



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATION – 2008

ACCOUNTING

HIGHER GRADE

MAY/JUNE 2008

MARKS: 400

TIME: 3 hours

This question paper consists of 22 pages and an answer book of 18 pages.

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INSTRUCTIONS AND INFORMATION

Read the instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL the calculations in order for part marks to be allocated.
4. Candidates will forfeit marks for the following:
 - 4.1 Important dates which are omitted
 - 4.2 Use of non-standardised abbreviations
 - 4.3 Over-writing of figures
 - 4.4 Superfluous entries/foreign items/errors of principle
5. Non-programmable calculators may be used.
6. NO pages may be removed from the answer book. The answer book caters for alternative formats of financial statements.
7. Use the information given in the table below as a guide when answering the question paper and try NOT to deviate from it.

QUESTION	TOPIC	MARKS	TIME GUIDE (MINUTES)
1	Periodic stock	60	25
2	Partnership	80	36
3	Club	75	36
4	Close corporation	43	18
5	Cash budget	65	30
6	Company	77	35
		400 marks	180 minutes

QUESTION 1

STOCK SYSTEMS

(60 marks; 25 minutes)

The financial year of Go-Go Traders ends on 31 August each year.

REQUIRED:

Study the information provided and answer the questions that follow.
For ALL calculations, show workings so that part marks can be awarded.

INFORMATION:

- Debtors of Go-Go Traders normally pay after 45 days.
Creditors are paid within 30 days.
- The following accounts appeared in the General Ledger:

GENERAL LEDGER OF GO-GO TRADERS

Dr					DEBTORS CONTROL					Cr				
2007 Aug.	1	Balance	b/d	65 000	2007 Aug.	31	Bank	CRJ	45 000					
	31	Sales	DJ	[A]			Discount allowed	CRJ	2 000					
		[B]	CPJ	200			[D]	DAJ	3 000					
		[C]	PCJ	50			Sundry accounts	GJ	8 400					
		Sundry accounts	GJ	450			Balance	c/d	?					
2007 Sept.	1	Balance	b/d											
Dr					SALES					Cr				
2007 Aug.	31	[E]	GJ	21 000	2007 Aug.	1	Total	b/f	580 000					
		Trading account	GJ	658 000		31	Bank	CRJ	[F]					
							[G]	DJ	67 000					
				679 000					?					
Dr					PURCHASES					Cr				
2007 Aug.	1	Total	b/f	365 000	2007 Aug.	31	Drawings: M Mark	GJ	2 600					
	31	[H]	CJ	[I]			Donation	GJ	3 000					
							[J]	GJ	409 400					
				?					415 000					

Dr		TRADING ACCOUNT					Cr			
2007 Aug.	31	Opening stock	GJ	153 000		2007 Aug.	31	Sales	GJ	[L]
		Purchases	GJ	409 400				Closing stock	GJ	175 000
		[K]	GJ	24 600						
		Profit and loss	GJ	[M]						
				?						?

QUESTIONS:

- 1.1 Go-Go Traders had the choice of using the periodic or the perpetual inventory system.
- In your opinion, which inventory system offers greater internal control over trading stock? Give a reason for your answer. (3)
 - Which inventory system does Go-Go Traders use? Give a reason for your answer. (3)
- 1.2 Refer to the details and figures in the accounts. Provide the missing details/figures labelled [A] to [M]. (26)
- 1.3 Calculate the cost of sales for the year ended 31 August 2007. (6)
- 1.4 Go-Go Traders mark their price tags at a mark-up of 75% on cost.
- 1.4.1 Calculate the actual mark-up % achieved for the year ended 31 August 2007. (4)
- 1.4.2 Give TWO possible reasons for the difference between mark-up achieved and the intended 75%. (4)
- 1.5 The accountant is concerned that Go-Go Traders have a poor cash-flow situation. He requires your opinion on the following:
- 1.5.1 **Credit sales:**
- According to the figures for August, does this business sell goods mainly for cash or on credit? Provide figures to support your answer. (3)
 - How will this affect their cash flow? Briefly explain. (3)
- 1.5.2 **Stock levels:**
- In your opinion, are the stock levels too high? Support your answer with an appropriate calculation or financial indicator. (5)
 - How will this affect their cash flow? Briefly explain. (3)

QUESTION 2

PARTNERSHIP

(80 marks; 36 minutes)

The following is an extract from the records of Jesmar Fashions. The partners are Jessica and Marlene.

REQUIRED:

The partners ascertained that various errors were made by the recently employed bookkeeper and consequently the **net income for the year is incorrect**.

Take into consideration all the errors that are listed below, as well as the adjustments that have not yet been processed in order to answer the following questions.

- 2.1 Calculate the correct net income after the errors and adjustments have been taken into account. (25)
- 2.2 Complete the following notes to the financial statements:
- 2.2.1 Fixed assets (Non-current assets/Tangible assets) (23)
- 2.2.2 Private accounts (19)
- 2.3 Jessica is concerned about her % return from the business. In 2006 she earned a return of 58% (including her partner's salary) and 9% (excluding her partner's salary).
- 2.3.1 Calculate the % return earned by Jessica on her average equity for the year ended 28 February 2007. (7)
- 2.3.2 In your opinion, should she be satisfied? Briefly explain, quoting appropriate figures. (6)

INFORMATION:

Extract: Balances in the General Ledger	28 Feb. 2007	28 Feb. 2006
Capital: Jessica	320 000	320 000
Capital: Marlene	320 000	360 000
Drawings: Jessica	147 000	?
Drawings: Marlene	159 900	?
Current account: Jessica	?	33 600 Dr
Current account: Marlene	?	18 450 Cr
Land and buildings	640 000	?
Vehicles	?	250 000
Equipment	138 500	108 500
Accumulated depreciation on vehicles	?	120 000 Cr
Accumulated depreciation on equipment	?	50 000 Cr
Bank overdraft	65 800	?
Mortgage loan: Best Bank	334 000	?

ADJUSTMENTS AND ADDITIONAL INFORMATION:

The bookkeeper has calculated the net income to be R427 270 but has not taken the following information into account:

1. Bank Statement entries:

The February Bank Statement was received after the bookkeeper had done the calculation of the net income. The following have not been taken into account:

- Interest on overdraft, R930
- Bank charges, R710
- Rent income, R5 000
- Dishonoured cheque, R1 500 (This cheque had originally been received from a debtor in settlement of his debt of R1 740.)

2. Mortgage loan from Best Bank:

The bond is repaid in equal instalments of R5 500 per month. The full amount of R5 500 per month has been debited to the mortgage loan account.

The Bank Statement from Best Bank summarises the following for the year ended 28 February 2007:

• Balance on 1 March 2006	R400 000
• Interest for the year	R ?
• Repayments (R5 500 x 12)	R 66 000
• Balance on 28 February 2007	R386 000

Make the appropriate adjustment for the interest capitalised to the loan for the year.

3. Provision for bad debts:

The bookkeeper has increased the provision for bad debts by R1 260 instead of decreasing it by R1 260. The necessary correction needs to be made.

4. Donation of stock:

Stock was donated to a local charity. The selling price of the stock is R1 440 and the profit mark-up is 50% on cost price. The bookkeeper journalised the entry as follows: debit Donations R1 440; credit Trading Stock R1 440.

5. Non-current assets:

5.1 An old delivery vehicle was sold on credit on 30 November 2006. No entry has been made. The buyer gave Jesmar Fashions a post-dated cheque dated 15 March 2007.

The information on this vehicle from the Fixed Asset Register was as follows:

• Original cost price	R120 000
• Accumulated depreciation on 28 Feb. 2006	R 78 000
• Pro-rata depreciation for the current financial year	R 18 000
• Accumulated depreciation on 30 Nov. 2006	R 96 000
• Selling price	R 35 000
• Profit/Loss on disposal of asset	R ?

- 5.2 New equipment was purchased on 31 August 2006. No equipment was sold.
- 5.3 Improvements were done to the buildings at a cost of R42 000. This has been debited to the Land and Buildings Account.
- 5.4 Depreciation for the year must still be provided for as follows:
- On Equipment at 10% p.a. on the diminishing balance method
 - On Vehicles at 20% p.a. on cost

6. Stipulations of the partnership agreement:

- 6.1 Each partner is entitled to interest on capital at 8% p.a. on the capital invested for the year. Marlene decreased her contribution on 31 August 2006.
- 6.2 Each partner receives a monthly salary. In this respect the following:
- Jessica has withdrawn her salary for 10 months.
 - Marlene has withdrawn her salary for the 2007 financial year.
- Apart from their salaries, the partners have made no other drawings.
- 6.3 Remaining profits and losses are shared between Jessica and Marlene in the ratio 4 : 1 respectively.

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QUESTION 3

CLUB

(75 marks; 36 minutes)

The following information was taken from the books of Be-Smart Sports Club. The annual membership fee is R700 per member per year. The accounting period ends on 31 August each year.

INSTRUCTION:

- 3.1 Complete the Membership Fees Account. Close off/Balance the account on 31 August 2007. (22)
- 3.2 The club chairman feels that the club has the following problems regarding the collection of membership fees and control over refreshments (fruit juice).
- 3.2.1 **Membership fees:**
- State TWO points to support the chairman's concern over the membership fees. Quote figures from the question to support your answer. Note that there are 600 members in the club. (4)
 - What advice would you offer the chairman? State TWO points that can assist the chairman. (4)
- 3.2.2 **Refreshments:**
- Refer to the incomplete Refreshments Account provided. Identify the number of bottles of fruit juice that appear to be missing. Show a calculation to support your answer. (5)
 - What advice would you offer the chairman? State TWO points that can assist the chairman. (4)
- 3.3 Prepare the Income and Expenditure Statement for the year ended 31 August 2007. (36)

INFORMATION:

BE-SMART SPORTS CLUB POST-CLOSING TRIAL BALANCE AT 31 AUGUST 2006		
	Debit	Credit
Accumulated fund		1 271 000
Land and buildings	800 000	
Equipment	600 000	
Accumulated depreciation on equipment		280 000
Fixed deposit: NFB (8%)	100 000	
Crockery	15 800	
Bank	20 800	
Savings account	3 000	
Expenses prepaid (Stationery R2 800; Wages R7 500)	10 300	
Stock of refreshments (200 bottles of fruit juice at a cost of R3 each)	600	
Income received in advance (Membership fees)		1 400
Accrued income (Membership fees)	4 900	
Accrued expenses (Honorarium to secretary)		3 000
	1 555 400	1 555 400

**STATEMENT OF RECEIPTS AND PAYMENTS FOR THE FINANCIAL YEAR
ENDING 31 AUGUST 2007**

RECEIPTS	532 590
Entrance fees	9 000
Membership fees: 2006	2 100
2007	365 400
2008	7 000
Proceeds of cycle race	26 800
Received from NFB: Fixed deposit matured on 31 May 2007	106 000
Refreshments sold (at R4,50 per bottle)	16 290
PAYMENTS	225 360
New crockery purchased	8 900
Cycle race meeting expenses	5 800
Payment to Star Builders	93 000
Increase in savings account	5 000
Stationery	3 400
Refunds of fees to members who have resigned	14 000
TNA Stationers	1 800
Telephone	12 460
Equipment purchased	30 000
Wages	36 000
Refreshments purchased (4 000 bottles of fruit juice)	12 000
Honorarium	3 000

Dr		Refreshments				Cr	
2006 Sept.	1	Stock on hand	600	2007 Aug.	31	Bank	16 290
2007 Aug.	31	Bank	12 000			Loss due to theft	?
		Income and expenditure	?			Stock on hand	1 500
			?				?

ADJUSTMENTS AND ADDITIONAL INFORMATION:**1. Membership fees:**

- Membership fees still unpaid for the previous year must be written off and the names of the members must be removed from the register of members with effect from 1 September 2006.
- 22 members have not settled their payment for the current financial year.

2. Entrance fees:

- All the new members paid their entrance fees.
- 40% of the entrance fees must be capitalised and the remainder must be treated as current income.

3. Stationery:

- Stationery to the amount of R3 200 was bought on credit from TNA Stationers in January 2007.
- Stationery on hand on 31 August 2007, R650.

4. Equipment:

- New equipment was purchased for R30 000 cash on 1 March 2007 from Fit4U Machines.
- Depreciation on equipment was calculated on cost price, R61 500.

5. Refreshments:

- 4 000 bottles of fruit juice were bought for cash during the year.
- There were 500 bottles on hand on 31 August 2007.
- The refreshments are sold at a profit of 50% on cost price.
- The chairman suspects that several bottles of fruit juice are missing.

6. Honorarium:

An honorarium for 2007 was voted to the secretary, R5 000, but has not yet been paid.

7. Savings account:

The balance of the savings account at the end of the year is R8 440. This amount includes interest capitalised.

8. Fixed deposit and buildings:

- The fixed deposit matured on 31 May 2007. The interest rate was 8% p.a. The proceeds of the matured fixed deposit were not re-invested but retained in the club's bank account.
- The payment of R93 000 to Star Builders was for the following:

Extensions to the buildings	R53 000
Repairs to the roof	R40 000

9. Crockery:

The crockery was revalued at R20 450 on 31 August 2007.

QUESTION 4**CLOSE CORPORATION****(43 marks; 18 minutes)**

The following are some of the transactions extracted from the books of Adams Furnishers CC, a close corporation which has three members.

The financial year of Adams Furnishers CC runs from 1 July 2006 to 30 June 2007.

REQUIRED:

Analyse the following transactions according to the example given.

NOTE:

1. The bank account is FAVOURABLE for transactions 1 to 4 and UNFAVOURABLE (overdraft) for transactions 5 to 8.
2. A system of control accounts is in operation and the continuous inventory stock system is being used.

INFORMATION:

Example: Adams Furnishers CC bought trading stock for R3 000 on credit.

	General Ledger Account Debited	General Ledger Account Credited	Amount	A	O	L
e.g.	Trading stock	Creditors' Control	R3 000	+	0	+

Transactions where the bank account is favourable:

1. On 5 July 2006 cheques totalling R23 500 were paid to the members for the distribution payable to them for the previous financial year. The bank balance is favourable.
2. One of the members of the CC, Sam Mkhize, provided a vehicle valued at R72 000 to increase his contribution.
3. Another member of the CC, Jane Swift, was granted a short-term loan of R15 000 on 1 October 2006. The interest rate is 10% p.a.
4. Member Neil Naidoo took a dining-room table from stock, R3 592, for personal use. This is to be regarded as reduction of the amount invested by him in the CC.

Transactions where the bank account is unfavourable:

5. Received a cheque for R7 125 from Jane Swift (see point 3 above) on 30 June 2007. This included interest due on the full loan for the accounting period and part repayment of the loan.

6. A second provisional income tax payment was made on 30 June 2007. (NOTE: Provisional tax for the full year was calculated to be R97 000 and the first provisional tax payment of R45 000 had been made previously.)
7. On 30 June 2007, the last day of the financial year, the net profit for the year was calculated to be R350 000. Provide for income tax at 30% of net income.
8. On 30 June 2007 it was decided to distribute 40% of the net profit after tax to the members (see point 7 above). Payments will be made in July 2007.

QUESTION 5

BUDGET

(65 marks; 30 minutes)

5.1 CASH BUDGET

You are provided with information relating to Edwin Traders. Edwin Naidoo owns the business. The business has been granted overdraft facilities of R75 000 by the bank.

REQUIRED:

- 5.1.1 Complete the Debtors Collection Schedule for the period 1 December 2007 to 31 January 2008. (10)
- 5.1.2 Complete the Cash Budget for the period 1 December 2007 to 31 January 2008. The figures for November have been entered for you. (40)

INFORMATION:

1. Sales and cost of sales:

	Actual sales	Budgeted sales	Cost of sales
October 2007	120 000		80 000
November 2007	105 000		70 000
December 2007		270 000	180 000
January 2008		105 000	70 000

2. 40% of the total sales is sold on credit.
3. Debtors are expected to pay their accounts as follows:
- 30% settle their accounts in the same month as the credit sale.
 - 68% settle in the month following the transaction month.
 - 2% is to be written off.
4. A fixed level of trading stock on hand is maintained throughout the year through replacement on a monthly basis.
5. Purchases of stock:
- 70% of stock is bought on credit.
 - Creditors are paid in full in the month following the month of purchase to qualify for a 5% settlement discount.
6. The bookkeeper is paid a monthly fee of R5 200.
7. Rent of R8 500 is payable by Edwin Traders at the start of each month. This will be increased by 10% with effect from 1 January 2008.

8. Total salaries for November 2007 amount to R44 000. One part-time employee, who earns R3 500 per month, will leave the business at the end of November 2007. The salaries of the remaining employees will be increased by 8% with effect from 1 January 2008.
9. A vehicle with a carrying value of R48 000 will be traded in at book value on 1 December 2007 for a new vehicle costing R230 000. A deposit of R35 000 will be paid on 1 December 2007 and the balance of the outstanding amount will be paid in 10 equal instalments commencing 1 January 2008.
10. Other operating expenses amount to R8 300 for November 2007. These expenses are expected to increase by R600 each month thereafter.
11. Edwin Mkhize withdraws exactly R15 000 cash per month for his personal use. He also plans to take over a used computer at a value of R6 000 in January.
12. A four-month fixed deposit at Richmond Bank matures on 15 December 2007. The total proceeds of R12 360 (including the interest) will be transferred into the bank account.
13. The business has an overdraft of R22 860 on 30 November 2007. Interest is calculated by the bank (on the previous month-end balances) at the beginning of each month. Provide for interest at the following rates (calculate your answers to the nearest rand):
 - Unfavourable balance: 18% p.a.
 - Favourable balance: 5% p.a.

5.2 PROBLEM-SOLVING: BUDGETS

The following extract was taken from the monthly projected income statements of Vesco Traders for the period January 2008 to March 2008.

	January 2008	February 2008	March 2008
Sales	R3 210 000	R3 240 000	R3 300 000
Salaries of two directors	160 000	160 000	240 000
Salaries of 25 employees	150 000	150 000	157 500
Employment of a security firm	0	0	20 000
Staff transport (taxi) subsidy	10 000	10 000	5 000
Training for workers (scheduled for weekends)	6 000	6 000	26 000
Net profit expected to be 15% on sales. The present inflation rate is 7,5%.			

QUESTIONS:

- 5.2.1 Do you think that the proposed increases in salaries for the two directors and the 25 employees in March 2008 are reasonable? Give TWO reasons for your answer. Quote figures to support your opinion. (7)
- 5.2.2 You are the elected staff representative for the 25 employees. A meeting is scheduled with the two directors in February. Apart from the salaries, what TWO other points would you raise with the directors? In your explanation quote figures from the above extract. (8)

QUESTION 6**COMPANY****(77 marks; 35 minutes)**

You are provided with information relating to Umlazi Limited. The current financial year-end is 30 June 2007.

REQUIRED:

- 6.1 Complete the Balance Sheet for 2007. Notes are not required. Show workings in brackets so that part marks can be awarded. Comparative figures for 2006 have been entered. (28)
- 6.2 Calculate the missing figures labelled [A] to [F] in the Cash Flow Statement. (14)
- 6.3 Calculate the following financial indicators for 2007:
- Acid-test ratio
 - Debt-equity ratio
 - Earnings per share
- (9)
- 6.4 **Expansion of the company:**
One of the directors says that if the company requires more funds for future expansion they should rather raise loans. Do you agree? Quote appropriate financial indicators (ratios/percentages). (5)
- 6.5 **Liquidity:**
Comment on the liquidity of the company on 30 June 2007. Briefly explain, quoting appropriate financial indicators (ratios/percentages). (6)
- 6.6 **Returns on shareholders' interest:**
The managing director feels that the shareholders should be very satisfied with the percentage return on shareholders' interest, earnings per share and dividends per share. State THREE points for him to mention at the annual general meeting (AGM). Quote appropriate financial indicators (figures/ratios/percentages). (9)
- 6.7 **Share price:**
A new shareholder is very unhappy that he has been charged a premium of 250 cents on the shares he bought. He says that the net asset value per share does not justify this. Other shareholders support him and are threatening to vote the managing director out of office at the AGM. Apart from the points mentioned in your answers above, what would you advise the managing director to say at the AGM in order to resolve this problem? Discuss TWO points. (6)

INFORMATION:

UMLAZI LIMITED	
CASH-FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007	
Cash flow from operating activities	227 500
Cash generated from operations	358 600
Interest paid	(10 600)
Income tax paid	[A]
Dividends paid	[B]
Cash flow from investing activities	[C]
Fixed assets purchased	(466 000)
Proceeds of sale of fixed assets	21 500
Cash flow from financing activities	[E]
Proceeds of shares issued	[D]
Loan repaid	(25 000)
Net change in cash and cash equivalents	[F]
Cash and cash equivalents at beginning of year	140 000
Cash and cash equivalents at end of year	33 000

UMLAZI LIMITED		
BALANCE SHEET AS ON 30 JUNE 2007		
ASSETS	2007	2006
Non-current assets: Fixed assets		395 500
Current assets		352 000
Inventories (only trading stock)		108 000
Trade and other receivables		104 000
Cash and cash equivalents		140 000
TOTAL ASSETS		747 500
EQUITY AND LIABILITIES		
Ordinary shareholders' equity		418 000
Ordinary share capital (par value R5,00)		360 000
Share premium		32 000
Retained income		26 000
Non-current liabilities (Loan at 12% p.a.)		95 000
Current liabilities		234 500
Trade and other payables		198 000
SARS (Income tax)		22 100
Shareholders for dividends		14 400
TOTAL EQUITY AND LIABILITIES		747 500

The following information was identified on 30 June 2007:

- Balances in the ledger on 30 June 2007:

Trading stock	R	78 000
Trade debtors		90 500
Trade creditors		174 000
Income receivable (accrued)		6 500
Expenses payable (accrued)		32 000
Bank		31 000
Cash float		2 000
Retained income		138 000
SARS (Income tax)	Cr	18 000
- 18 000 new shares were issued at the beginning of the financial year at a premium of 250 cents each.

3. Dividends for 2007 were as follows:
 - Interim dividends paid, 30 cents per share
 - Final dividends declared but not paid at year-end, 40 cents per share
4. The loan was reduced by R25 000 over the course of the 2007 financial year.
5. Fixed assets were sold during the year at book value, R21 500. There were also some purchases of fixed assets.
6. The following figures appeared in the Income Statement for 2007:
 - Interest expense R 10 600 (all paid at 12% p.a.)
 - Depreciation R 58 000
 - Net income before tax R250 000
 - Income tax R 75 000
 - Net income after tax R175 000

ADDITIONAL INFORMATION:

The following financial indicators were calculated from the financial statements for the past two years:

	2007 R	2006 R
Current ratio	0,8 : 1	1,5 : 1
Acid-test ratio	?	1,0 : 1
Stock turnover rate	6 times	5 times
Solvency ratio	3,0 : 1	2,3 : 1
Debt-equity ratio	?	0,2 : 1
Net asset value per share	733 cents	580 cents
Earnings per share	?	166 cents
Dividends per share	70 cents	82 cents
% earnings (after tax) on shareholders' interest	32,3%	21,3%
% earnings (before tax) on total capital employed	41,8%	38,2%

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