GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PROVINCIAL EXAMINATION

JUNE 2022

GRADE 11

ACCOUNTING
(PAPER 1)

TIME: 2 hours

MARKS: 150

13 pages + 1 formula page and an answer book of 9 pages

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.

2. A special ANSWER BOOK is provided in which to answer ALL the questions.

3. A FORMULA SHEET for financial indicators is provided at the back of this question paper.

4. Show ALL workings to earn part-marks.

5. You may use a non-programmable calculator.

6. You may use blue/black ink to answer the questions.

7. Where applicable, show all calculations. Round off answers to ONE decimal point.

8. Write neatly and legibly.

9. Learners will forfeit marks for:

   - The use of non-standardised abbreviations
   - Overwriting of figures or words
   - Superfluous/foreign entries

10. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	TIME IN MINUTES
1.	GAAP & Statement of Comprehensive Income	40	32 minutes
2.	Partnership and Notes	40	32 minutes
3.	Statement of Financial Position and Notes	35	28 minutes
4.	Analysis and Interpretation	35	28 minutes
	TOTAL	**150**	**120 minutes**

QUESTION 1: GAAP AND STATEMENT OF COMPREHENSIVE INCOME
(40 MARKS: 32 MINUTES)

1.1 Match the concepts in COLUMN A with the example in COLUMN B. Write only the letters (A – E) next to the question numbers (1.1.1 – 1.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Matching	A	Defaulting debtor's account is written off as bad debts, even though it may be recovered in future.
1.1.2	Going concern	B	An amount of R3 340 is included in insurance, which relates to the next financial year. This amount is recorded as a prepaid expense.
1.1.3	Prudence	C	Service fees, cash deposit fees and ATM charges on the Bank Statement are added together and disclosed as bank charges.
1.1.4	Materiality	D	The owner of a business wins R1 000 000 in a competition. This is not reflected in the Income Statement of the business.
		E	The owner decides to purchase additional trading stock, which was offered at a discount rate, as he knows that these can be sold in the following financial period.

(4)

BEST BUY SHOES

You are provided with the Pre-Adjustment Trial Balance of Best Buy Shoes on 28 February 2022. Best Buy Shoes is a partnership with partners A. Boots and T. Tekkies. The business sells shoes and also repairs shoes for which a fee is charged.

REQUIRED:

1.2 Prepare the Income Statement for the year ended 28 February 2022. (36)

INFORMATION:

A. Extract from the Pre-Adjustment Trial Balance of Best Buy Shoes on 28 February 2022.

Balance Sheet Accounts Section	**Debit**	**Credit**
Drawings : A. Boots	30 000	
Loan : ABSA (21% p.a.)		105 000
Trading stock	72 000	
Debtors' control	43 000	
Provision for bad debts		1 000
Bank	6 750	
Nominal Accounts Section		
Sales		916 000
Debtors' allowances	8 000	
Cost of sales	510 000	
Discount received		480
Consumable stores	13 000	
Discount allowed	600	
Fee income		16 000
Salaries and wages	175 000	
Pension contribution	24 500	
Skills Development Levy	9 900	
Stationery	4 700	
Bad debts	6 550	
Interest on fixed deposit		2 750
Interest on savings account		820
Interest on current account		240
Rent income		12 360
Insurance	5 400	
Water and electricity	7 200	
Telephone	30 750	
	1 300 850	**1 300 850**

B. Adjustments and additional information

i A debtor, D. Smith, is to be charged R40 interest on his overdue account.

ii An amount of R190 has been received from a debtor, B. Harris, whose account had been written off as irrecoverable during January 2022. This transaction has not been recorded.

iii G. Smit is a debtor who owes R300. This must be written off as bad debts as he has left the country.

iv The loan statement was received from ABSA and had the following information:

Balance on 01 March 2021	R145 000
Repayments made during the year	R 40 000
Balance on 28 February 2022	R125 000

NB: Interest is capitalised to the loan.

v Fee income includes an amount of R250 that has been received in advance.

vi A debtor returned goods with a cost price of R450. The business uses a mark-up of 20% on the cost price of all goods.

vii The rent for January and February 2022 has not yet been received from the tenant. Note that rent was increased by 10% per month as from 30 September 2021.

viii Partner A. Boots paid R420 for his son's stationery. This has been recorded as stationery in the business account.

ix Provide for depreciation, R13 458.

x The annual insurance premium of R5 400 expires on 30 June 2022.

xi After a physical stock count was undertaken, the following was on hand on 28 February 2022:

- Trading stock, R68 000
- Stationery, R700

xii The following accounts have been received on 28 February 2022, but not yet paid:

- Water and electricity, R560
- Telephone, R4 670

xiii The provision for bad debts must be adjusted to 2% of remaining debtors.

xiv The details of an employee were left out of the Salaries Journal for February 2022 as she was on leave. Her details are as follows:

• Gross monthly salary,		R8 000
• Deductions :	PAYE,	R 920
	Pension,	R 540
	Medical aid,	R 620

The employer contributes R540 to the pension fund and 1% of the gross salary to the SDF.

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QUESTION 2: PARTNERSHIP AND NOTES **(40 MARKS: 32 MINUTES)**

MACADAM STORES

The information below was taken from the books of MacAdam Stores with partners A. Mac and C. Adam. Their financial year ends annually on 28 February.

REQUIRED:

2.1 Calculate the interest on capital for Mac and Adam. (10)

2.2 Calculate the drawings for the year for Mac. (5)

2.3 Prepare the following notes as they would appear in the Balance Sheet as at 28 February 2022:

2.3.1 Capital Note (6)

2.3.2 Current Account Note (19)

INFORMATION:

A. The following balances appeared, amongst others, in the books of MacAdam Stores on 28 February 2022:

Capital: A. Mac	R200 000
Capital: C. Adam	R100 000
Current account: A. Mac (01 March 2021)	R 6 300 (CR)
Current account: C. Adam (01 March 2022)	R 1 400 (DR)
Drawings: A. Mac	**(See info D)**
Drawings: C. Adam	R132 600

B. The net profit as calculated in the Income Statement for the year ended 28 February 2022 amounts to R311 300.

C. The partnership agreement stipulates the following:

- Partners will receive the following salaries:

  A. Mac – R6 700 per month
  C. Adam – R102 000 per annum

- A. Mac received a bonus of R16 000 for extra services rendered.

- Interest on capital is calculated as follows:

  - 8% per annum if the total capital contribution is less than R100 000
  - 10% per annum if the total capital contribution is R100 000 or more

NOTE:

1. A. Mac increased his capital contribution by R100 000 on 01 December 2021. This was properly recorded at the time.
2. C. Adam decreased his capital contribution by R20 000 on 01 September 2021. This has not been recorded.

- Profits or losses are shared according to their capital contribution at the beginning of the year

D. A. Mac withdrew the following during the year:

- An EFT at the end of each month for his salary, according to the partnership agreement
- Cash, R4 670
- Trading stock with a cost price of R8 790 for personal use

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QUESTION 3: STATEMENT OF FINANCIAL POSITION AND NOTES
(35 MARKS: 28 MINUTES)

You are provided with information from the financial records of Smackers Stores.
The business is owned by Mr Sam Knackers who sells basic groceries in his local town.

REQUIRED:

3.1 Prepare the following notes to the Balance Sheet on 28 February 2022:

3.1.1 Trade and other receivables (8)

3.1.2 Trade and other payables (12)

3.2 Prepare the Balance Sheet on 28 February 2022. **Ignore all cents in your workings.** (15)

INFORMATION

A. Extract from the Trial balance on 28 February 2022:

	DEBIT	CREDIT
Fixed Deposit FND Bank		?
Debtors' control	73 600	
Provision for bad debts		2 900
Creditors' control		42 700
Prepaid expense	1 980	
Income received in advance		13 650

B. Adjustments and additional information

1. Commission income due to the business is R12 000.

2. The telephone account for February 2022 was received but has not been paid, R1 300.

3. Mr Sam Knackers paid R14 560 at the end of February. This was the insurance premium for the months of February and March.

4. An EFT made to a creditor for R1 800 in settlement of our account of R2 000 was incorrectly posted to the debit side of the Debtors' Control account. The applicable discount has been correctly recorded.

5. The following totals from the February Salaries Journals were not posted:

Gross salaries	R48 000
Medical aid deduction	R2 300
Pension fund deduction	R1 700
PAYE	R6 000
UIF Deduction	R480
Net Salary	R37 520
Medical aid contribution	R2 600
UIF contribution	R480

6. The loan statement from ABSA Bank reflected the following information:

- Balance on 1 March 2021, R1 010 000
- Balance on 28 February 2022, R1 100 550
- Interest is capitalised
- The loan will be reduced by R55 000 in the next financial year.

C. Financial indicators

Current ratio	1,5 : 1
Debt-equity ratio	0,5 : 1

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QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (35 MARKS: 28 MINUTES)

You are provided with information relating to NOTA Clothing Boutique for the year ended 31 December 2022, together with comparative figures for 2021. The business is owned by two partners, Nombeko and Thandi.

REQUIRED:

4.1 Below is a list of concepts that answers questions on the interpretation of financial statements.

Choose the concept that answers QUESTIONS 4.1.1 to 4.1.4.

liquidity; return on equity; operating efficiency; gearing; solvency

4.1.1 To what extent is the business financed by loans in comparison to capital? (1)

4.1.2 Does the business have good control over its income and expenses? (1)

4.1.3 Can the business pay off its current debt comfortably? (1)

4.1.4 Is the business a good investment for the partners? (1)

4.2 Calculate the following financial indicators for 2022. Show all calculations and round off to one decimal place, where necessary.

4.2.1 Percentage gross profit on cost of sales (3)

4.2.2 Percentage operating expenses on turnover (3)

4.2.3 Acid-test ratio (4)

4.2.4 Debt-equity ratio (3)

4.3 Comment on the liquidity position of the business for 2022. Quote TWO financial indicators and figures to support your answer. (4)

4.4 The business changed their policy with regards to the profit mark-up from 2021 to 2022. What was the change in policy? What are the risks associated with this and what effect did this change have on the business income? (4)

4.5 Does the business have good control over their expenses? Quote ONE financial indicator and figures to support your answer. (3)

4.6 The partners want to expand the business but they will need at least R900 000 to do this.

Their options are as follows:

Option 1: Each of the existing partners will contribute additional capital
Option 2: Take a loan
Option 3: Take in a third partner

Discuss each option and your opinion about it. Do not quote figures to support your answer. Draw a conclusion and advise the partners on how they should finance the expansion. (7)

INFORMATION:

A. Extract from the Statements of Comprehensive Income:

	2022	2021
Turnover	3 213 000	3 004 400
Cost of sales	2 142 000	2 146 000
Operating expenses	512 640	520 000
Interest on loans (14% p.a.)	53 200	70 000
Net profit	505 160	279 376

B. Extract from the Statements of Financial Position:

	2022	2021
Non-current Assets (Fixed Assets)	647 200	631 000
Current Assets	430 560	262 300
Inventories	357 660	175 600
Trade and other receivables	31 700	29 800
Cash and cash equivalents	41 200	56 900
Partners' equity	496 610	273 500
Non-current Liabilities (Loans)	380 000	500 000
Current liabilities	201 150	119 800

C. Appropriation of profits for 2022 according to the partnership agreement:

	Nombeko	Thandi
Partners' salaries	200 000	190 000
Interest on capital	12 000	18 000
Partners' bonuses	30 000	10 000
Share of remaining profit	22 580	22 580
	264 580	240 580

D. Financial indicators:

	2022	2021
Percentage gross profit on cost of sales	?	40%
Percentage operating expenses on turnover	?	17,3%
Current ratio	2,1 : 1	2,2 : 1
Acid-test ratio	?	0,7 : 1
Stock turnover rate	8 times p.a.	12,2 times p.a.
Stock holding period	45 days	30 days
Debtors' collection period	34 days	36 days
Creditors' payment period	30 days	30 days
Debt-equity ratio	?	1,8 : 1
Percentage return on partners' equity	76,22%	102,1%

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TOTAL: 150

END

FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of Sales}} \times \frac{100}{1}$
$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$	
$\frac{\text{Operating Expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating Profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Total Earnings by Partner}}{\text{Average Partners' Equity}} \times \frac{100}{1}$	$\frac{\text{Net Profit}}{\text{Average Partners' Equity}} \times \frac{100}{1}$
Current Assets: Current Liabilities	Current Assets – Inventories: Current Liabilities
$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times \frac{365}{1}$ or $\frac{12}{1}$	$\frac{\text{Average Creditors}}{\text{Credit Purchases or Cost of Sales}} \times \frac{365}{1}$ or $\frac{12}{1}$
$\frac{\text{Average Inventories}}{\text{Cost of Sales}} \times \frac{365}{1}$ or $\frac{12}{1}$	$\frac{\text{Cost of Sales}}{\text{Average Inventories}}$
Non-current Liabilities: Partners' Equity	Total Assets: Total Liabilities