

Province of the

**EASTERN CAPE**

EDUCATION

**NATIONAL**

**SENIOR CERTIFICATE**

**GRADE 11**

**NOVEMBER 2010**

|  |
| --- |
| **ACCOUNTING**  **MEMORANDUM** |

**MARKS: 300**

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| This question paper consists of 14 pages. |

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| **GENERAL RULES:** |  |

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| 1. | Award full marks for the correct final answers. If the answer is incorrect, mark the workings provided. If a workings figure/amount is shown as a final answer, allocate the working mark. |  |
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| 2. | “Method” marks are denoted by   * In calculations and final totals, at least one part of the workings must be correct to earn the mark. * In cases where answers of previous questions must be used, check the transfer. * Ignore brackets on statements, but check the operation before awarding marks. |  |
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| 3. | Where penalties are applied, the marks for that section cannot be a negative. (foreign items) |  |
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| 4. | For questions requiring explanations and comments, award part-marks. A good explanation will normally mention and explain a point. Beware of alternative wording reflecting the same points. |  |

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| **QUESTION 1** |  |

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| **BANK RECONCILIATION** |  |

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| 1.1 | |  |  |  | | --- | --- | --- | | Bank balance − 1 July 2010  (4 670 + 980 + 250) – (200 + 520 + 1 380)  | 3 800 |  | | Receipts: (4 280 + 725 + 200 + 140 + 270) | 6 615 |  | | Payments: (7 770 + 55 + 840 + 350) | (9 015) |  | | *Method marks awarded only if marks scored in the workings* |  |  | | BANK BALANCE ON 31 JULY 2010 | 1 400 |  | | |  | | --- | |  | | **16** | |
|  | Accept any format for the calculation of the Bank Account balance. Allocate the marks  as above where applicable. Accept a reconstruction of the Bank Account. |  |

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| 1.2 | **BANK RECONCILIATION STATEMENT AS AT 31 JULY 2010** |  |
|  | |  |  |  |  | | --- | --- | --- | --- | | **DEBIT** | | **CREDIT** | | | Dr balance as per bank account | | 1 400 |  |  |  | | Cr deposit not yet recorded | |  |  | 1 250 |  | | Dr Outstanding cheques | No 167 | 430 |  |  |  | |  | No 178 | 540 |  |  |  | |  | No 154 | 1 380 |  |  |  | | Cr balance as per Statement | |  |  | 2 500 |  | |  | | 3 750 |  | 3 750 |  | |  | |  | |  | | | |  | | --- | |  | | **8** | |

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| 1.3 | Give TWO examples of deductions on the bank statement that makes up (constitutes) bank charges. | |  | | --- | |  | | **2** | |
| ***Any TWO examples***: Service fees, cash withdrawal fees, cash deposit/handling fees, government levies, ATM Charges, Deposit Book, Cheque Book  |
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| 1.4 | Explain to the new cashier why you insist that a bank reconciliation must be done every month. *(Three points)* | |  | | --- | |  | | **6** | |
| * Good internal control of cash with external documentation (Statement) * Effective for good budgeting / Cash management * Identifying outstanding cheques, errors, outstanding deposits * Check the processing of debit orders and stop orders * Noting bank charges and controlling the expense * Detecting errors and omissions and taking corrective measures * Will be able to detect mismanagement and/or fraudulent activities   *Any THREE valid points * |
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| **QUESTION 2** |  |

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| **PARTNERSHIPS** |  |

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| 2.1.1 | GENERAL LEDGER OF LUMKA TRADERS  **ASSET DISPOSAL ACCOUNT (N12)**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 Sep | 1 | Equipment | 4200 | 2009 Sep | 1 | Accumulated Depreciation on Equipment | 2910 | |  |  | Profit on sale of asset | 260  |  |  | Bank | 1000 | |  |  |  |  |  |  | Debtors Control | 550 | |  |  |  | 4460 |  |  |  | 4460 | |  |  |  |  |  |  |  |  | | |  | | --- | |  | | **7** | |
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| 2.1.2 | **LUMKA TRADERS**  **INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010**   |  |  |  | | --- | --- | --- | | Turnover (Sales) | 171 000 |  | | Cost of Sales | (114 000) |  | | **GROSS PROFIT** | 57 000 |  | | **Operating/Other Income** | 20 070 |  | | *Profit on Sale of Asset* | 260 |  | | *Bad Debts Recovered* | 370 |  | | *Provision for Bad Debts Adjustment (900 – 740)* | 160 |  | | *Rent Income (20 150 x 12/13)* | 18 600 |  | | *Discount Received* | 680 |  | | ***GROSS INCOME*** | 77 070 |  | | ***Operating Expenses*** | (38 120) |  | | *Trading Stock Deficit (23 680 – 22 480)* | 1 200 |  | | *Depreciation (3 800 + 210)* | 4 010 |  | | *Telephone (2 330 + 470)* | 2 800 |  | | *Insurance (2 340 – 140)* | 2 200 |  | | *Consumable Stores (2 940 – 440)* | 2 500 |  | | *Rates and Taxes* | 3 600 |  | | *Salaries and Wages* | 12 660 |  | | *Bad Debts* | 720 |  | | *Sundry Expenses* | 8 430 |  | | ***Operating Profit*** | 38 950 |  | | *Interest Income* | 1 400 |  | | ***Profit before Interest Expenses*** | 40 350 |  | | *Interest Expenses (3 000 + 600)* | (3 600) |  | | ***Net Profit for the year*** | 36 750 |  |   Award full marks for the final answer first. If incorrect, award 1 mark for the  Pre-adjustment amount either in workings or as a final answer.  Max of -2 for foreign items. (Any Balance Sheet account)  Misplaced items – Only consider Interest income and Interest expense. -1 if written under operating income or operating expenses only if marks are earned in the bottom section of the statement. | |  | | --- | |  | | **36** | |

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| **2.2** | **Balance Sheet concepts** |  |
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| 2.2.1 | List TWO advantages of partnerships as a form of ownership. | |  | | --- | |  | | **4** | |
| * Joint decision making * Combined Capital (additional capital) for a bigger/expanded business venture * Sharing of the financial risk (unlimited liability) * Sharing responsibilities * Expertise in different functions   Any TWO appropriate responses  |
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| 2.2.2 | **CAPITAL**   |  |  |  |  | | --- | --- | --- | --- | |  | **APPLE** | **BANANA** | **TOTAL** | | Opening balance (1 July 2009) | **150 000** | **200 000** | 350 000 | | Increase/Additions to Capital | 22 500 |  | 22 500 | | Decrease/Withdrawals of Capital |  | (40 000) | (40 000) | |  |  |  |  | | BALANCE AS AT 30 JUNE 2010 | 172 500 | 160 000 | 332 500 | | |  | | --- | |  | | **6** | |
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|  | **CURRENT ACCOUNTS**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **APPLE** | | **BANANA** | | **TOTAL** | | | Partners’ Salaries | **70 992** |  | 73 440 |  | 144 432 |  | | Interest on Capital | 19 350 |  | 21 600 |  | 40 950 |  | | TOTAL PRIMARY DISTRIBUTION | 90 342 |  | 95 040 |  | 185 382 |  | | Share in Remaining Profit \* | 1 866 |  | 2 488 |  | 4 354 |  | | NET INCOME/BUSINESS PROFIT | 92 208 |  | 97 528 |  | 189 736 |  | | Drawings | (70 992) |  | (66 960) |  | (137 952) |  | |  | 21 216 |  | 30 568 |  | 51 784 |  | | Balance on 1 July 2009 | (6 666) |  | 5 432 |  | (1 234) |  | | BALANCE AS AT 30 JUNE 2010 | 14 550 |  | 36 000 |  | 50 550 |  |   **\*** Check the ratio (3:4)split to award method mark | |  | | --- | |  | | **22** | |

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|  | Alternative format for Current Account note |  |
|  | |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **APPLE** | | **BANANA** | | **TOTAL** | | | Balance on 1 July 2009 | (6 666) |  | 5 432 |  | (1 234) |  | | NET INCOME/BUSINESS PROFIT | 92 208 |  | 97 528 |  | 189 736 |  | | Partners’ Salaries | **70 992** |  | 73 440 |  | 144 432 |  | | Interest on Capital | 19 350 |  | 21 600 |  | 40 950 |  | | TOTALPRIMARY DISTRIBUTION | 90 342 |  | 95 040 |  | 185 382 |  | | Share in Remaining Profit  \* | 1 866 |  | 2 488 |  | 4 354 |  | |  | 85 542 |  | 92 096 |  | 188 502 |  | | Drawings | (70 992) |  | (66 960) |  | (137 952) |  | | BALANCE AS AT 30 JUNE 2010 | 14 550 |  | 36 000 |  | 50 550 |  | |  |

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| 2.2.3 | What is the total amount earned by Apple? | |  | | --- | |  | | **2** | |
| 70 992 + 19 350 + 1 866 = 92 208\*\*mm mark for amount transferred from note |
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| 2.2.4 | Calculate the percentage return on Apple’s equity. | |  | | --- | |  | | **5** | |
| |  | | --- | | *Check the transfer of balances from the notes completed to award method marks.*  *\*is 3 marks* |   Total amount earned by the partner x 100  Average partner’s equity    92208 .  ½ (150 000 + 172 500 – 6 666 + 14 550)\* x 100    92208  165 192\* x 100 = 55,82% \* Accept 55,8%   |
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| 2.2.5 | Should Apple be satisfied with her earnings? What criteria or financial indicators can she use to justify her feelings? | |  | | --- | |  | | **2** | |
| Compare with current interest rate on alternative investments, with profit sharing ratio, with previous years percentage (if available)    Apple would be satisfied with her earnings  - The % return is well above the interest rates at financial institutions (banks)  - She moved from a negative balance on her current acc. |

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| 2.2.6 | Comment on the financial risk (gearing) of this business. Use an  appropriate ratio to motivate your answer.  The gearing ratio of the previous year was **0,8:1**. | |  | | --- | |  | | **6** | |
| Debt : Equity Ratio Non-Current Liabilities : Partners Equity    250 000 : (332500 + 50550)  250 000 : 383 050  0,65 : 1   (must be in the form x : 1 with at least 1 part correct)  This business is financed mainly by equity and the financial risk is fairly low. The comparison with last year also indicates a decrease in the ratio (an improvement)  Any reasonable explanation based on learner’s calculation  |
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| **QUESTION 3** |  |

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| **NON-PROFIT ORGANISATIONS (CLUBS)** |  |

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| 3.1.1 | GENERAL LEDGER OF BRAELYNN TENNIS CLUB  **MEMBERSHIP FEES ACCOUNT (N2)**   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 Jan | 1 | Accrued Income | 960 |  | 2009 Jan | 1 | Income Rec. in Advance | 240 |  | | Dec | 31 | Bank (Refunded) | 80 |  | Dec | 31 | Bank  (640+2310+210) | 3 160 |  | |  |  | Income Rec. in Advance  | 210 |  |  |  | Membership Fees written off / Fees written off  | 320 |  | |  |  | Income and Expenditure | 3 430 |  |  |  | Honorarium  | 80 |  | |  |  |  |  |  |  |  | Accrued Income  | 880 |  | |  |  |  | 4 680 |  |  |  |  | 4 680 |  | |  |  |  |  | |  |  |  |  | | | |  | | --- | |  | | **18** | |
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| 3.1.2 | The treasurer reported that she was not satisfied with the way in which the collection of fees is managed. Give TWO reasons why you think she feels this way. | |  | | --- | |  | | **4** | |
| Accrued Income (amounts outstanding at the end of each year) is a large percentage.  A fair percentage of members are written off.  Very few members pay in advance.  Any TWO explanations  |
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| 3.1.3 | Recommend TWO ways in which the situation can be improved. | |  | | --- | |  | | **2** | |
| - Incentives for early payment (discounts)  - Constant follow-up reminders  - Regular meetings / club activities / tournaments to attract members to be more  involved.  Any TWO points  |

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| 3.1.4 | The treasurer was not sure about the total cash spent on Refreshments purchased. You are requested to assist her in determining this amount.  *(Workings must be shown to score part marks.)*    7 100 x 100/125 = 5 680 (cost of sales)     940 + 2280 – 650 – 1860 = 710  5 680 – 710 = 4 970   Accept any format / alternative calculations presented  - Some learners may reconstruct the Refreshments Account.  - Workings must be shown (no full marks for the final answer only) | |  | | --- | |  | | **8** | |
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| 3.1.5 | The chairperson feels that the Club should be making more money from the sale of refreshments. He is not happy about the kiosk manager being solely responsible for the control of the refreshments. Suggest TWO ways in which he can improve the internal controls of this function.  - Division of duties – share or delegate duties on a rotation basis  - Involve more club members  - Do regular stock taking  - Perform random checks on documentation (invoices etc)  - Regular report-backs at meetings.  Any TWO valid explanations  | |  | | --- | |  | | **4** | |
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| 3.2 | Fill in the amounts only in the appropriate columns   |  |  |  |  |  | | --- | --- | --- | --- | --- | | NO | **RECEIPTS AND PAYMENTS** | | **INCOME AND EXPENDITURE** | | | **RECEIPTS** | **PAYMENTS** | **INCOME** | **EXPENDITURE** | | E.g. | **R180** |  | **R120** |  | | 1 | 1360  |  | 340  |  | | 2 |  | 260  |  | 500  | | 3 |  |  | 320  |  | | 4 | 9520  |  | 1020  |  | |  |  |  |  |  | | |  | | --- | |  | | **9** | |
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| **QUESTION 4** |  |

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| **MANUFACTURING CONCERNS** |  |

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| 4.1 | Calculate the total manufacturing overheads for the year.  (*Show workings in brackets.*)   |  |  |  |  | | --- | --- | --- | --- | | Indirect Materials (1230  + 3450– 980) | | 3 700 |  | | Insurance (2940 x ⅔) |  | 1 960 |  | | Rent Expense (22400 x 4/7) |  | 12 800 |  | | Maintenance |  | 9 500 |  | | Water and Electricity (11500 x 85%) |  | 9 775 |  | | Depreciation (77600 – 23400) x 15% |  | 8 130 |  | | Indirect labour | | 2 635 |  | |  | | 48 500 |  |   No ww marks besides the total (inspect). If the final answer is incorrect, award 1 mark for  the pre-adjustment amounts. Accept any format for the above calculation – the question does  not require a Note. | |  | | --- | |  | | **15** | |
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| 4.2.1 | GENERAL LEDGER OF ONTHEGO MANUFACTURING  **RAW MATERIAL STOCK ACCOUNT**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 Mar | 1 | Balance b/d | 12 880 | 2010 Feb | 28 | Creditors Control | 2 210 | | 2010 Feb | 28 | Bank (Carriage) | 4 370 |  |  | Direct Material Cost / Work in Process  | 72 700 | |  |  | Bank | 28 750 |  |  | Balance c/d | 14 340 | |  |  | Creditors Control | 43 250 |  |  |  |  | |  |  |  | 89 250 |  |  |  | 89 250 | | 2010  Mar | 1 | Balance b/d | 14 340 |  |  |  |  | | |  | | --- | |  | | **8** | |
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| 4.2.2 | **WORK ON PROCESS STOCK ACCOUNT**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 Mar | 1 | Balance b/d | 15 500 | 2010 Feb | 28 | Finished Goods Stock  | 190000 | | 2010 Feb | 28 | Direct Material cost | 72700 |  |  |  |  | |  |  | Direct Labour Cost | 67000 |  |  | Balance c/d | 15 500 | |  |  | Factory Overheads | 48 500 |  |  |  |  | |  |  |  | 203 700 |  |  |  | 203 700 | | 2010 Mar | 1 | Balance b/d | 15 500 |  |  |  |  | |  |  |  |  |  |  |  |  | | |  | | --- | |  | | **8** | |

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| 4.3.1 | Calculate the number of bags the business needed to produce in order to break-even.  Fixed Costs (F OH C + AC) / Selling price per unit – VC(DMC + DLC + SDC)per unit    48500 + 45500 .  70 - (72700 + 67000 + 97800) / 4750  \*\*     94000  70 – 50   = 4 700 units   \*\* 1 method mark (at least two amounts correct/correctly transferred ) 1 accuracy mark | |  | | --- | |  | | **7** | |
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| 4.3.2 | Based on your answer above, comment on the level of production achieved by the business.  Although the business produced more than the number of units needed to break-even, it is only by 50 units and this impact on the profitability of the business. The business needs to produce more to show a better profit margin.  Any reasonable explanation based on the learner’s calculations above.  | |  | | --- | |  | | **2** | |
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| **QUESTION 5** |  |

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| **BUDGETS** |  |

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| 5.1 | **DEBTORS COLLECTION SCHEDULE**   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **MONTHS** | **CREDIT SALES** |  | **JUNE** | **JULY** | | March | 93750 |  | 18750 |  | | April | 139500 |  | 69750 | 27900 | | May | 117000 |  | 29250 | 58500 | | June | 153000 |  |  | 38250 | | July | 141000 |  | 1 Mark for ANY total | | | TOTAL TO BE COLLECTED PER MONTH | | | 117750 | 124650 | | |  | | --- | |  | | **10** | |
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| 5.2 | **CASH BUDGET OF CASSINGA TRADERS**  **BUDGET PERIOD: JUNE 2010 TO JULY 2010**   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Cash Receipts:** | | **JUNE** | | **JULY** | | | *Cash Sales* | | **51 000** |  | 47 000 |  | | Cash from Debtors | | 117 750 |  | 124 650 |  | | Proceeds on Sale of Furniture | | 2 500 |  |  |  | | Interest on Fixed Deposit | |  |  | 3 690 |  | | Rent Income | | 3 500 |  | 3 850 |  | |  | |  |  |  |  | | **TOTAL RECEIPTS** | 1 MARK FOR BOTH TOTALS | 174 750 | **** | 179 190 |  | | **Cash Payments:** |  |  |  |  |  | | *Cash Purchases* | | **30 000** |  | 22 500 |  | | Payments to Creditors | | 63 000 |  | 60 200 |  | | Salaries and Wages | | 26 000 |  | 28 080 |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Drawings | 1 MARK FOR BOTH TOTALS | | 2 800 | **** | 2 800 |  | | Sundry Operating  expenses | | 1 MARK FOR BOTH TOTALS | 19 200 | **** | 19 200 |  | | Decrease in Capital Contribution | | |  |  | 50 000 |  | |  | | |  |  |  |  | | **TOTAL PAYMENTS** | | 1 MARK FOR BOTH TOTALS | 143 700 | **** | 184 880 |  | | **Cash Surplus/(Shortfall** | | | 31 050 |  | (5 690) |  | | **BANK (Opening Balance)** | | | (3 200) |  | 27 850 |  | | **BANK (Closing Balance)** | | | 27 850 |  | 22 160 |  | | |  | | --- | |  | | **26** | |
|  |  |  |
| 5.3.1 | The owner feels that the debtors are not being managed efficiently.  Give ONE point from the information provided, to justify his feelings. | |  | | --- | |  | | **2** | |
| Over 50% of debtors take more than 30 days to settle their accounts  5% of debtors are normally written off (per month is excessive)  Only 25% of total sales is for cash – could result in cash flow problems  Any one good explanation  |
|  |  |  |
| 5.3.2 | Suggest ONE way in which the business can improve the situation. | |  | | --- | |  | | **2** | |
| Constant statements/reminders to settle accounts  Discounts for early payments (within 30 days)  Interest on overdue accounts  Any one good explanation  |
|  |  |  |
| 5.4 | Is the owner justified in decreasing his capital contribution by R50 000?  Motivate your answer. | |  | | --- | |  | | **3** | |
| Yes   |  |  | | --- | --- | |    | For Yes/No  Reason |   Not experiencing cash flow problems  Has a positive cash balance  No  A large amount is cash expected from debtors  Reflected a cash shortfall in July  Any valid explanations based on the learner’s completion of the cash budget. |

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| **43** |

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| **QUESTION 6** |  |

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| **INVENTORY SYSTEMS AND TANGIBLE ASSETS** |  |

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| 6.1.1 | Analyse the transactions. *Show (+) and/or (-) and the amounts under A, O and L* |  |
|  | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | NO | GENERAL LEDGER | | ASSETS | OWNERS EQUITY | LIABILITIES | | ACCOUNT DEBITED | ACCOUNT CREDITED | | A | Bank  | Sales  |  | +1120  | -1120  | | B | Purchases  | Creditors Control  |  | -2166  | +2166  | | C | Drawings  | Purchases  |  | +/-250  |  | | D | Debtors Allowances  | Debtors Control  | - 65  | - 65  |  | | E | Carriage on Purchases  | Bank  |  | - 380  | -+380  | | F | Creditors Control  | Creditors Allowances  |  | +230  | - 230  | |  |  |  |  |  |  | | |  | | --- | |  | | **24** | |
|  |  |  |
| 6.1.2.1 | What is the difference between the periodic system, and the perpetual system of recording stock? *(Two differences)*   |  |  | | --- | --- | | **Perpetual**  Trading Stock regularly updated from journals (balance always available). Stock take to verify closing balance.  Separate Cost of Sales account.  Can establish Gross profit for any specified period. | **Periodic**  Stock accounts reflected as expenses (not assets).  Have to work out the Cost of sales when needed to determine Gross profit.  Stock count essential to establish closing balance of stock. |   Any two valid differences (not separate points on each).  | |  | | --- | |  | | **4** | |
|  |  |  |
| 6.1.2.2 | The following Account appears in their General Ledger.  Fill in the appropriate details and the amounts labelled **A** to **D.**   |  |  | | --- | --- | | **A** | Cost of sales  | | **B** | Stationery/Sundry Expenses  | | **C** | 20215 x 100/130 = 15550  | | **D** | 54250 − 25920 = 28330   (1 Mark if one part correct due to **C** above being incorrect) | | |  | | --- | |  | | **5** | |
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| 6.2.1 | **TANGIBLE ASSETS NOTE:** |  |
|  | |  |  |  |  | | --- | --- | --- | --- | |  | | **MOTOR VEHICLES** | | | Cost (1 March 2009) | | **120 000** |  | | Accumulated Depreciation (1 March 2009) | | **(72 600)** |  | | **CARRYING VALUE (1 March 2009)** | | **47 400** |  | | **Movements:** | |  |  | | Additions (at cost) | | 80 000 |  | | Disposals (at carrying value) (30 000 – 23340 ) | | (6 660) |  | | Depreciation  (740 + 4 000 + 8 000) | OR 1 MARK FOR EACH AMOUNT | (12 740) |  | | **CARRYING VALUE (28 February 2010)** | | 108 000 |  | | Cost (28 February 2010) | | **170 000** |  | | Accumulated Depreciation (28 February 2010) | | (62 000) |  | | |  | | --- | |  | | **9** | |
|  |  |  |
| 6.2.2 | You have been appointed as the Internal Auditor of the business.  Briefly outline the role of an Internal Auditor. *(Two points).*  - Independent activity  - Investigate, analyse, and evaluate the internal control systems in place.  - Test their compliance to company and accounting policies.  - Note weaknesses and advise management on ways to improve the processes.  TWO valid and complete points   Do not accept short (one word) responses. | |  | | --- | |  | | **4** | |
|  |  |  |
| 6.2.3 | The owner feels that there is a lack of effective control over the business vehicles, and suspects that certain vehicles are being misused. In assessing the control of assets, what internal control aspects would you investigate*? (Two points)*  - Accountability and Transparency principles  - Proper record keeping / Asset Register updated regularly / Systematic filing of  accounting documents  - Division / Delegation of Duties such as procurement, maintenance, usage  - Authorisation for usage / clocking in and out cards/ recording mileage tracking devices  etc.  - Abiding by accounting policies of the business and GAAP (Depreciation, acquisition,  disposal).  Two valid and complete points  | |  | | --- | |  | | **4** | |
|  |  |  |
|  | |  | | --- | |  | | **50** | |  |
|  | **TOTAL: 300** | |