

**QUESTION 1:****Bank Reconciliation Statement****(26 Marks; 10 Minutes)**

1.1 Are bank clients in this country justified in complaining about bank charges? Briefly explain in your own words. (4)

Yes / No ✓

Any valid opinion

Banks are earning a lot already as evidenced by sponsoring sports events, his salaries to the CEO's / they should not be charging high fees as they rely on clients' money to earn income on using these funds through loans to other persons ✓✓

1.2 If you were the manager of Safe Bank, how would you justify charging Bravo Traders fees of R3 120 in May? State THREE points. (6)

Any three valid points ✓✓ ✓✓ ✓✓

- Banks are entitled to make as much profit as possible for their shareholders.
- The high bank charges are being paid for efficiency
- Expenses incurred in collecting cash, processing entries, etc
- Banks provide a crucial service – fees depend on demand or supply
- The banks are owned by shareholders – they have a right to earn a good return.
- A large number of transactions involving bank have been executed by the business with a number of personnel from different sections of the bank being involved.
- A large number of cheques was issued by the business in comparison to previous months.

1.3 Briefly explain the purpose of a bank reconciliation statement. (3)

Bank Account = Bank Statement

Business must be aware of the cash position ✓✓✓

Show insight

1.4 Name one aspect that the bank would consider in granting you an overdraft facility. (2)

Credit History, etc ✓✓

**QUESTION 2:****Asset Disposal****( 15 Marks; 12Minutes)**

2.1.1 Explain why the depreciation for the current period is R39 999 and not R40 000 (3)

- An asset can only depreciate until the value of that asset is R1. ✓
- There was only R40 000 depreciation left and that's why the business wrote of R39 999 instead.
- The reason why businesses do that is so that fraud doesn't happen, because if they write off the whole amount there is no longer proof of that specific asset. ✓✓

2.1.2 Calculate the age of the vehicle (2)

200 000 / 40 000 = 5 years ✓✓

2.1.3 What are your recommendations with regard to this vehicle? (2)

- This vehicle can be replaced by a newer more reliable vehicle. ✓
- It doesn't help keeping an older vehicle, because the cost is less and you have to pay for maintenance, high fuel consumption, etc. ✓

2.1.4 The cost price of the premises in South Africa has increased over the last couple of years, but because of the current petrol price there might be a decline in this. Provide a reason for this. (2)

✓✓

2.1.5 The current market value of the premises is R750 000 yet the company reflects R500 000 in their Balance Sheet. What concept of GAAP is being applied here? (2)

The Historical Concept – The original cost price of land and buildings must always be entered in the Balance Sheet. ✓✓

2.1.6 How does IFRS and GAAP differ when fixed/tangible assets are entered and why. (4)

GAAP

All Assets are shown at Historical Cost price ✓✓

IFRS

All Assets are shown at Historical Cost price as well as the Re-evaluation Price ✓✓

**QUESTION 3:****Ratio Analysis****( 38 Marks; 30 Minutes)****Refer to transaction 1**

3.1.1.1 Name the GAAP principle that will be applied to adjust the rent income amount on 28 February 2012. (2)

Matching Concept ✓✓

3.1.1.2 Has rent been prepaid by the tenant or is it accrued on 28 February 2012? Calculate the amount that has been prepaid or that is accrued and indicate where in the financial statements this would be recorded. (7)

Prepaid ✓

$$6x \checkmark + 7(1.15x) \checkmark = 39\,340 \checkmark$$

$$14.05x = 39\,340$$

$$X = 2\,800 \checkmark$$

$$1.15x = 3\,220 \checkmark$$

Trade and Other Payables – Deferred Income ✓

3.1.1.3 Determine the amount that will appear in the Income statement for rent income. (2)

$$39\,340 - 3\,220 = 36\,120 \checkmark \checkmark$$

**3.1.2 Refer to Transaction 2**

3.1.2.1 Calculate the amount of the trading stock that will appear in the Balance Sheet on 28 February 2008. (2)

$$75\,400 - 600 = 74\,800 \checkmark \checkmark$$

3.1.2.2 Explain the difference between a credit and a debit note (2)

Credit Note – Gets issued when a debtor / customer returns goods to the business ✓

Debit Note – Gets issued when the business returns goods to a creditor / supplier ✓

3.1.2.3 Explain how you would deal with this return in the financial statements on 28 February 2012 (5)

Income Statement:

Operating Expenses – Handling Fees = R 60 ✓

Balance Sheet:

Inventories:

Trading Stock ( 75 400 – 600 ) = 74 800 ✓

Trade and Other Payables:

Trade Creditors ( 50 400 ✓ – 600 ✓ + 60 ✓ )

**3.1.3 Refer to Transaction 3**

3.1.3.1 Calculate the interest expense for the year (5)

$$70\,000 \times 9\% \times 8/12 = 4\,200 \checkmark\checkmark$$
$$70\,000 \times 7.5\% \times 4/12 = 1\,750 \checkmark\checkmark$$

**TOTAL** = **5 950**

3.1.3.2 Explain the effect this transaction will have on the financial statements of the business at the end of the financial year. (8)

Income Statement

$$\text{Interest Expense} = (4\,800 + 1\,150) = 5\,950 \checkmark$$

Balance Sheet

Trade and Other Payables

$$\text{Accrued Expense} \checkmark 1\,150 \quad \checkmark$$

Current Liabilities

$$\text{Current Portion of Loan} \checkmark 10\,000 \checkmark\checkmark$$

3.1.4.1 Has the business achieved its intended mark-up of 100%? Show a calculation to substantiate your answer. (3)

$$725\,000 \checkmark / 775\,000 \checkmark = 93.5\% \checkmark$$

3.1.4.2 Supply two reasons for the intended mark-up not being achieved. (2)

- Incorrect Bookkeeping  $\checkmark$
- Incorrect Marking of goods  $\checkmark$
- Mark-up changed by manager  $\checkmark$

**ANY ANSWER**

**QUESTION 4:****Value-Added Tax****( 14 Marks; 15 Minutes)**

4.1 Calculate the net profit for the last two months, while she was NOT registered for VAT. (4)

$$42\,000 \checkmark - 18\,240 \checkmark - 7\,928 \checkmark = 15\,832$$

4.2 Why would some invoices for operating expenses not include VAT that can be claimed back? (2)

Certain expenses such as petrol do not show VAT  $\checkmark\checkmark$  others such as entertainment expenses cannot be

claimed.  $\checkmark\checkmark$  Duty free products  $\checkmark\checkmark$  No VAT No. shown on invoice  $\checkmark\checkmark$  Supplier not registered for VAT  $\checkmark\checkmark$

Any one

4.3 If she were to charge her customers VAT, her inclusive selling price would increase by 14%.  
What problem might she experience if she adjusts her prices in this way? (2)

Some customers might find her prices too high / her goods would not be as competitive.  $\checkmark\checkmark$

4.4 Would you suggest she charge her customers more for the products when she registers for VAT, or should she absorb the cost herself? If you think she should increase her inclusive prices, by what percentage? Explain your answer. (4)

Charge more

- Absorbing cost herself will negatively affect her profits
- She can specify that prices are VAT inclusive and customers will hopefully understand the increase in price.
- Suggested increase in price.

Absorb cost herself

- Increased cost will drive away some of her customers
- Customers expect prices to be VAT inclusive and will not be willing to pay more.
- Customers are probably not dealers themselves and will not be able to claim VAT back, so will not be willing to pay more.

ANY ACCEPTABLE ANSWER

4.5 How do you think your decision above would have affected sales for the last two months? (2)

- Increase would decrease sales. Suggested figures should ideally be given. OR
- Absorbed cost of sales would have been the same.

**QUESTION 5:****Business Problem Solving****( 18 Marks; 25 Minutes)**

5.1.1 Provide ONE good reason why Mr Kitty should buy property. (2)

- Market Value might increase ✓, future profits ✓

2.1.4 In your opinion, which of the above financing options should Mr Kitty follow? ( Note: You may decide on a combination of different options or you may decide on only one option). (6)

- Utilising Fixed Deposit ✓ – save on interest from a loan ✓✓
- Loan ✓, business is doing well and can pay off loan easily ✓✓
- Putting more Capital into the business ✓, this is difficult if its not available ✓✓
- Increasing Overdraft ✓, not a good choice, because interest rates are too high ✓✓
- NEVER: Selling of Fixed Assets ✓✓✓

5.2.1 Draw up a checklist for the bookkeeper to follow to check whether the accounting and bookkeeping principles are adhered to. Provide three items. (3)

- All Source Documents are entered ✓✓
- All transactions appear in the right journals ✓✓
- All journals are correctly posted to the ledger accounts ✓✓
- All year-end adjustments took place ✓✓

ANY ANSWER

5.2.2 What support strategies can you as management suggest in order to assist the bookkeeper? Provide three strategies (3)

- Good internal control procedures ✓
- All information that a bookkeeper will be needing, source documents, etc ✓
- Provide information at the right time, so that source documents don't get lost ✓
- Better admin system ✓

A doctor in a poor rural area desperately needs to attend a training course on new AIDS medication which is offered only in Sweden. He cannot afford the trip. He is considering increasing his fees.

5.3.1 What appears to be the “right” course of action? (2)

- It's not ethical, he should inform the people about this, and organise a fundraising event for the cause. ✓✓

5.3.2 Is this course of action likely to get universal approval from all the stakeholders? Explain (2)

Yes, ✓ stakeholders will assist if in the benefit of the company. ✓