

## **QUESTION 1: (94 Marks, 56 Minutes)**

This question consists of three parts.

### **PART A**

The following information was found in the books of Lynnwood Auto on 29 February 2008, the last day of the financial year.

#### **Required:**

1. 1. Prepare the Income Statement for the year ended 29 February 2008. (47)
1. 2. Show the following notes to the balance sheet at 29 February 2008. (26)
  - Inventory
  - Trade and other receivables
  - Trade and other payables

#### **Pre-adjustment Trial Balance of Lynnwood Auto on 29 February 2008**

<b>Balance Sheet Accounts Section</b>	<b>Debit</b>	<b>Credit</b>
Capital: Hamilton		250 000
Capital: Beaumont		220 000
Current Account: Hamilton (1 March 2007)		5 400
Current Account: Beaumont (1 March 2007)	1 271	
Drawings: Hamilton	100 000	
Drawings: Beaumont	113 000	
Mortgage loan: FNB (11 % p.a.)		120 000
Land and Buildings	300 000	
Vehicles	150 000	
Accumulated Depreciation on Vehicles		45 000
Equipment	96 600	
Accumulated Depreciation on Equipment		30 000
Fixed Deposit: Standard Bank (6%)	20 000	
Trading Inventory	50 000	
Debtors Control	25 500	
Provision for bad debts		750
Bank		1 523
Creditors control		35 930
Pension Fund		960
SARS (PAYE)		1 200
<b>Nominal Accounts Section</b>		
Sales		768 000
Cost of Sales	500 000	
Salaries and wages	84 700	
Pension Contributions	6 776	
Debtors allowances	18 000	
Advertising	12 250	
Bad debts	770	
Discount received		467
Packing material	4 130	

Insurance	8 500	
Rent Income		39 000
Interest on Fixed Deposit		600
Interest on loan	12 100	
Stationery	6 800	
Sundry expenses	8 433	
	<b>1 518 830</b>	<b>1 518 830</b>

**Adjustments and additional information:**

1. No entry has been made of merchandise worth R400 being returned to the supplier. A Credit Note for the goods has been received from the Supplier.
2. A stock-take performed on the last day of the financial period revealed the following:
  - Trading Inventory: R48 500
  - Stationery: R 700
3. The following two (2) entries appeared on the Bank Statement for February 2008 but did not appear in any of the accounting records:
  - A direct deposit of R285 by a debtor, S Kidwell, in part-payment of his account.
  - Service fees of R230. (Include in sundry expenses)
4. Current Gross Salaries (excluding wages) amount to R6 000 per month. An increase of 10% had been negotiated from 1 February 2008 but the Bookkeeper omitted the increase. PAYE amounts to 20% of the Gross Salary and Pension contributions amount to 8% of Gross Salaries. Lynnwood Auto contributes on a rand for rand basis to the Pension Fund. There are no further deductions.
5. Rental Income amounts to R3 000 per month. The premises have been let since 1 March 2007.
6. Depreciation for the year is as follows:
  - Vehicles: R30 000.
  - Equipment: R6 660.
7. Account for the outstanding interest on the fixed deposit. The Fixed deposit was invested on 1 June 2007 at 6% per annum.
8. Insurance includes an annual premium of R1 500 paid on 1 September 2007.
9. Adjust the provision for bad debts to R1 120.
10. The February telephone account of R550 has been received but not yet paid. Telephone expenses form part of the Sundry Expenses.
11. The loan gets repaid in instalments of R20 000 on the 1<sup>st</sup> of March each year. Account for outstanding Interest.

## **PART B**

### ***Required:***

Answer the following three questions:

- 1.3.1. Adjustment 9 is an application of what accounting principle? Why do accountants apply this principle? (3)
- 1.3.2. Explain what is meant by the following statement:  
“For a partnership to be regarded a legal entity, it must be seen to benefit both partners.” (3)
- 1.3.3. What is the significance of Beaumont’s opening Current Account balance on 1 March 2007? (3)

## **PART C**

### ***Required:***

Answer the following three questions:

### **Information:**

Having taken adjustment 3 of PART A into account the Bank Statement reflected a favourable bank balance of R200.

- 1.4.1. Would a favourable bank balance be a debit or credit balance on the bank statement? (1)
- 1.4.2. How will the accounting records of Lynnwood Auto be affected, if a cheque drawn by Lynnwood Audio Sound for R500 had incorrectly been debited to the bank account of Lynnwood Auto by the bank?  
How would the bookkeeper adjust the Bank Reconciliation statement? (4)
- 1.4.3. Give two other examples of entries appearing on the Bank Reconciliation statement that could explain the difference between the Bank Statement balance and the balance of the bank account in the General Ledger. (4)
- 1.4.4. Explain briefly how a post-dated cheque received from a debtor should be dealt with. (3)

<b>Total marks</b>
<b>94</b>

**QUESTION 2: (26 Marks, 16 Minutes)**

Kidwell Book Store applies the Periodic Inventory system for recording stock. A mark-up of 25% on cost is maintained.

***Required:***

*Show how the following transactions would affect the General Ledger by entering each transaction into the table provided.*

**Note:** The bank account has remained in overdraft for the duration of the Accounting period in question.

E.g. Purchased stationery on credit for R 500 from Walton’s, and we received their Invoice:

Source document	Debited	Credited	Amount	A	O	L
Invoice	Stationery	Creditors Control	500		-	+

Transactions:

- 2. 1. A cheque was issued to Investec Bank for R21 000. This was the final instalment in repaying a Loan worth R20 000. The balance was for outstanding interest.
- 2. 2. Goods were purchased on credit from Penguin Publishers for R2 500, less a 5% trade discount.
- 2. 3. Unsatisfactory goods were returned to New Time Publishers, R400.
- 2. 4. Cash sales of books amounted to R7 000.
- 2. 5. Sent a cheque for R185 to DDIY transporters for transporting purchases from Penguin Publishers to Kidwell Book Store.

<b>Total marks</b>
<b>26</b>

### **QUESTION 3: (40 Marks, 24 Minutes)**

#### ***Required:***

*Complete the cash budget.*

#### **Information**

The following information has been extracted from the various budgets, of Mouton, Duffield and Co., by the accountant. She has requested that you present the Cash Budget, for the next 2 months, to the partners.

#### **1. Extracted from the Forecast Income Statement for September and October 2008.**

	<b>September</b>	<b>October</b>
Sales (25% for cash)	160 000	180 000
Purchases (30% for cash)	90 000	120 000
Fee Income	18 000	15 000
Salaries and Wages	30 000	33 000
Rental of Premises	18 000	18 000
General Expenses	19 000	20 000
Depreciation	8 000	10 275
Profit on Disposal		6 000

#### **2. Extracted from Balance Sheet as at 31st August 2008**

Expenses Payable (Telephone – part of general expenses)	950
Expenses Pre-Paid (Insurance – part of general expenses)	800
SARS – VAT (payable)	15 500
Trade Creditors	32 000

- The amount owing to SARS will be paid in July.
- Credit sales are collected as follows:
  - 20% in month of the sale after a settlement discount of 5% is given
  - 60% in month following the sale
  - 18% in the second month
  - 2% is written off as irrecoverable.
- Credit purchases are paid within 30 days of the date of purchase, to obtain a discount of 5%.
- A new vehicle is to be purchased on 1 October 2008 for R150 000 for which a deposit of R30 000 is payable on date of purchase. The balance of the purchase price is payable in 60 equal monthly installments starting from the 15th October 2008. In the same month a motor vehicle with a book value of R22 000 will be sold for cash, at a profit of R6 000.
- Interest is earned on an investment of R200 000 at 9% per year. The interest is receivable in cash each quarter. The last receipt received was in June of this year.
- An amount of R50 000 is to be paid in September to Multi-Choice for advertisements that are to be broadcast during the months of October and November. They are valued at R20 000 and R30 000 respectively.

9. The business sublets part of its premises to a tenant. It receives 20% of the rent amount paid by business from this tenant.
10. Each partner (A Mouton and B Duffield) withdrew R15 000 each month for their own use.

<b>Total marks</b>
<b>40</b>

**QUESTION 4: (40 Marks, 24 Minutes)**

This question consists of two parts that are completely independent of each other.

**PART A (27marks)**

The following information is extracted from the pre-adjustment trial balance of Detert Sports store:

**Required:**

- 4.1. *Complete the note to Tangible Assets.* (27)

**Information**

**Detert Sports Store**  
Post Adjustment Trial Balance on 30 June 2008.

<b>Nominal Accounts Section</b>	<b>Debit</b>	<b>Credit</b>
Vehicles	140 000	
Accumulated depreciation on Vehicles (01/07/2007)		50 400
Equipment	97 000	
Accumulated depreciation on Equipment (01/07/2007)		19 400

**Additional Information:**

- All equipment was purchased on 1 July 2005, the day on which the business commenced trading. Equipment is depreciated on Cost.
- Vehicles get depreciated at 20% per annum on the diminished balance.
- On 1 July 2005 Detert Sports Store had purchased 2 identical vehicles. On 1 January 2008 an employee of the business wrote off one of the vehicle in a 'New Years celebration' accident. The book value of the vehicle on 1 July 2007 was R 44 800. The insurance company paid out the book value of the vehicle (at the date of the accident) on 29 January 2008. A new vehicle was purchased on 1 February 2008 for R90 000 to replace the vehicle written off. No entry has been made for either the disposal of the old vehicle or the purchase of the new vehicle as the bookkeeper was unsure of how to process these transactions.

**PART B (13 marks)**

**Required:**

4.2. *Answer the following questions:*

4.2.1. You have been asked to perform an internal audit of the control of tangible assets. List **four** controls that you would implement to have better control of tangible assets. NOTE: You may assume that Detert Sports Store currently has no system in place to control these assets. (8)

4.2.2. The owner has approached you to comment on the rate and method of depreciation. Do you feel that the current system of depreciation is appropriate? Give two reasons to support your answer. (5)

<b>Total marks</b>
<b>40</b>

**Grand Total: 200 Marks**

THE END 😊!!!