

## QUESTION 1

[25 marks; 20 minutes]

### Required:

1.10. Answer the following questions by circling the correct answer(s).

1.1.3. Which of the following expenses will not appear in the cash budget?

F. Bad Debts

G. Interest on loan

H. Wages

I. Depreciation

J. Electricity

(2)

1.1.4. Which of the following items will appear in the cash budget but not in the projected income statement?

F. Purchase of a vehicle

G. Payment of salaries

H. Repayment of a loan

I. Receipt of rent income

J. Depreciation

(2)

1.11. Explain how the projected income statement and cash budget can be used as tools for effective internal control in a business.

(2)

If constructed properly, they can be used to compare actual performance against expected performance to question differences. Also can ensure that the bank account doesn't exceed the overdraft facility. ✓✓

Using the information found on page 3 of the Information book, answer the following questions.

1.12. Calculate the budgeted closing bank balance for February.

(2)

$2520 + 108\ 800 - 147\ 000 = (35\ 680)$  ✓✓

1.13. Why do you think that payments to creditors were so high in January, in relation to February and March?

(1)

They were paying suppliers for stock sold in December (holiday season) ✓

1.14. Included in the R103 500, is a single unusual cheque payment for R35 000 to be made out in February 2007. If it cannot be the repayment of part of the loan, what could this payment likely be for?

(1)

For the purchase of a tangible asset (vehicles or equipment) ✓

1.15. Name two steps that you would you take to recover debts not collected within 60 days. (2)

- Send out urgent statements/make phone calls to the offending debtors ✓
- Charge interest/hand debts over to debt collectors ✓

1.16. If credit sales are 40% of total sales, what percentage of debtors is **expected** not to pay at all? N.B. Work on budgeted figures and **not** actual figures. (6)

$72\ 000 / 6 \times 4 = R48\ 000$  ✓✓ budgeted credit sales in January.  
 $48\ 000 - 24\ 000 - 14\ 400 - 8\ 640$  ✓✓ = R960 ✓ that will be written off.  
 $(960/48\ 000) \times 100 = 2\%$  ✓

1.17. Calculate the projected mark-up percentage that Illovo Stores intends applying over the budget period. (3)

Budgeted January sales:  $72000 + 48000 = 120\ 000$  ✓  
Budgeted January purchases:  $(12000 + 12000 + 6000) = 30\ 000$  ✓  
Mark-up = 300% ✓

1.18. Included in the other payments of R88 500 shown in March, is a loan repayment. If the anticipated interest payment for April is R1 200, calculate the amount of the loan that is to be repaid in March. (4)

$1500 \times 12 = 18\ 000 = 18\%$  therefore loan was R100 000 ✓  
 $1200 \times 12 = 14\ 400 = 18\%$  therefore loan was R80 000 ✓  
Loan repayment: R20 000. ✓✓

**QUESTION 2**

[60 marks; 36 minutes]

**Part A:**

**Required:**

Complete the Income statement for the year ended 28 February 2008.

(34)

	<b>2008</b>
Sales (700 000 – 4 500✓ – 3 200✓)	✓692 300
Less: cost of sales (580 000 – 1 800✓)	✓ (578 200)
Gross Profit	☑114 100
Other operating income	☑67 125
Rent Income (35 000 – 5 000✓)	✓30 000
Commission income (34 575 + 1 425✓)	✓36 000
Other incomes	1 000
Provision for bad debts adjustment	✓✓125
Gross Income	181 225
Less: operating expenses	☑ (195 950)
Trading inventory deficit (14 000✓ + 1 800✓ – 13 750✓)	✓2 050
Stationery (2 600 – 200✓)	✓2 400
Salaries & wages	96 000
Depreciation (20 000✓✓ + 7 500✓✓)	If calc.☑27 500
Sundry expenses	71 000
Operating profit	☑ (17 725)
Interest Income	✓✓180
Profit before interest expense	☑ (17 545)
Interest expense (45 375 + 3 150✓✓)	✓(48 525)
Net profit (loss) for the year	✓☑(66 070)

**Part B:**

**Required**

Use the information given below to prepare the **note to the financial statement for Current accounts** on 30 June 2008.

(26)

	<b>L Love</b>	<b>L Lock</b>
Balance at start of year	✓(7 700)	✓5 125
Profit share/as per income statement✓	✓90 000	✓77 000
Salaries	✓✓48 000	✓36 000
Bonus		✓☑6 000
Interest on Capital	✓30 000	✓25 000
Primary distribution✓	✓78 000	✓67 000
Final distribution✓	✓12 000	✓10 000
Less: Drawings✓	✓✓✓(60 000)	✓✓(47 500)
Balance at end of the year	☑22 300	☑34 625

**Question 3 (see Q – periodic inventory 7)**

**[40 marks; 22 minutes]**

**Required:**

6. Identify which inventory system each department is using. Give a reason for each answer. (4)

Department A: Perpetual – has cost of sales ✓✓
Department B: Periodic – Stock is purchased via the Purchases account rather than The inventory account. ✓✓

7. Draw up the Trading Account for each department. (21)

Trading Account (Department A)

Feb	27	Cost of sales ✓✓	GJ	593 000	Feb	28	Sales ✓✓✓	GJ	889 500
		Profit and loss ✓	GJ	296 500			(900000 – 10500)		
		☑		889 500					889 500

Trading Account (Department B)

Feb	27	Opening stock ✓	GJ	✓37 500	Feb	28	Sales (660'-7,3') ✓✓✓	GJ	652 700
		Purchases	GJ	441 000			Closing stock ✓	GJ	32 950
		(450'-9') ✓✓✓					✓✓✓✓		
		Carriage on purch ✓	GJ	✓2 650					
		Profit and loss ✓	GJ	☑204 500					
				685 650					685 650

8. Calculate the cost of Sales for Department B. (3)

$652\,700 \checkmark - 204\,500 \checkmark = 448\,200 \checkmark$
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9. Calculate the mark-up for the Business as a whole. (6)

$\text{GP/ Cost of sales} \times 100 = (296\,500 \checkmark + 204\,500 \checkmark) / (593\,000 \checkmark + 448\,200 \checkmark) \times 100$ $= 48\% \checkmark \checkmark$
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10. If the business marks all goods up by 50%, give 3 reasons as to why there is a difference between the actual mark-up (your calculation in 4) and the intended mark-up. (6)

- Theft of stock ✓✓
- Discounts given on cash sales ✓✓
- Allowances given without the return of stock ✓✓
- Any other acceptable answer

**QUESTION 4**

**[37 marks; 22 minutes]**

**Required:**

Use the information found on page 6 of your Information Book to show how the entries affect the bank account and Bank reconciliation statement of Super Sport Stores by complete the table provided on 31 May 2008: (37)

No	Details / Account name / Reason	Bank Account		Bank Reconciliation Statement	
		Debit	Credit	Debit	Credit
1	Opening balance ✓	700 ✓		5 888 ✓	
2	L Armstrong (Rd cheque) ✓		600 ✓		
3	Outstanding deposit ✓				6 520 ✓
4	V Matfield (direct deposit) ✓	1000 ✓✓			
5	Insurance ✓		1 440 ✓		
6	Correction of error on deposit ✓		720 ✓✓		
7	Bank charges ✓		80 ✓		
	Interest on overdraft ✓		60 ✓		
8	Correction of error by bank ✓			54 ✓✓	
9	Donations – cheque stopped ✓	640 ✓			
	Cheques not presented: #237 ✓			158 ✓	
	#249 ✓			1 420 ✓	
10	Correct error (#238) ✓		540 ✓✓		
11	Correct error on deposit ✓	100 ✓			
<b>TOTALS OF COLUMNS</b>		<b>2 440</b> ✓	<b>3 440</b> ✓	<b>7 520</b> ✓	<b>6 520</b> ✓

**QUESTION 5 (see Q - Internal Auditing 2)****[18 marks; 21 minutes]****Required:**

Use the information found on page 7 of the Information Book to answer the following questions:

**Questions**

1. Explain the difference between the internal auditor and the external auditor by completing the table in your answer book. (4)

Internal auditor	vs.	External auditor
Main function: Audit controls within the business making recommendations ✓✓		Main function: To report on the accuracy of the financial statements of a business – do they present a fair picture. ✓✓

2. Recommend 3 controls that could be implemented to improve control over Inventory. (6)

Three controls to be implemented to control Inventory
<ul style="list-style-type: none"> <li>Annual stock-takes ✓✓</li> <li>Segregation of duties – different people ordering and receiving stock ✓✓</li> <li>Authorisation prior to purchasing by a senior manager ✓✓ Any other acceptable answer</li> </ul>

3. What action(s) would you recommend be taken against the stock control manager if it can be proved that he was stealing from HHMS? (4)

Action against the Stock control manager
Disciplinary hearing, ✓✓ final letter of warning. ✓✓ For a repeat offender, dismissal – provided correct procedures for dismissal are followed ✓✓

4. List four steps (in order) that G Viljoen should take in order to acquire the computers by ethical means. (4)

Steps taken by G Viljoen to acquire the computers
5. Scrutinize the Asset register to ensure that all entries have been correctly recorded. ✓
6. Get written permission (authorisation) from the owner to take the computers. ✓
7. Take collection of the computers. ✓
8. Ensure that the financial records are updated in an appropriate manner. ✓