



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 11

**ACCOUNTING
NOVEMBER 2007**

MARKS: 300

TIME: 3 hours

This question paper consists of 18 pages and an answer book of 21 pages.

INSTRUCTIONS AND INFORMATION

1. You are provided with a question paper and an answer book.
2. This question paper consists of SEVEN compulsory questions. Answer ALL the questions.
3. Use the format provided to answer the questions.
4. Workings must be shown in order to achieve part-marks.
5. You must attempt to comply with the suggested time allocations.
6. Non-programmable calculators may be used.
7. You may use blue/black ink to answer the questions.

**GRADE 11
ACCOUNTING
NOVEMBER 2007**

QUESTION 1: 35 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Bank reconciliation	LO1 Financial information <ul style="list-style-type: none"> ▪ AS4 Bank reconciliation LO3 Managing resources <ul style="list-style-type: none"> ▪ AS5 Identify and analyse ethical behaviour

QUESTION 2: 40 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Cash budget	LO2 Managerial accounting <ul style="list-style-type: none"> ▪ AS3 Prepare cash budget LO3 Managing resources <ul style="list-style-type: none"> ▪ AS4 Identify and analyse ethical behaviour

QUESTION 3: 60 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Partnerships: Financial statements	LO1 Financial information <ul style="list-style-type: none"> ▪ AS5 Financial statements – partnerships LO3 Managing resources <ul style="list-style-type: none"> ▪ AS3 Asset disposal

QUESTION 4: 45 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Partnerships: Analysis and interpretation	LO1 Financial information <ul style="list-style-type: none"> ▪ AS5 Analysis and interpretation of financial statements of partnerships LO3 Managing resources <ul style="list-style-type: none"> ▪ AS5 Identify and analyse ethical behaviour

QUESTION 5: 45 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Manufacturing accounts	LO2 Managerial accounting <ul style="list-style-type: none"> ▪ AS2 Apply costing in manufacturing environment and record in ledger ▪ AS2 Unit costs and break-even LO3 Managing resources <ul style="list-style-type: none"> ▪ AS5 Identify and analyse ethical behaviour

QUESTION 6: 30 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Sports clubs	LO1 Financial information <ul style="list-style-type: none"> ▪ AS2 Selected ledger accounts LO3 Managing resources <ul style="list-style-type: none"> ▪ AS5 Identify and analyse ethical behaviour ▪ AS6 Internal audit/control processes

QUESTION 7: 45 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
VAT, periodic stock and internal audit	LO1 Financial information <ul style="list-style-type: none"> ▪ AS7 VAT calculations LO3 Managing resources <ul style="list-style-type: none"> ▪ AS4 Periodic inventory system ▪ AS6 Internal audit/control processes

QUESTION 1 **BANK RECONCILIATION** **(35 marks; 20 minutes)**

Bravo Traders sells goods for cash and accepts credit cards. On 31 May 2007 Bravo Traders compared the Bank Statement for May 2007 from Safe Bank with the Bank Reconciliation Statement on 30 April 2007 as well as with the Cash Receipts Journal and Cash Payments Journal for May 2007.

REQUIRED:

Study the information provided and answer the questions which follow.

INFORMATION:

The following information appeared in the Bank Reconciliation Statement of Bravo Traders on 30 April 2007:

Credit balance as per Bank Statement	R10 911
Outstanding deposit dated 29 April 2007	R1 500
Outstanding cheques:	
No. 597 dated 22 November 2006	R600
No. 686 dated 18 April 2007	R7 250
No. 721 dated 15 June 2007	R2 800
Debit balance as per bank account in the ledger	R1 761

The comparison of the Bank Statement for May 2007 with the Bank Reconciliation Statement and the Cash Receipts and Cash Payments Journals for May 2007, revealed the following differences:

- Item 1** The Bank Statement reflected an unfavourable balance of R1 550 on 31 May 2007.
- Item 2** The outstanding deposit of R1 500 appeared on the Bank Statement for May 2007.
- Item 3** Cheque No. 597 for R600 is stale. It had been issued to the Red Cross Hospital as a donation. Cheque No. 753 was issued on 31 May 2007 to replace the donation, but the donation was increased by R400. This cheque has not been entered in the books yet and is in the post.
- Item 4** Cheque No. 686 for R7 250 appeared on the Bank Statement, but not in the journals of May 2007.
- Item 5** Cheque No. 760 for R3 245 appeared in the Cash Payments Journal, but not on the Bank Statement.

- Item 6** The Bank Statement reflected a dishonoured cheque for R720. This had originally been received from R Rod in settlement of his debt of R750.
- Item 7** The Bank Statement reflected a monthly stop order representing the monthly repayment of R2 500 on a loan from Alfa Bank.
- Item 8** The Bank Statement received from Safe Bank reflected an amount of R3 120 in respect of bank charges.
- Item 9** The Bank Statement reflected interest on a fixed deposit of R1 340 which had been directly deposited into the current account of the business.
- Item 10** A deposit of R5 700 appeared in the CRJ on 31 May 2007, but not in the Bank Statement.

QUESTIONS:

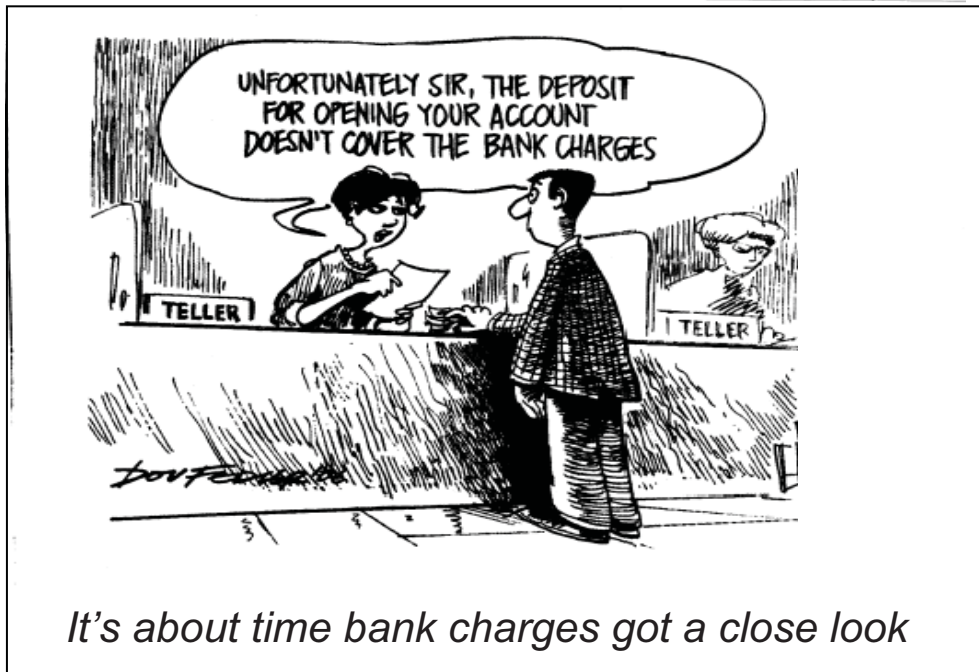
- 1.1 Consider the items listed above. Indicate by means of a cross (X) in the table provided in the answer book, whether these items will be entered in the:
- Cash Receipts Journal (CRJ)
 - Cash Payments Journal (CPJ)
- or indicate whether no entry will be made in the journals when reconciling the Cash Journals with the Bank Statement. Also provide the TWO missing amounts.

Item 1 has been done as an example for you. (12)

- 1.2 Prepare the Bank Reconciliation Statement on 31 May 2007. (14)

1.3 Bravo Traders paid bank charges of R3 120 to Safe Bank in May 2007.

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 2006, 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.

- 1.3.1 Are bank clients in this country justified in complaining about bank charges? Briefly explain in your own words. (3)
- 1.3.2 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)

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QUESTION 2**CASH BUDGET****(40 marks: 20 minutes)**

You are provided with information in respect of Bronx Dealers, a business owned by Brenda Bronx. The business buys and sells handbags at cost plus 80%.

REQUIRED:

Consider the information and answer the questions which follow.

INFORMATION:

1.

Figures extracted from the books:	Actual		Budgeted	
	Sept.	Oct.	Nov.	Dec.
Sales	81 000	68 400	73 800	64 800
Purchases	45 000	38 000		
Salaries (one manager)	9 500	9 500		
Wages (two shop assistants)	10 000	10 000		
2. All purchases are on credit and are paid 30 days after purchases have been made less 5% discount. Inventories are kept constant by replacing goods as they are sold.
3. 25% of all sales are for cash and 75% are on credit. It is expected that debtors will settle their accounts as follows:
 - 60% will settle in the month following the transaction month
 - 36% will settle in the second month following the transaction month
 - 4% will be written off
4. Operating costs amount to R66 000 annually and are paid in equal payments monthly.
5. A loan of R60 000 will be received on 30 November 2007. This will be repaid in equal monthly instalments over 4 years with effect from 31 December 2007. Interest of 11% p.a. is payable in October each year.
6. New equipment to the value of R55 000 will be purchased for cash during December 2007.
7. Water and electricity cost R2 000 per month and are expected to increase by R200 in December 2007.
8. Salaries and wages are reviewed on 30 November annually. The manager's salary will increase by 8% with effect from 1 December 2007. Due to the poor cash flow, Brenda feels that she cannot afford to give the shop assistants an increase as well.
9. The owner is planning an overseas trip in December and will therefore draw R30 000. This amounts to R10 000 more than her normal monthly drawings.
10. The Bank Account showed a favourable balance of R23 500 on 31 October 2007.

QUESTIONS:

- 2.1 Calculate the following:
- 2.1.1 Collections from debtors for December 2007
 - 2.1.2 Payments to creditors for December 2007 (10)
- 2.2 Complete the Cash Budget for the period 1 November to 31 December 2007. (21)
- 2.3 The shop assistants feel that they are being treated unfairly by not getting a wage increase. State TWO points from the above-mentioned information to support their opinion. (4)
- 2.4 You are a bank manager in charge of approving loans. Brenda Bronx presents you with the Cash Budget of her business. Would you grant her a loan for R100 000? State TWO points you will consider in making your decision. (5)

40

QUESTION 3 PARTNERSHIPS: FINANCIAL STATEMENTS
(60 marks; 40 minutes)

The financial year of Fly-Fish Store (partners S Fly and G Fish), a general dealer in fishing equipment, ends on 28 February 2007 annually.

REQUIRED:

Use the information below to answer the following questions:

- 3.1 Calculate the profit or loss on the disposal of the vehicle. (See Additional Information number 6.) (5)
- 3.2 Prepare the Income Statement for the year ended 28 February 2007. (44)
- 3.3 Prepare the note to the Balance Sheet in respect of the Current Account of Fly for 28 February 2007. (Fish has been done for you. A total column is not required.) (11)

S FLY AND G FISH TRADING AS FLY-FISH STORE
EXTRACT FROM PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2007

Balance Sheet Account Section	Debit	Credit
Capital: S Fly (28 February 2007)		375 000
Capital: G Fish (28 February 2007)		375 000
Current account: S Fly (1 March 2006)	12 600	
Current account: G Fish (1 March 2006)		30 200
Drawings: S Fly	25 100	
Drawings: G Fish	2 000	
Land and buildings	1 200 000	
Mortgage bond		410 000
Vehicles (two identical vehicles of R130 000 each)	260 000	
Accumulated depreciation on vehicles – 1 March 2006		156 000
Equipment	90 000	
Accumulated depreciation on equipment – 1 March 2006		30 100
Trading stock	82 000	
Debtors' control	43 100	
Provision for bad debts		2 155
Fixed deposits	45 200	
Nominal Accounts Section		
Sales		1 216 300
Cost of sales	668 000	
Debtors' allowances	14 300	
Packing materials	22 900	
Bad debts	4 000	
Interest on fixed deposit		4 000
Rent income		51 000
Salaries and wages	99 750	
Insurance	25 200	
Sundry expenses	?	

Additional information:

1. The following stock was on hand according to a physical stocktaking on 28 February 2007:
 - Trading stock R80 900
 - Packing materials R 2 400
2. It was decided to write off J Trout'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 2007 was paid in advance.
5. Depreciation on equipment amounts to R5 990 for the year.
6. Depreciate vehicles at 20% p.a. on the fixed instalment method. Note that the business sold one of the two identical vehicles on 30 November 2006. The selling price of R40 000 has been incorrectly credited to sales.
7. One of the fixed deposits matured on 28 February 2007. 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 reflected the following:
 - Balance of bond at 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 ten months. However, he has informed Fly-Fish Store that he has personally paid R12 000 for repairs to the roof. This amount is to be offset against his outstanding and future rental payments.
10. The operating profit on sales is 28%.
11. The partnership agreement makes provision for the following:
 - 11.1 Partners are entitled to interest on capital at 7% p.a.
S Fly increased his capital by R25 000 on 1 September 2006.
This has been properly recorded.
 - 11.2 The partners receive the following monthly salaries respectively:
 - S Fly, R10 400
 - G Fish, R12 000
 - 11.3 The remaining profits are shared between Fly and Fish in the ratio 3:2 respectively.

QUESTION 4 PARTNERSHIPS: ANALYSIS AND INTERPRETATION
(45 marks; 30 minutes)

You are provided with information obtained from the financial statements of NZ Traders. The business is owned by two partners, Nkosi and Zama.

REQUIRED:

Study the information and answer the questions that follow.

INFORMATION:

Extract from the Income Statement for the year ended 28 February 2007 with comparative figures:

	2007 R	2006 R
Sales	745 500	630 800
Cost of sales	426 000	380 000

Extract from the Appropriation Statement for the year ended 28 February 2007:

- Net profit for the year, R152 000
- Total amount earned by Nkosi, R103 000
- Total amount earned by Zama, R49 000

Extract from the Balance Sheet on 28 February 2007, with comparative figures:

	2007 R	2006 R
Fixed assets (carrying value)	381 790	336 950
Investments (9% p.a.)	140 000	30 000
Current assets	113 560	121 050
TOTAL ASSETS	635 350	488 000
Owners' equity	473 710	326 150
Capital: Nkosi	275 000	200 000
Capital: Zama	200 000	125 000
Current account: Nkosi	(dt) 24 690	(cr.) 2 350
Current account: Zama	(cr.) 23 400	(dt) 1 200
Non-current liabilities (13% p.a.)	94 840	114 000
Current liabilities	66 800	48 420
TOTAL EQUITY AND LIABILITIES	635 350	488 570

Financial indicators calculated on 28 February 2007, with comparative figures:

	2007	2006
Gross profit on cost of sales	75,0%	65,0%
Operating expenses on sales	21,0%	21,2%
Operating profit on sales	21,8%	19,5%
Net profit on sales	?	17,2%
Current capital ratio	?	2,5:1
Acid-test ratio	0,6:1	0,8:1
Stock-turnover rate	6 times	4,5 times
Debtor collection period	30 days	45 days
Creditors' payment period	60 days	60 days
Debt/Equity ratio	?	0,35:1
Total assets to total liabilities	3,9:1	3,0:1
Return on total capital employed	32,8%	30,5%
% return on average equity	38,0%	33,2%
% return earned by Nkosi	?	34,4%
% return earned by Zama	28,2%	33,0%

- 4.1 Calculate the following financial indicators for 2007:
- 4.1.1 Percentage net profit on sales (3)
- 4.1.2 Current ratio (3)
- 4.1.3 Debt/Equity ratio (3)
- 4.1.4 Percentage return earned by Nkosi on his average equity (4)
- 4.2 Use the acid-test ratio to calculate the amount of trading stock on hand on 28 February 2007. (4)
- 4.3 Should the partners be satisfied with the control of the operating expenses? Briefly explain your answer. Quote ratios, percentages or figures to support your answer. (3)
- 4.4 Comment on the liquidity position of the business on 28 February 2007. Quote ratios, percentages or figures to support your comment. State THREE points in your answer. (9)
- 4.5 Zama feels that Nkosi's drawings are unreasonable. Quote figures to support his opinion. How does this affect the business? (4)
- 4.6 Comment on the percentage returns earned by the business and the partners. Quote ratios, percentages or figures to support your answer. State THREE points in your answer. (9)
- 4.7 The business urgently needs a delivery vehicle, which is expected to cost R300 000. In your opinion, how should the business finance the cost of the vehicle? Give a reason for your answer. (3)

QUESTION 5 MANUFACTURING ACCOUNTS (45 marks; 30 minutes)

- 5.1 Roger Manufacturers produces a range of caps for sportsmen and spectators and sells it at a 50% mark-up on cost. The information given below was extracted from the accounting records on 28 February 2007, the end of the financial year.

REQUIRED:

Answer the questions that follow. Balance/Close off all accounts on 28 February 2007.

- 5.1.1 Calculate the amount for raw materials issued for production in 2007. (4)
- 5.1.2 Prepare the Finished Goods Stock ledger account. (6)
- 5.1.3 Prepare the Factory Overhead Cost ledger account. (11)
- 5.1.4 Prepare the Work-in-process Stock ledger account. (10)

INFORMATION:

Balances	1 Mar. 2006	28 Feb. 2007
Raw materials stock	R66 000	64 720
Work-in-process stock	46 820	?
Finished goods stock	34 000	18 000

Summary of transactions for the year ended 28 February 2007**Raw materials:**

Bought on credit	490 720
Issued for production	?

Wages:

Direct labour	124 180
Indirect labour	42 100

Salaries:

Factory manager	114 000
Office staff	81 200
Bad debts	4 800
Water and electricity	26 200
Rent expense	90 400
Indirect materials used in the factory during the year	22 770
Sundry factory expenses	26 310
Sales: Finished goods (cost of sales was R900 000)	1 350 000

Additional information:

- Wages of R1 200 are owed to the factory cleaner at the end of February.
- Raw materials are bought only on credit.

3. Expenses incurred in respect of water and electricity must be divided between the factory and administration sections in the ratio 3:1 respectively.
4. Rent expense must be divided between the factory and administration sections according to floor space.

Factory floor space	140 m ²
Office floor space	25 m ²
Sales department floor space	<u>35 m²</u>
Total floor space	<u>200 m²</u>

- 5.2 You are provided with the following information calculated for Carol's Candle Manufacturers at the end of her first year of operation, 31 December 2006. No stocks were on hand at the beginning or end of the financial period.

Carol produced and sold 2 000 candles during the year. The selling price is R25,60 per candle. Her costs for the year were as follows:

COSTS FOR 2 000 CANDLES PRODUCED		
	Total	Per unit
Variable costs	R27 000	R13,50
Raw material cost	10 400	5,20
Direct labour cost	?	6,80
Selling and distribution cost	?	1,50
Fixed costs	R13 000	?
Factory overhead cost	8 000	?
Administration cost	5 000	?
Total costs	R40 000	R20,00

REQUIRED:

- 5.2.1 Calculate the following:
- (a) The total rand amount for direct labour cost (2)
 - (b) Factory overhead cost per unit (2)
- 5.2.2 How many candles must Carol make in order to break even (in other words to earn no profit or loss)? (6)
- 5.2.3 KZN Suppliers have been supplying Carol with raw materials for the past ten years. Carol has been approached by a new supplier who promises a 25% saving in raw material costs. Discuss TWO factors that Carol should consider before deciding to change suppliers. (4)

QUESTION 6 **SPORTS CLUBS** **(30 marks; 20 minutes)**

You are provided with information relating to Energetic Tennis Club.

REQUIRED:

Study the information and answer the questions which follow.

INFORMATION:

The membership fees details of the club are as follows:

1. The annual membership fees for 2006 were R1 600. These were increased by R400 with effect from 1 January 2007.
2. Number of members in the club on 1 January 2007: 115.
3. Number of new members joining on 1 January 2007: 3.
4. Number of members who resigned on 30 June 2007: 5. (These members had paid in full and were refunded half their fees).
5. Four members whose fees were outstanding for 2006 settled their outstanding debts during 2007. The remaining outstanding members were dismissed and are to be written off with effect from 1 January 2007.

Membership Fees

2007 Jan.	1	(a)	28 800	2007 Jan.	1	Income received in advance	?
	31	(b)	8 000		31	(c)	172 200
		Bank	5 000			Income accrued	42 000
		Income and Expenditure	(e)			Membership fees written off	(d)
						Honorarium	4 000
			?				?

QUESTIONS:

- 6.1 Provide the missing details in the account represented by (a), (b) and (c). (6)
- 6.2 Provide an explanation for the entry of R4 000 on the credit side of the account. (2)
- 6.3 Calculate the following:
 - 6.3.1 The number of members who had not settled their 2006 fees in 2006
 - 6.3.2 The number of members who were removed from the club register in 2007 for not paying their outstanding fees
 - 6.3.3 The number of members in the club on 31 December 2007 (7)
- 6.4 Provide the missing figures in the account represented by (d) and (e). (7)

- 6.5 The club chairperson feels that there is a problem in collecting fees.
- 6.5.1 State TWO points to support his opinion, quoting appropriate figures.
- 6.5.2 Make TWO suggestions to solve the problem. (8)

30

QUESTION 7 VAT, PERIODIC STOCK AND INTERNAL AUDIT
(45 marks; 20 minutes)

Priority Supermarket uses a mark-up of $33\frac{1}{3}\%$ on cost price at all times. They use the perpetual inventory system on most of their product lines, but they use the periodic inventory system in the fruit and vegetables department.

- 7.1 The business buys shower gel from the manufacturer at R27,00 each.

REQUIRED:

- 7.1.1 Calculate the selling price of the shower gel, excluding VAT. (3)
- 7.1.2 Calculate the amount of VAT that the business has to charge on this item. (3)
- 7.1.3 Calculate the amount that will be reflected on the price tag for this article when it is displayed in the shop. (3)
- 7.2 The total sales according to the cash register till slips for the year amounted to R2 311 800. This includes zero-rated items sold for R905 610.

REQUIRED:

- 7.2.1 Give TWO examples of zero-rated items. (2)
- 7.2.2 Explain why items mentioned in QUESTION 7.2.1 are zero-rated. (2)
- 7.2.3 Calculate the total VAT that was included in the sales amount for the year. (6)
- 7.3 You are the internal auditor of Priority Supermarket.

REQUIRED:

- 7.3.1 Give a brief explanation of the nature of your job. (3)
- 7.3.2 Briefly explain TWO problems that could occur in a business regarding VAT. (4)

- 7.4 You are also alerted to a problem concerning the fruit and vegetables department. Unhappy customers who complained about the produce had to be refunded.

The managing director does not want to be bothered with such problems and is considering closing down this department.

As internal auditor you are of the opinion that no shop-lifting has occurred.

The following figures have been presented to you in respect of the fruit and vegetables department for the year:

Sales less refunds to customers	R797 000
Stock at the beginning of the year	R 14 000
Stock at the end of the year	R 8 000
Purchases	R624 000
Selling prices on price tags are marked up at 33 $\frac{1}{3}$ % on cost.	

REQUIRED:

- 7.4.1 Briefly explain ONE major difference between the perpetual and periodic inventory systems. (2)
- 7.4.2 Calculate the following for the fruit and vegetables department:
- (a) Cost of sales (4)
 - (b) Gross profit (or gross loss) earned by the department (3)
 - (c) The amount refunded to unhappy customers (5)
- 7.4.3 The managing director of the business has approached you for advice. In your opinion, should he close down this department? Discuss TWO points to support your opinion. (5)

45

TOTAL: 300