

ACCOUNTING: PAPER I

Time: 2 hours

200 marks

INSTRUCTIONS TO CANDIDATES

1. This paper consists of 10 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. There is a **complete** Answer Book. There is a clearly marked page for each answer. **Use the blank facing page on the left for rough work.**
4. It is in your interest to write legibly and to present your work neatly.
5. You may not use red or green ink, but you may use a pencil.
6. The allocation of marks and approximate time to be taken for each question are as follows:

Question	LO	Topic	Marks	Time
1	LO1	Partnerships	19	11 Minutes
2	LO1	Partnerships: Ledger Accounts	27	16 Minutes
3	LO1	Financial Statements	59	35 Minutes
4	LO3	Depreciation	40	24 Minutes
5	LO2	Cash Budget	40	24 Minutes
6	LO1	Accounting Equation	15	9 Minutes
			200	120 Minutes

QUESTION 1 [LO 1]**Time: 11 Minutes****Marks: 19****Required:**

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

Information

M Long 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 surrounding area. His turnover and net profit has 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 currently is struggling cope with the increase in business.

Two young computer graduates R Reagan and W Clinton 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 result.

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

Questions

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

19 marks

QUESTION 2 [LO 1]**Time: 16 Minutes****Marks: 27****Required:**

The Current Account of Bush and the Appropriation Account, in the fullest possible detail, at the year end on 31st October 2007.

Extracted from Pre- Adjustment Trial Balance on 31 October 2007

Capital: Bush	400 000
Capital: Thatcher	200 000
Current: Bush (1.11.2006)	24 000 (Dr)
Current: Thatcher (1.11.2006)	16 000 (Cr)
Drawings: Bush	18 000
Drawings: Thatcher	120 000

The bookkeeper had calculated a **provisional net profit of R200 000**.

Additional information and adjustments:

1. In error, Bush's monthly salary allowance of R15 000 has been debited to the general Salaries and Wages account, instead of his Drawings account. This error has not yet been corrected. Bush has also withdrawn stock to the value of R18 000 for his own use. This has been correctly recorded.
2. Depreciation had been overstated by R50 000.
3. The terms of partnership agreement are as follows:
 - (a) Bush is entitled to a monthly salary of R15 000 while Thatcher earns a monthly salary of R20 000. Thatcher is still owed two month's salary.
 - (b) Each partner earns interest on capital at 15% p.a. Bush increased his capital contribution by R100 000 on 1st September 2007. This has been correctly recorded.
 - (c) Remaining profits or losses are split in the ratio of capital contribution as at the start of the financial year.

27 marks

QUESTION 3 [LO 1]**Time: 32 Minutes****Marks: 53****Required:**

1. Complete the notes provided for the Financial Statement of **Ashton Suppliers** for year ended 30th September 2007. [Part A]
[Note that bank is overdraft and therefore included in Accounts Payable note.]
2. Answer the questions that follow. [Part B]

Additional Information and adjustments

1. An employee complained that his monthly net salary was R3 600 short. Further investigation revealed that he was correct. The incorrect gross salary has been entered in the appropriate journal. His PAYE deduction is calculated at 20% of gross salary whilst the Pension deduction was understated by R400 and Medical Aid by R240. The business contributes on a rand for rand basis for both medical aid and pension.
2. The business needs to adjust for the following:
 - (a) M Friend is five months overdue and is charged interest of R65.
 - (b) D Lewis, a debtor, has a credit balance of R1 050. This must be transferred to his account in the creditors' ledger.
 - (c) The business has been informed that a debtor has been declared insolvent and his estate will only be paid 20 cents in rand. Ashton Suppliers will receive R300 during the coming financial year. The balance of his account must be written off.
3. A credit note was issued to R Pluke for R560. The stock was returned by her but as it was damaged it was immediately forwarded to the supplier with appropriate debit note. The business applied a percentage mark-up of 25% on cost on this sale. No entries have been made for either the credit or the debit note.
4. One months rent income of R3 200 is still outstanding at year-end.
5. Insurance includes an amount of R2 400 paid 1st July 2007 for the next 12 months.
6. The following accounts were still outstanding at the year-end: Rates and Taxes R750 and Telephone R1 450.
7. Commission Income of R8 650 has been earned; however, not yet received by the Ashton Suppliers.
8. The bank statement was received after the pre-adjustment trial balance was drawn up. This reflected the following:
 - (a) A direct deposit of R4 100 from D Keal. Further investigation revealed that D Keal, a debtor, had been written off in the previous financial year.
 - (b) A cheque from P Ferreira for R900 was returned marked R/D. This was in settlement of his debt of R940.
 - (c) A debit entry for interest of R250.
 - (d) Bank charges totaled to R490.

- (e) A direct payment of R4 500 to First National for both interest and loan repayment.
9. Post-dated cheques received came to R3 400. Those issued totaled R8 200.
10. An insurance claim for stock damaged due to flooding came to R15 000. This is still to be reflected. The value of stock destroyed was R22 000.
11. Provision for Bad Debts must be decreased by R3 200.
12. A pending court case could result in a possible fine of R45 000 if the case is lost. Whilst the outcome is uncertain, the firm's accountant feels that it should be provided for.
13. The annual stock-take revealed the following:
(a) Stock to the value of R5 400 was missing.
(b) Packing material on hand was R1 300.
14. In terms of the loan agreement, the business is required to repay R2 000 of the capital amount each month. The current balance on the loan account is R150 000. All interest on loan has been paid up to date and correctly recorded.

[53]

Part B

1. Adjustment 12 is an application of what accounting principle? Why do accountants apply this principle? (3)
2. The principle applied in Part B1 above may be in conflict with the Matching Principle. Explain how this can be. (3)

[6]

59 marks

QUESTION 4 [LO 3]

Time: 24 Minutes

Marks: 40

Required:

This question consists of two parts. Part A involves the Tangible asset note and Part B is a theory question

Part A

[35 Marks, 21 Minutes]

From the information that follows, draft the notes to the Balance Sheet, of **NATAL CARPETS** for the year ended/as at 28 February 2007.

NATAL CARPETS
PRE-ADJUSTMENT TRIAL BALANCE AS AT 28 FEBRUARY 2007

<u>Balance Sheet Account Section</u>				
Equipment	82 000			
Accumulated depreciation: Equipment (1/3/2006)			9 600	
Vehicles	102 000			
Accumulated Depreciation: Vehicles (1/3/2006)			50 400	

Adjustments and additional information

- NB! This adjustment needs to be read in conjunction with adjustments 2 and 3.** Both vehicles and equipment are depreciated as a percentage of the cost price.

Use information provided in adjustment 2 to calculate the rate at which vehicles are depreciated.

[If you are unable to calculate the rate with which to calculate the depreciation on vehicles, then use a rate of 25% on cost. This is not the correct rate.]

- NATAL CARPETS** has two identical vehicles originally bought on the same day. One of the vehicles was sold on 31 January 2007 for R16 000 on credit, and at a loss of R450. This entry has still to be processed.
- New equipment costing R50 000 had been purchased, and correctly entered on 1 December 2006. (Equipment is depreciated at a rate of 10% on cost).

[35]

Part B

[5 marks 3 minutes]

There is a thin line between what an asset is, and what an expense is.

Why do we **not** treat vehicles as an expense, and write the full purchase price off against revenue (income) in a single year? Give two reasons. Explain what the main difference is between assets and expenses.

[5]

40 marks

QUESTION 5 [LO 2]**Time: 24 Minutes****Marks: 40****Required:**

Complete the cash budget.

Information

The following information has been extracted from the various departmental budgets, of Chris Smith Enterprises, by the accountant. She has requested that you present the Cash Budget, for the next 2 months, to the owner.

1. Extracted from the Forecast Income Statement for June and July 2007.

	June	July
Sales (30% for cash)	100 000	120 000
Purchases (20% for cash)	50 000	90 000
Fee Income	5 000	6 000
Salaries and Wages	10 000	12 000
Rental of Premises	15 000	20 000
General Expenses	18 000	16 000
Depreciation	8 000	10 275
Loss on Disposal		5 000

2. Extracted from Balance Sheet as at 31st May 2007

Expenses Payable (Salaries and Wages)	1 500
Expenses Pre-Paid (Rental of Premises)	3 000
SARS – VAT (payable)	12 700
Creditors	32 000
Debtors	46 900

- The amount owing to SARS will be paid in July.
- Credit sales are collected as follows:
30% in month of the sale after a settlement discount of 5% is given
50% in month following the sale
15% in the second month
5% is written off as irrecoverable.
- Credit purchases are paid within 30 days of the date of purchase, to obtain a discount of 5%.
- A new vehicle is to be purchased in June for R192 000 for which a deposit of R10 000 is payable in the month of purchase. The balance of the purchase price is payable in 20 equal monthly installments starting from the 15th July. In the same month a motor vehicle with a book value of R12 000 will be sold for cash, at a loss of R5 000.

7. Interest is earned on an investment of R150 000 at 10% per year. The interest is receivable in cash each quarter. The last receipt received was in March of this year. The investment matures at the end of June and will not be re-invested.
8. An amount of R60 000 is to be paid in July to M-Net for advertisements that are to be broadcast in the months of August and September. They are valued at R40 000 and R20 000 respectively.
9. The business sublets part of its premises to a tenant. It receives 20% of the rent amount paid by business from this tenant.
10. C Smith withdraws R15 000 each month for his own use.

40 marks

QUESTION 6 [LO 1]**Time: 9 Minutes****Marks: 15****Required:**

Analyse the transactions listed below under the headings given in the answer book. An example has been done for you.

Additional Information

1. The business uses the periodic stock take method.
2. At all times the business has a favourable bank balance.

Transactions**Example:**

A debtor owing R500 cannot be traced. His account is written off.

1. At the year end, the business had R143 000 worth of stock on hand. During the year the business had donated R5 000 stock to the local children's home.
2. **After the annual stock take was done** the business refunded a customer her selling price of R500 by means of a cheque. The stock returned was valued at R300.
3. At year-end, R560 was still outstanding for delivery charges on merchandise delivered to the business. This must be provided for.
4. Stock to value of R2 450, was returned to a supplier, as it was unsatisfactory. **This took place before the annual stock take.**
5. Paid a creditor by means of a cheque; R4 000, in full settlement of their debt of R4 300.

15 marks
