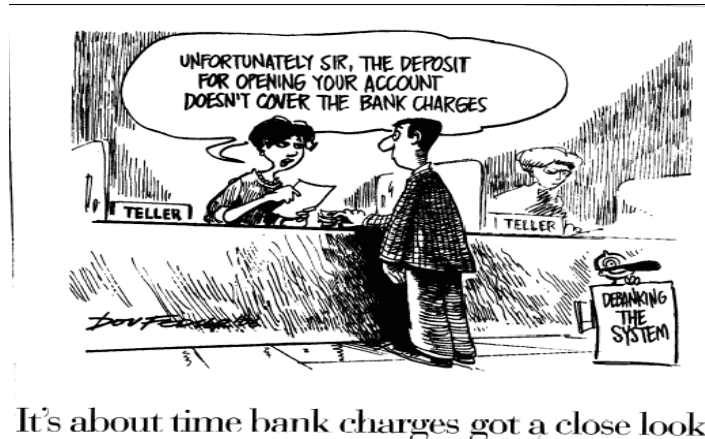


QUESTION 1:**Bank Reconciliation Statement****(15 Marks; 18 Minutes)**

Bravo Traders paid bank charges of R3 120 to Safe Bank in May 2011. The owner, Wayne Bravo, noticed the following cartoon in a newspaper that drew his attention to the problem of high bank charges in South Africa.



Wayne Bravo also noticed the following newspaper article. Three paragraphs have been extracted for you.

Consumers will benefit from an inquiry into bank charges

Business report: 21 April 2009, based on an article by Ethel Hazelhurst Johannesburg - Banking is a facility many people do not like paying for and banks are often criticised by their clients, so news that the competition commission will hold a public inquiry into bank charges will be welcomed.

Like any other business, banks are entitled to maximise profits and it may be that local banks perform better because they are more efficient than their international competitors.

The main victims are those who can't afford to bank. People who earn small, irregular amounts can't pay the fees levied on banking transactions. This excludes millions of people from participating in business activities.

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



- 1.3 Briefly explain the purpose of a bank reconciliation statement. (3)
- 1.4 Name one aspect that the bank would consider in granting you an overdraft facility. (2)

QUESTION 2:**Asset Disposal****(15 Marks; 17 Minutes)**

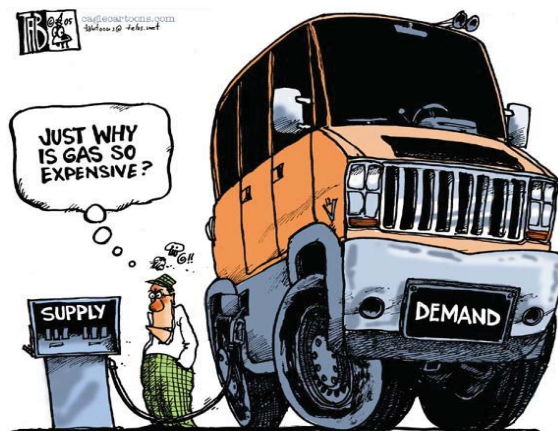
Refer to the Fixed/Tangible Asset Note and the cartoon below and answer the questions which follow.

INFORMATION:**Calcor Ltd****Note to the financial statements on 30 June 2011****Fixed/Tangible Asset Note**

Carrying Value at the beginning of the year	40 000
Cost	200 000
Accumulated depreciation	(160 000)
Movements	(39 999)
Additions at cost	-
Disposals at carrying value	-
Depreciation for the year	(39 999)
Carrying value at the end of the year	1
Cost	200 000
Accumulated depreciation	(199 999)

ADDITIONAL INFORMATION:

- The company has only one vehicle which was purchased on the day they started the business
- Depreciation is calculated at 20% p.a on cost price

**REQUIRED:**

- 2.1.1 Explain why the depreciation for the current period is R39 999 and not R40 000 (3)
- 2.1.2 Calculate the age of the vehicle (2)
- 2.1.3 What are your recommendations with regard to this vehicle? (2)
- 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)
- 2.1.6 How does IFRS and GAAP differ when fixed/tangible assets are entered and why. (4)



The following information was extracted from the accounting records of Madonna Traders Ltd. The financial year on Madonna Traders ends annually on 28 February of each year.

REQUIRED:

Study the following four transactions then answer the questions that follow. Note the adjustments are independent of one another.

Information**Transaction 1**

According to the Pre-adjustment trial balance on 28 February 2012, rent income amounted to R 39 340.

Adjustment

Part of a building has been let since 1 March 2011 to R.Snyman. The monthly rent was increased by 15% on the 1st of September 2008. One month rent was received in advance.

Transaction 2

According to the Pre-adjustment trial balance on 28 February trading stock amounted to R75 400, Debtors Control R 40 500 and Creditors Control R 50 400

Adjustment

Received a credit note for goods returned, selling price, R800, cost price R600. According to the policy of the business on goods returned a 10% handling fee will be charged.

Transaction 3

According to the Pre-adjustment trial balance the only provision that was made for interest on loan was R 4 800

Adjustment

On 1 March 2012 the business borrowed R 70 000 at an interest rate of 9% p.a from ABSA. On 1 November 2011 the interest rate dropped by 1.5% p.a. They had to make a year-end adjustment for interest still owing. R 10 000 of the loan will be repaid on 1 July 2012.

3.1 Questions to be answered

3.1.1 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)
- 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)
- 3.1.1.4 Determine the amount that will appear in the Income statement for rent income. (2)

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 2011. (2)
- 3.1.2.2 Explain the difference between a credit and a debit note (2)
- 3.1.2.3 Explain how you would deal with this return in the financial statements on 28 February 2012 (5)

3.1.3 Refer to Transaction 3

- 3.1.3.1 Calculate the interest expense for the year (5)
- 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)

3.1.4

The following information was extracted from the accounting records of Smart Ltd for the financial years ended 28 February 2011.

REQUIRED:

Study the given information then answer the questions that follow.

INFORMATION:

28 February 2011	
Sales	R1 500 000
Gross profit	725 000
Profit mark-up	100%

QUESTIONS TO BE ANSWERED:

- 3.1.4.1 Has the business achieved its intended mark-up of 100%? Show a calculation to substantiate your answer. (3)
- 3.1.4.2 Supply two reasons for the intended mark-up not being achieved. (2)

QUESTION 4:**Value-Added Tax****(14 Marks; 20 Minutes)**

The owner of Glorious Gifts is expecting annual turnover for the next business year to be close to R300 000, and must therefore register in the near future. However, she is debating whether to wait until she has to register so as not to have to increase her prices for customers when charging VAT, or to register early to take advantage of the fact that she will be able to claim VAT back on payments made. She is also unsure if this would affect the amounts owed to her creditors, and how she would record her receipts and payments in order to calculate the amount owed to SARS. She has done little research and can give you the following information:

- VAT is calculated at 14%
- VAT payable to SARS is calculated by adding all the VAT charged to customers, and subtracting all the VAT paid by the business on goods and services.
- Debtors' invoices for the last two months totalled R42 000 (excluding VAT)
- Invoices received for trading stock totalled R18 240, including VAT of R2 240.
- Invoices received for operating expenses totalled R7 928, including VAT that can be claimed back of R728.
- Stock kept on hand is negligible, i.e. what is bought is sold during the same month.

REQUIRED:

- 4.1 Calculate the net profit for the last two months, while she was NOT registered for VAT. (4)
- 4.2 Why would some invoices for operating expenses not include VAT that can be claimed back? (2)
- 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)
- 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)
- 4.5 How do you think your decision above would have affected sales for the last two months? (2)



5.1. Consider the following information:

You are provided with information relating to In-Cell providers . Mr Kitty owns the business. The business has overdraft bank facilities of R 50 000.

- R 120 000 was invested in fixed deposits with Star Bank on 1 November 2008. Interest is received on a monthly basis at 15% p.a. Half of these fixed deposits matures on 31 December 2007. The rest matures in February 2009.
- Rent of R 9 000 is payable by Cell-In Providers at the start of each month. This will be increased by 5% with the effect from January 2009.
- The business has an overdraft of R 17 000 at the beginning of December 2008. Interest is calculated by the bank on the balances at the beginning of each month. Provide for interest at the following rates.

- ♥ Unfavourable balance: 2% per month
- ♥ Favourable balance: 1% per month

In order to take advantage of the increased demand for their product, In-Cell Providers has to secure larger premises. Mr Kitty, the owner has the option of buying shop premises for R 220 000. Although this means he will no longer pay rent, the business requires extra funds. This is a source of disagreement between Mr Kitty and Mr Bear his bookkeeper. The bookkeeper feels that Mr Kitty should provide additional capital, but Mr Kitty's wife is objecting to this as she feels they cannot afford to contribute more than R 40 000.

The various options to finance the property are:

- Mr Kitty providing additional capital
- Raising a mortgage loan
- Increasing the overdraft
- Utilising remaining investments
- Selling of fixed assets

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

5.1.2 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)



"Property ownership is so nineties! Gerald and I sold our house to a private consortia and are leasing back."

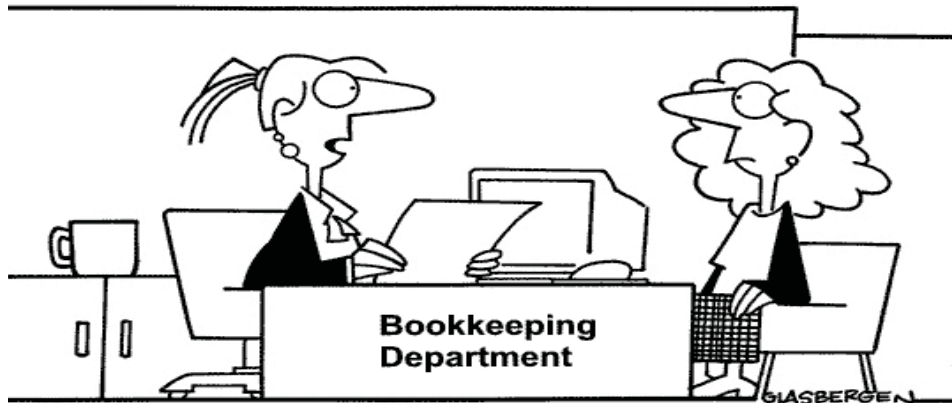
5.2 Consider the following information:

The bookkeeper of ABC General Dealers, cannot balance the trial balance each month. The totals are out by thousands of Rand.

REQUIRED:

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

Copyright © 2001 Randy Glasbergen. www.glasbergen.com



**“We’re only asking you to work 20 hours a week.
To get that much done, you’ll need to be
here 80 hours a week.”**

5.3 Consider the following information:

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



“Do a double-blind test. Give the new drug to rich patients and a placebo to the poor. No sense getting their hopes up. They couldn’t afford it even if it works.”