

TIME : 2 HOURS
MARKS : 100

PLEASE READ THESE INSTRUCTIONS CAREFULLY

Answer all questions in Blue, black or a dark pencil

Work neatly and stick to allotted times.

Answer questions on the answer sheet in the spaces provided.

Show all Calculations to attain part marks.

Non-programmable calculators may be used.

Good Luck.

Question	Topics and LO	Learning Outcomes	Marks
1	Reconciliations	LO 1 AS4	30 marks 30 min
2	Budgets	LO 2 AS 2 LO 3 AS 4	19 marks 25 min
3	Financial Analyzes	LO 1 AS 5	23 marks 30 min
4	Budgets	LO 2 AS 2	18 marks 23 min
5	Ethics and Control	LO 3 AS 4	10 marks 12 min
Total			100 marks 120 min



Question 1

You are provided with two examples of reconciliations done by employees in the accounting department of Soweto Stationers.

REQUIRED

Inspect the information provided, and then answer the questions that follow. (30)

INFORMATION

EXAMPLE A

Bank Reconciliation Statement on 28 February 2008	
	R
Balance per Bank Statement	8 000 Cr
Outstanding deposit	3 000
Outstanding cheques: No. 1040 dated 13 August 2007	2 200
No. 1052 dated 18 February 2008	8 000
No. 1055 dated 29 February 2008	4 300
Balance per ledger account	?

EXAMPLE B

Ace Wholesalers	
Creditors Reconciliation Statement on 28 February 2008	
	R
Balance per creditors statement for February	5 000 Cr
Invoices not reflected on statement: No. 225	7 200
No. 287	3 100
Payments not reflected on statement: Dated 20 January 2008	6 000
Dated 29 February 2008	3 000
Returns not reflected on statement: Debit note 44	1 100
Balance as per ledger account	?

QUESTIONS

- 1.1 According to the Bank Statement, does this business have a favourable bank balance or a bank overdraft? (2)
- 1.2 Briefly explain why it is necessary to prepare a Bank Reconciliation Statement each month. Mention **TWO** main points (4)
- 1.3 If cheque 1040 does not appear on the Bank Statement in March, what action will have to be taken and why. (2)
- 1.4 Prepare the Bank Reconciliation Statement on 28 February 2008.**
- The bookkeeper did not take the following into account when he drew up the Bank Reconciliation Statement:
- The bank debited Soweto Stationers with a cheque drawn by Soweto Traders, R300.
 - A deposit of R600 is an error. This amount should have been deposited to Soweto Supplier's account.
- (9)
- 1.5 The internal auditor is concerned that the bookkeeper could be defrauding the business through control weaknesses in the creditors' system. List **TWO** of the internal control procedures that must be applied in a business to maintain control over creditors. (4)
- 1.6 The internal auditor is concerned because the outstanding deposit of R3 000 was also outstanding in the previous month's Bank Reconciliation Statement. Give **ONE** reason to justify his concern about the outstanding deposit. (1)
- 1.7 When preparing the financial statements of Soweto Stationers at the end of February 2008, what Bank balance would you reflect under **Cash and cash equivalents**? The balance per the Bank Statement or the bank balance per the ledger account? (1)
- 1.8 Calculate the correct amount owed to Ace Wholesalers by Soweto Stationers. (2)
- 1.9 At the end of the financial year, how should a business deal with outstanding post-dated cheques that it had issued during the year? (2)
- 1.10 Name **THREE** items that will appear on the Bank Statement at the end of the month but not in the Cash Journals. (3)

[30]

Question 2

Mr Gayiya appointed an accounting assistant to prepare a Cash Budget for the three months ended 31 May 2009. All the amounts in the budget are correct, but there are items included that do not belong in a Cash Budget.

REQUIRED

Study the following Cash Budget and answer the questions that follow.

Cash Budget of Mr Gayiya for the period 1 March to 31 May 2009			
	March	April	May
CASH RECEIPTS			
Cash sales	126 000	132 000	153 000
Cash from debtors	258 000	212 000	234 000
Rent income	12 000	14 400	14 400
TOTAL RECEIPTS	396 000	358 400	401 400
CASH PAYMENTS			
Cash purchases of trading stock	66 000	103 500	123 600
Bad debts	1 200	1 400	1 800
Payments to creditors	141 500	144 200	146 800
Salaries and wages	80 100	80 100	86 508
Sundry expenses (including fuel)	57 600	58 200	66 000
Discount allowed	400	460	500
Advertising	4 000	-	-
Interest on overdraft	-	-	2 000
Cost of sales	192 000	172 000	1 93 500
Repayment of loan		28 000	-
Directors' fees	12 000	12 000	12 000
Income tax	-	-	27 600
Depreciation	2 500	2 500	2 500
Interest on loan	6 600	6 600	3 300
TOTAL PAYMENTS	563 900	608 960	666 108
Cash surplus (deficit)	(167 900)	(250 560)	(264 708)
Bank opening balance	460 000	262 100	11 540
Bank closing balance	262 100	11 540	(253 168)

QUESTIONS

- 2.1 There are **FOUR** items in the Cash Budget that do not belong in a Cash Budget. List each of these items. (4)
- 2.2 In which month will the rent be increased? (1)
- 2.3 Calculate the percentage increase in rent for April 2009 (4)
- 2.4 The owner feels that the business should buy all its stock on credit. Do you agree with him? Give a reason for your answer (4)
- 2.5 Why do they only budget for interest on overdraft in May? (2)
- 2.6 If you were the owner of the business, how would you ensure that the different divisions of your business remain within the budget? Provide **TWO** suggestions (4)

[19]

Question 3

Ayanda Limited supplied you with the information below and asked you to analyse and interpret it for them. They required answers to the following questions:

- 3.1 Are you satisfied with the liquidity of the firm? Supply reasons for your answer by looking specifically at current and acid test ratios. (6)
- 3.2 Study the debtors' collection period and creditors' payment period and suggest **FOUR** options of how the firm can improve their liquidity. (4)
- 3.3 The firm needs money to extend operating activities, would you recommend that an additional loan be negotiated or that additional ordinary shares be issued? (5)
- 3.4 Do you think that shareholders are satisfied with the return on equity? (4)
- 3.5 Would shareholders be satisfied with the dividends per share? Explain. (4)

INFORMATION

	2008	2007
Current ratio	1,79:1	1,85:1
Acid test ratio	0,92:1	0,89:1
Debtors' collection period	40 days	45 days
Creditors' payments period	50 days	56 days
Debt / equity ratio	1,40:1	1:55:1
Return on shareholders' equity	30,3%	28,5%
Dividends per share	16c	18c

[23]

Question 4

The information given below relates to Jaxa Suppliers.

REQUIRED

Prepare the Debtors' Collection Schedule for the period 1 July 2008 to 30 September 2008. (18)

Note: You do **not** need to calculate the bad debts and outstanding debtors amounts, and do **not** add the columns.

INFORMATION

1. Actual sales (20% cash):

April 2008	May 2008	June 2008
200 000	240 000	320 000

2. Projected sales (20% cash):

July 2008	August 2008	September 2008
300 000	280 000	250 000

3. Normally, amounts owed by trade debtors are collected as follows:

- 20% during the month in which the transaction takes place, in which case the debtors receive 5% discount.
- 50% in the following month (after 30 days).
- 25% in the month thereafter (after 60 days).
- 5% is normally written off as irrecoverable after 90 days

[18]

Question 5

Study the following information and answer the questions that follow.

INFORMATION

You are the newly appointed internal auditor of Spaza Hardware Shop, and have prepared the following notes relating to receipts of cash on 7 June 2009.

- Peter Bothman, the office assistant, handed all incoming post to Yolande Samuels, the secretary of the accountant, who opened the mail and handed all the cheques to Marty Smith, the accountant.
- After Marty had completed the two-weekly entries in the Cash Receipts Journal, she completed a deposit slip and deposited the money.
- On a monthly basis, Marty booked the entries from the Cash Receipts Journal to the Debtors Journal and General Ledger. Every month she reconciled the individual debtor's account in the Debtors' Ledger with the Debtors' control account in the General Ledger, before she sent the monthly accounts to the debtors.
- Marty checked any debtors' enquiries and where necessary corrected them and made the journal entries.
- Every six months Marty investigates the debtors' age analyses to decide which debtors must be handed over to the lawyers for collection and which must be written off. She does the necessary entries in the accounting records.
- Receipts to the value of R1 900, dated 2 June 2009, were found in Marty's drawer. You could not locate these amounts in the accounting records or the Bank Statements of the business.
- On 4 June 2009 the business received R2 800 from a debtor. The following journal entry was made:

Dr. Provision for bad debts	2 800	
Cr. Debtors		2 800

- Cheques to the amount of R3 200 were received from debtors for the period 1 - 7 June 2009 but were not reflected in the accounting records.
- According to the debtors' age-analyses as at 31 May 2009, a debtor, M. Witteboom, owed R4 500. This was for purchases that were made in July 2008 and were never paid for. To date no payment has been received from the debtor. The management wrote off the amount as a bad debt.

QUESTIONS

- 5.1 Write a memorandum to the management and identify **5** weaknesses in the internal controls over receipts of cash. (Do **not** make any recommendations.) (5)

Example: There are insufficient procedures for money that was received by mail - for example, one person opens the mail.

- 5.2 The office assistant does not understand the difference between the Code of Ethics and the Code of Conduct. Explain to him the difference between the two and why it is important to have these in a business. (4)
- 5.3 What does the abbreviation SAICA stand for? (1)

[10]

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Good Luck.

Question	Topics and LO	Marks	Marks Achieved
1	Reconciliations	30 marks 30 min	
2	Budgets	19 marks 25 min	
3	Financial Analyzes	23 marks 30 min	
4	Budgets	18 marks 23 min	
5	Ethics and Control	10 marks 12 min	
Total		100 marks 120 min	



1.1	Does this business have a favourable bank balance or a bank overdraft?

	2
--	---

1.2	Why it is necessary to prepare a Bank Reconciliation Statement each month (Two main points)?

	4
--	---

1.3	If cheque 1040 does not appear on the bank statement in March, what action will have to be taken and why?

	2
--	---

1.4 Bank Reconciliation Statement of Soweto Stationers on 29 February 2008		
	Debit	Credit

	9
--	---

1.5	List TWO of the internal control procedures that must be applied in a business to maintain control over creditors.

	4
--	---

1.6	Give ONE reason to justify the internal auditor's concern about the outstanding deposit.

	1
--	----------

1.7	Bank balance to be reflected under <i>Cash and cash equivalents</i>?

	1
--	----------

1.8	Calculation: The correct amount owed to Ace Wholesalers by Soweto Stationers

	2
--	----------

1.9	How should a business deal with outstanding post-dated cheques that it had issued?

	2
--	----------

1.10	Name THREE items that will appear in the Bank Statement at the end of the month but not in the cash journals.

	3
--	---

	30
--	----

Question 2

2.1	List FOUR items in the Cash Budget that do not belong in a Cash Budget.

	4
--	---

2.2	In which month will the rent be increased?

	1
--	---

2.3	Calculate the percentage increase in rent for April 2009.

	4
--	---

2.4	Should all the stock be bought on credit? Give a reason for your answer.

	4
--	---

2.5	Why does Mr Gayiya budget for interest on overdraft only in May?

	2
--	---

2.6	How would you ensure that the different divisions of your business remain within the budget? Provide TWO suggestions.

	4
--	---

3.3	Consider a new loan or issue more shares?

	5
--	---

3.4	Are shareholders satisfied with return on equity?

	4
--	---

3.5	Are shareholders satisfied with the dividends per share?

	4
--	---

Question 4

Debtors' collection schedule for the period 1 July 2008 to 30 September 2008					
Month	Credit sales	Workings	July 2008	August 2008	September 2008
April					
May					
June					
July					
August					
September					

TIME : 2 HOURS
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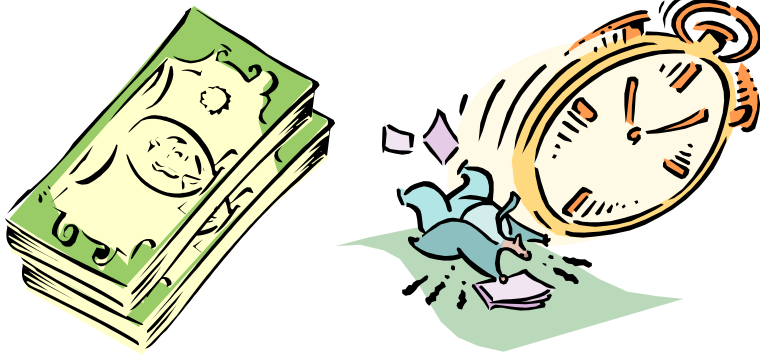
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Question	Topics and LO	Marks	Marks Achieved
1	Reconciliations	30 marks 30 min	
2	Budgets	19 marks 25 min	
3	Financial Interpretations	23 marks 30 min	
4	Budgets	18 marks 23 min	
5	Control and Ethics	10 marks 12 min	
Total		100 marks 120 min	



Question 1

1.1	Does this business have a favourable bank balance or a bank overdraft?
	Favourable bank balance ✓✓

2

1.2	Why it is necessary to prepare a Bank Reconciliation Statement each month (THREE main points)?
	<p>A business needs to reconcile its Bank account to the Bank Statement every month in order to:</p> <ul style="list-style-type: none">• Check for any errors (✓✓)• Check to see whether deposits have come through (✓✓)• Check if the cheques have been presented for payment (✓✓)• Record the bank charges and any interest (✓✓)• Keep control over cash so that we can see how much money is available and ensure that the business is not being defrauded (✓✓) <p><i>Any two acceptable answers: 2 marks each</i></p>

4

1.3	If cheque 1040 does not appear on the bank statement in March, what action will have to be taken and why?
	The cheque will be stale and will have to be cancelled in the Cash Receipts Journal (CRJ) ✓✓

2

1.4 Bank Reconciliation Statement of Soweto Stationers on 29 February 2008

	Debit	Credit
Credit balance per Bank Statement		✓ 8 000
Credit outstanding deposit		✓ 3 000
Debit outstanding cheques:	✓ 2 200	
	✓ 8 000	
	✓ 4 300	
Credit incorrect debit on Bank Statement		✓ 300
Debit incorrect credit on Bank Statement	✓ 600	
Debit balance as per Bank account		✓✓ 3 800
	15 100	15 100

9

1.5 List TWO of the internal control procedures that must be applied in a business to maintain control over creditors.

- Strict control over documentation (✓✓)
- Separation of duties (Creditors clerk and the person that writes up the General and Creditors' Ledger should be different employees) (✓✓)
- Rotation of duties (✓✓)
- Two signatures on each cheque issued (✓✓)
- Checking of stock received from creditors to invoices to merchandise taken into stock (✓✓)

Any two acceptable answers: 2 marks each

4

1.6	Give ONE reason to justify the internal auditor's concern about the outstanding deposit.
	<ul style="list-style-type: none"> • The deposit of R3 000 was never banked (the deposit was stolen or lost). (✓) • The bank did not credit the account of business with the R3 000 (error from the bank) (✓) <p style="text-align: right;"><i>Any acceptable answers: 2 marks</i></p>

1

1.7	Bank balance to be reflected under <i>Cash and cash equivalents</i>?
	The balance per ledger account ✓

1

1.8	Calculation: The correct amount owed to Ace Wholesalers by Soweto Stationers
	$(5\ 000 + 7\ 200 + 3\ 100) - (6\ 000 + 3\ 000) \checkmark - 1\ 100 \checkmark = R5\ 200$

2

1.9	How should a business deal with outstanding post-dated cheques that it had issued?
	A post-dated cheque at the end of the financial year is added to the bank balance and added to creditors' control (i.e. Dr Bank account and Cr Creditors' control account) ✓✓

2

1.10	Name THREE items that will appear in the Bank Statement at the end of the month but not in the cash journals.
	<ul style="list-style-type: none">• Interest charged on overdrawn balances (✓)• Interest paid on positive balances (✓)• Bank charges (✓)• Direct deposits into bank account (✓)• Stop orders and debit orders (✓)• Errors made by the bank (✓) <p style="text-align: right;"><i>Any three acceptable answers: 1 marks each</i></p>

3

30

Question 2

2.1	List FOUR items in the Cash Budget that do not belong in a Cash Budget.
	Discount allowed ✓
	Cost of sales ✓
	Depreciation ✓
	Bad debts ✓

4

2.2	In which month will the rent be increased?
	April 2009 ✓

1

2.3	Calculate the percentage increase in rent for April 2009.
	Increase = $(14\,400 - 12\,000) = R2\,400$ ✓✓
	Percentage increase = $(2\,400 / 12\,000) \times 100 = 20\%$ ✓✓

4

2.4	Should all the stock be bought on credit? Give a reason for your answer.
	No. (✓✓) Buying stock on credit could be more expensive as cash discounts cannot be negotiated. (✓✓)
	OR:
	Yes. (✓✓) If stock is purchased on credit money is available to increase turnover and this will increase the liquidity position of the business. (✓✓)

4

2.5	Why does Mr Gayiya budget for interest on overdraft only in May?
	As the bank is only expected to be overdrawn in May. ✓✓

2

2.6	How would you ensure that the different divisions of your business remain within the budget? Provide TWO suggestions.
	Base the current year's figures on previous year's figures and allow for inflation and changes. ✓✓
	Accurate budgeting is essential, and this is only possible with proper planning. ✓✓
	Any two reasonable suggestions e.g. Zero-based budgeting, etc.

4

Question 3

3.1	Are you satisfied with the liquidity of the firm?
	Current ratio:
	• Norm is 2:1 (✓)
	• Below the norm and thus unfavourable (✓)
	• Deteriorated since previous year (✓)
	• Will have difficulties settling short-term liabilities (✓) <i>Any three acceptable answers: 1 mark each</i>
	Acid test ratio:
	• Norm is 1:1 (✓)
	• Below norm and thus unfavourable (✓)
	• Deteriorated since previous year. (✓) <i>Any three acceptable answers: 1 mark each</i>

6

3.2	Options of firm to improve liquidity.
	• Collect within 30 days ✓✓
	• Charge interest on overdue accounts ✓✓
	• Extend the payment period to 90 days ✓✓
	• If discounts are given by creditors, pay promptly ✓✓
	<i>Any two acceptable answers: 2 marks each</i>

4

3.3	Consider a new loan or issue more shares?	
	• The firm has R1,40 foreign capital for each R1 own capital. ✓	
	• In addition to this, the liquidity of the company is unsatisfactory. ✓	
	• It will be unwise to negotiate an additional loan. ✓	
	• Banks will likely not grant further loans to the firm. ✓	
	• It would be better to issue additional ordinary shares. ✓	<i>Any 5 acceptable answers: 1 marks each</i>

5

3.4	Are shareholders satisfied with the return on equity?	
	• Yes ✓✓	
	• Not many investments yield a return of 30,3%. ✓✓	
	• The return increased since the previous year. ✓✓	<i>Any two acceptable answers: 2 marks each</i>

4

3.5	Are shareholders satisfied with the dividends per share?	
	• Shareholders would most probably be disappointed that dividend per share decreased ✓✓ from 18c to 16c.	
	• On the other hand, a bigger amount retained by firm may be applied positively. ✓✓	

4

Question 4

Debtors' collection schedule for the period 1 July 2008 to 30 September 2008					
Month	Credit sales	Workings	July 2008	August 2008	September 2008
April	✓ 160 000		-	-	-
May	✓ 192 000	(× 25%)	✓ 48 000	-	-
June	✓ 256 000	(× 50%) (× 25%)	✓ 128 000	✓ 64 000	-
July	✓ 240 000	(× 20% × 95%) (× 50%) (× 25%)	✓✓ 45 600	✓ 120 000	✓ 60 000
August	✓ 224 000	(× 20% × 95%) (× 50%)	-	✓✓ 42 560	✓ 112 000
September	✓ 200 000	(× 20% × 95%)	-	-	✓✓ 38 000

Question 5

5.1	Write a memorandum to the management setting out 5 weaknesses in the internal control over receipts of cash. (Do NOT make any recommendations.)
	They do not enter the incoming post in a post register. ✓
	There is insufficient segregation of duties because Marty performs the following functions: She:
	• receives payments from debtors and also banks them. ✓
	• does the above-mentioned and records payments received in the Cash Receipts Journal. ✓
	• does the above-mentioned and draws up the Bank Reconciliation Statement. ✓
	• does the above-mentioned and on a monthly basis makes entries to the Debtors Ledger. ✓
	• does the above-mentioned and does the Debtors Reconciliation and handles the payment as shown here. ✓
	• does the above-mentioned and handles debtors' enquiries. ✓
	• decides which debtors should be written off and does the necessary journal entries. ✓
	Depositing of money, cash receipts entries and postings to the Debtors Ledger are not done regularly. ✓
	No indication that the Bank Reconciliation or Debtors' Reconciliation that Marty drew up were checked by a senior person. ✓
	Marty decided on her own which debtors to write off and which had to be handed to the lawyers for collection. ✓
	The follow-up on debtors who did not pay and the writing off of the accounts are inadequate, because the money owed by M. Witteboom was not written off. ✓
	No indication that regular cash counts were performed by management, after which the money that was counted was reconciled with the accounting records. (Unallocated receipts were found in Marty's drawer.) ✓
	It seems that there was no separate Petty Cash system from where payments could take place. (Evidence of payments was found together with cash counted.) ✓
	<i>Any 5 acceptable answers: 1 marks each</i>



5.2	Explain the difference between a Code of Ethics and a Code of Conduct and why it is important to have them in a business?
	Code of Ethics:
	It gives employees guidelines about how they should make decisions and act, since it cannot dictate how employees should act in every instance. It emphasises relations between the business and the outside world. ✓✓
	Code of Conduct:
	It is a specific list of rules and regulations concerning the expected behaviour of employees, including items such as punctuality, dress code, behaviour towards customers and fellow staff, etc. It deals with matters internal to the business. ✓✓

4

5.3	What does the abbreviation SAICA stands for?
	The South African Institute of Chartered Accountants ✓

1