipts Journal | Cash Payments Journal |
|-----------------------|-----------------------|
| R35 000 | R27 900 |

3. The following appeared in the Cash Journals for June 2010, but not in the bank statement for June 2010:
- Cheque no. 58 dates 23 June 2010 for R1 450
 - Cheque no. 64 dated 10 August 2010 for R3 190
 - A deposit for R4 740 made on 30 June 2010.
4. The following appeared in the bank statement for June but not in the Cash Journals for June 2010.
- A deposit of r 1300 on 1 June 2010
 - A stop order of R250 in favour of Ace Insurers for the owner's personal insurance.
 - A cheque for R670 received from debtor, C. Vaas, and deposited on 27 June 2010 and was returned by the bank marked "refer to drawer".
 - Interest on favourable bank balance R30.
 - The following charges made by the bank:
 - Service fess R70
 - Cash deposit fee R60
 - Cheque book R12

5. Additional information

- It was discovered that cheque no. 46 for R720 issued to a creditor C. Hinds in part payment of our account was lost in the post. This cheque must be cancelled. A replacement cheque no. 68 was issued on 30 June, but this has not yet been entered in the CPJ. This cheque is in the post.
- The bank statement closed off with a credit balance of R7 868 on 30 June 2010.

QUESTIONS:

- 1.4.1 Briefly explain why it is important to draw up a bank reconciliation statement each month. Supply 2 reasons. [4]
- 1.4.2 During June 2010 Umtata Traders sent a cheque to C. Hinds for stock purchased. C. Hinds claim that they never received the cheque and have asked for a new cheque to be sent to them. You have investigated this and have noticed that the cheque had been cashed and it appeared in the June bank statement.
- 1.4.2.1 Explain what you think could have happened to the cheque that was sent to C. Hinds. [2]
- 1.4.2.2 How will this problem affect Umtata Traders profits? [2]
- 1.4.2.3 What are the dangers of sending a cash cheque in the post? [4]
- 1.4.2.4 Give two ways that a business can go about reducing the possibility of being exposed to cheque fraud. [4]

TOTAL: [56]

QUESTION 2 PARTNERSHIPS – FINANCIAL STATEMENTS (60 Marks; 40 minutes)

The financial year of Gold-Finger Store (partners S. Gold and G. Finger), a general dealer in spying equipment, ends on 28 February 2010 annually.

REQUIRED:

- 2.1 Calculate the profit or loss on the disposal of the vehicle. (See additional information number 6.) [5]
- 2.2 Prepare the Income Statement for the year ended 28 February 2010. [44]
- 2.3 Prepare the note to the Balance Sheet in respect of the Current Account of Gold for 28 February 2010. (Finger has been done for you. A total column is not required). [11]

EXTRACT FROM PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2010

| Balance Sheet Account Section | Debit | Credit |
|--|-----------|-----------|
| Capital: S. Gold (28 February 2010) | | 375 000 |
| Capital: G. Finger (28 February 2010) | | 375 000 |
| Current Account: S. Gold (1 March 2009) | 12 600 | |
| Current Account: G. Finger (1 March 2009) | | 30 200 |
| Drawings: S. Gold | 25 100 | |
| Drawings: G. Finger | 2 000 | |
| Land and Buildings | 1 200 000 | |
| Mortgage bond | | 410 000 |
| Vehicles (2 identical vehicles at R130 000 each) | 260 000 | |
| Accumulated depreciation on vehicles – 1 March 2009 | | 156 000 |
| Equipment | 90 000 | |
| Accumulated depreciation on equipment – 1 March 2009 | | 30 100 |
| Trading Stock | 82 000 | |
| Debtors' control | 43 100 | |
| Provision for bad debts | | 2 155 |
| Fixed deposit | 45 200 | |
| Nominal Account Section | | |
| Sales | | 1 216 300 |
| Cost of Sales | 668 000 | |
| Debtors' Allowances | 14 300 | |
| Packing Materials | 2 900 | |
| Bad Debts | 4 000 | |
| Interest on Fixed deposit | | 4 000 |
| Rent income | | 51 000 |
| Salaries and Wages | 99 750 | |
| Insurance | 25 200 | |
| Sundry expenses | 75 600 | |

2574180

2649755

Additional Information:

1. The following stock was on hand according to a physical stocktaking on 28 February 2010:
 - Trading Stock R80 900
 - Packing Materials R 2 400
2. It was decided to write off J. Bond's debt of R350 as irrecoverable.
3. Adjust the provision for bad debts to 6% of outstanding debtors.
4. The insurance for March and April 2010 was paid in advance.
5. Depreciation on equipment amounts to R5 990 for the year.
6. Depreciate vehicles at 20% p.a. on cost price. Note that the business sold one of the two identical vehicles on 30 November 2009. The selling price of R40 000 has been incorrectly credited to sales.
7. One of the fixed deposits matured on 28 February 2010. An amount of R64 800 was received from the bank including interest of 8% p.a. for the financial year. The entire amount has been incorrectly credited to the Fixed deposit Account. This must be corrected.
8. The mortgage bond statements for the year reflect the following:
 - Balance of bond beginning of year R490 000
 - Balance of bond at end of year R410 000
 - Monthly repayments (12 x R11 920) R143 040
 - Interest for the year has not been recorded in the books.
9. The tenant has paid rent for only 10 months.
10. The partnership agreement makes provision for the following:
 - 10.1 Partners are entitled to interest on capital at 7% p.a. Gold increased his capital by R25 000 on 1 September 2009. This has been properly recorded.
 - 10.2 The partners receive the following monthly salaries respectively:
 - S. Gold, R10 400
 - G. Finger, R12 000
 - 10.3 The remaining profits are shared between Gold and Finger in the ratio 3:2 respectively.

875

25375

51625

QUESTION 3**PARTNERSHIPS – ANALYSIS****(50 Marks; 30 minutes)**

You are provided with information relating to Imphala Electronics. The business is owned by two partners, Ian Impey and Peter Phala.

Required:

Study the information and answer the questions which follow. In support of your answers you must quote figures and/or the actual financial indicators (ratios/percentages) where appropriate.

Information:

The following information was extracted from the ledger on 28 February 2010.

Capital: Phala

| | | | | | | | | | |
|--|--|--|--|--|-------------|----|---------|-----|------------------|
| | | | | | 2010 Mar | 1 | Balance | b/d | 900 000 |
| | | | | | Aug | 31 | Bank | | 800 000 |
| | | | | | | | | | <u>1 700 000</u> |

Current account: Phala

| | | | | | | | | | |
|-------------|----|-----------------|-----|----------------|-------------|----|--------------------------|-----|----------------|
| 2010 Feb | 28 | Drawings: Phala | | 77 000 | 2010 Mar | 1 | Balance | b/d | 40 000 |
| | | Balance | c/d | 90 000 | | 28 | Salary: Phala | | 70 000 |
| | | | | | | | Interest on capital | | 48 000 |
| | | | | | | | Appropriation account | | 9 000 |
| | | | | <u>167 000</u> | | | | | <u>167 000</u> |
| | | | | | Mar | 1 | Balance | b/d | 90 000 |

The following figures were extracted from the Balance sheet on 28 February 2010

| | 2010 | 2009 |
|-------------------------------------|------------------|------------------|
| Fixed assets | 3 052 000 | 2 270 000 |
| Investments | 150 000 | 180 000 |
| Current assets | 850 000 | 720 000 |
| Total assets | 4 052 000 | 3 170 000 |
| Owner's equity | 2 732 000 | 2 330 000 |
| Non-current liabilities (14% p.a) | 1 000 000 | 600 000 |
| Current liabilities | 320 000 | 240 000 |
| Total equity and liabilities | 4 052 000 | 3 170 000 |

Amounts obtained from the financial statements:

| | 2010 | 2009 |
|-------------------------|-----------|-----------|
| Sales (40% on credit) | 3 100 000 | 4 200 000 |
| Cost of sales | 1 820 000 | 2 640 000 |
| Operating profit | 365 800 | 600 600 |
| Net profit | 269 000 | 520 000 |
| Capital – Impey | 1 000 000 | 1 400 000 |
| Capital – Phala | 1 700 000 | 900 000 |
| Current account – Impey | (58 000) | (10 000) |
| Current account- Phala | 90 000 | 40 000 |
| Trading stock | 180 000 | 440 000 |
| Trade debtors | 410 000 | 230 000 |
| Trade creditors | 245 000 | 184 000 |

Financial indicators calculated from the financial statements:

| | 2010 | 2009 |
|------------------------------------|----------|---------|
| Operating profit as a % of sales | 11,8% | 14,3% |
| Net profit as a % of sales | 8,7% | 12,2% |
| Current ratio | 2,6:1 | 3,0:1 |
| Acid-test ratio | 2,1:1 | 1,2:1 |
| Stock turnover rate | 5,9 | 7,0 |
| Debtor's average collection period | ? | 54 days |
| Creditor's average payment period | 23 days | 25 days |
| Solvency ratio | 3,09:1 ? | 3,4:1 |
| Debt/equity ratio | ? | 0,26:1 |
| Return on total capital employed | 10,1% | 11,2% |
| % return on average equity | 12,9% | 17,1% |
| % returned earned by Impey | 14,7% | 16,6% |
| % return earned by Phala | ? | 17,3% |

Questions to be answered:

3.1 Solvency:

3.1.1 Calculate the ratio of total assets to total liabilities for 2010. [3]

3.1.2 Comment on this ratio. Is this business likely to experience a solvency problem? Briefly explain. [3]

3.2 Gearing and profitability:

3.2.1 Calculate the debt/equity ratio for 2010. [3]

3.2.2 Phala is not happy with the debt/equity ratio and feels that it is negatively affecting the performance of the business. State TWO points to support her opinion. [6]

3.3 Returns and equity:

3.3.1 Calculate Phala's percentage return on average equity. [5]

3.3.2 Phala is of the opinion that her return is unsatisfactory and that Impey is taking advantage of his senior position in the partnership. State THREE points to support Phala's opinion. [9]

3.4 Liquidity:

3.4.1 Calculate the debtors' average collection period for 2010. [5]

3.4.2 The customers are complaining that the business seldom stocks the models, or styles that they would like to buy. Which figures and financial indicators provide proof of this problem? Briefly explain. State TWO points. [4]

3.4.3 The partners disagree about the liquidity situation.

- Impey is not worried about the liquidity situation for the immediate future.
- Phala feels that there are danger signs for the long-term sustainability of the business as far as liquidity and cash flow are concerned.

State TWO points to support Impey's opinion and TWO points to support Phala's opinion. [12]

TOTAL: [50]

QUESTION 4**PARTNERSHIPS – THEORY****(20 Marks; 10 minutes)****REQUIRED:**

This question consists of 4 sub-questions. They must be answered after studying the information given below:

INFORMATION:

W. Weber started his business 5 years ago in Saltville, KZN. He owns a comprehensive computer business dealing in hardware, software and maintenance. Up until now, his has been the only computer business in town and the surrounding area. His turnover and net profit have increased by 20% p.a. over the first 4 years.

This year his turnover and profit increased by 30%. Currently his turnover is R5 000 000, while the net profit is R250 000. He is currently struggling to cope with the increase in business.

Two young computer graduated, R. Marais and W. Greyton, opened a similar business in Saltville in the last year. While the business has generated a small profit, both have been disappointed with their first year's results.

The three of them have entered into discussions concerning the possibility of forming a partnership.

QUESTIONS:

- 4.1 M. Weber questions whether it would be advantageous for him to enter into his partnership. Give him 4 good reasons as to why this could be beneficial for his business. [8]
- 4.2 W. Greyton feels that at best a partnership agreement with Long is only slightly beneficial. Give him a good reason to go into business with Weber. (Must be different from 4.1 above.) [2]
- 4.3 Marais feels that it is necessary to approach a lawyer to draw up a partnership agreement. Do you feel this is a good idea? Justify. [4]
- 4.4 Name 3 matters that should be included in this agreement if one is drawn up. [6]

TOTAL: [20]

QUESTION 5**CLUBS****(70 Marks; 30 minutes)**

5.1 The following information was extracted from the accounting records of Ermelo Swimming Club on 31 December 2010. Each member is required to pay an annual membership fees of R1 000.

A new club has started up in Middelburg (which is 90 minutes' driving time from Ermelo). A benefactor has donated R1 million to them for modern facilities. The Ermelo Swimming Club has been losing members to the Middelburg Club.

REQUIRED:

1. Prepare the Membership Fees Account [24]
2. From the information in the Membership Fees Account would the committee be satisfied with the collection of fees from the members? Give TWO reasons for your answer quoting figures. [7]
3. A group of members have made a formal complaint that the membership fees of R1 000 per year are too high. This dissatisfied group has also stated: "The club is supposed to be a non-profit organisation, but it obviously is not." From studying the information given:
 - Do you agree with the members' complaints and concerns? Explain briefly. [3]
 - If you were the chairman of the club how would you handle the complaints of group of members? Provide TWO strategies. [4]
 - Provide TWO main points that the chairman should mention to the members of the committee in response to this complaint. [4]

INFORMATION:

The following balances appeared on 31 December 2009:

| | |
|--|----------|
| Accumulated fund | R250 000 |
| Investment (Fixed deposit at Ermelo Bank) | R210 000 |
| Swimming Pool (built in 1980) | R150 000 |
| Club house (built in 1980) | R 10 000 |
| Accrued income (membership fees) | R 13 000 |
| Income received in advance (membership fees) | R 7 000 |

Extract from the Statement of Receipts and Payments:

RECEIPTS

| | | |
|--------------------------|---------|----------|
| Membership fees received | | R103 000 |
| • 2009 | R 4 000 | |
| • 2010 | R91 000 | |
| • 2011 | R 8 000 | |

PAYMENTS

| | |
|--------------------------|----------|
| Membership fees refunded | R 2 000 |
| Pool maintenance | R 60 000 |
| Repairs to clubhouse | R 20 000 |

Additional information:**Membership fees:**

- On 31 December 2009 there were 110 members registered to the club.
- During 2010 another 14 members joined the club.
- Certain members who had paid their membership fees in advance in 2009 went overseas. Their fees were refunded in full and their membership was terminated.
- Those members who had not yet paid their 2009 fees were expelled from the club and their fees written off with effect from 1 January 2010. *gooo*
- 7 members had not yet paid their fees for 2010.

Surplus for the year ended 31 December 2010:

The Income and Expenditure Statement reflected a surplus of R86 000 after all adjustments were taken into consideration.

5.2 Answer the following questions in the answer book provided:

- 5.2.1 What is the purpose of a club? [3]
- 5.2.2 What is a club's main source of income [2]
- 5.2.3 Name 2 other methods that clubs can use to obtain income. [4]
- 5.2.4 Supply a brief definition for each of the following terms:
- | | | |
|--------------------------|-----|-----|
| 5.2.4.1 Affiliation fees | [3] | |
| 5.2.4.2 Honorarium | [3] | |
| 5.2.4.3 Entrance fees | [3] | [9] |
- 5.2.5 Name 4 office bearers in a club, who will be responsible for the administration of the club and briefly explain the role of each. [8]
- 5.2.6 Why can we not use the terms "profit " and "loss" in the financial statements of a club? [2]

TOTAL: [70]

QUESTION 6**ASSET DISPOSAL****(44 Marks; 35 minutes)**

- 6.1 Match the words with the definitions. Choose the definition from column B that would best suit the term in Column A. Write down only the correct letter next to the appropriate number in the answer book provided: [20]

| COLUMN A | | COLUMN B | |
|----------|----------------|----------|--|
| 6.1.1 | Asset | A | The decrease in value of an asset because of normal wear and tear |
| 6.1.2 | Accumulated | B | When an old asset is sold to the dealer from whom a new asset is simultaneously being bought |
| 6.1.3 | Book value | C | Getting smaller |
| 6.1.4 | Cost | D | Can touch it |
| 6.1.5 | Depreciation | E | Will not change in the next 12 months |
| 6.1.6 | Carrying value | F | What something is worth according to the ledger |
| 6.1.7 | Diminishing | G | The original amount paid for the item |
| 6.1.8 | Trade in | H | Getting bigger |
| 6.1.9 | Non-current | I | The amount "carried" forward to the following year |
| 6.1.10 | tangible | J | Something the business owns and can sell for cash |

- 6.2 You are provided with information relating to Morris & Son Traders

REQUIRED:

- 6.2.1 Calculate the depreciation on vehicles for the year ended 28 February ²⁰¹¹~~2010~~. [12]
- 6.2.2 Prepare the Asset Disposal Account on 31 December 2010. [12]

INFORMATION:

- Depreciation on vehicles is calculated at 20% p.a on the cost price .
- The following balances appeared in the ledger on 1 March 2010:
 - Vehicles, at cost R880 000
 - Accumulated depreciation on vehicles, R250 000
3. Traded in a vehicle at Cape Town Motors on 31 December 2010. The trade-in value offered by Cape Town Motors was R32 000, while the cost of the new vehicle was R180 000.

Details of the old vehicle traded in were obtained from the Fixed Assets register:

FIXED ASSET REGISTER**Vehicle:** Toyota Corolla**Model:** 2007**Date bought:** 1 May 2007**Date sold:** 31 December 2010**Cost price:** R144 000**Depreciation written off:**

28 Feb. 2008 R24 000

28 Feb. 2009 R28 800

28 Feb. 2010 R28 800

R81 600

31 Dec. 2010 ?

TOTAL: [44]