

JUNE EXAM MEMO

PAPER 2

QUESTION 1 VAT (24 marks; 20 minutes)

1.1 State whether each of the statements are **TRUE** or **FALSE**. (5)

(a)	False ✓
(b)	True ✓
(c)	False ✓
(d)	False ✓
(e)	True ✓

1.2 Complete the table below by filling in the missing figures. (5)

	VAT EXCLUSIVE	VAT	VAT INCLUSIVE
1.2.1	R6 500	R975 ✓	R7 475 ✓
1.2.2	R12 400 ✓		R14 260
1.2.3	R24 600 ✓	R3 690	R28 290 ✓

1.3 Calculate the amount of VAT owing to/owed by SARS (8)

-40 000 ✓ + 115 000 ✓ - 2 200 ✓ - 575 ✓ - 1 320 ✓ ✓ = R70 905 ✓ owing to SARS ✓
 OR
 +40 000 - 115 000 + 2 200 + 575 + 1 320 = -R70 905 owing to SARS
 Choose the line that gives the learner the most marks.
 Ticks are for the sign and the amount.

1.4	<p>The owner has instructed the staff not to ring up cash sales on the cash register but rather just put the money straight in the till and if necessary give change. The bookkeeper is not happy with this arrangement at all.</p> <p>In your opinion, why do you think the owner has given this instruction? Discuss two possibilities.</p> <ul style="list-style-type: none"> • Will reduce the amount of VAT owing to SARS ✓ ✓ • Will reduce their sales income that will reduce their income tax. ✓ ✓ <p>In your opinion, why do you think the bookkeeper is not happy with the situation? Discuss two possibilities.</p> <ul style="list-style-type: none"> • Him and the owner can be fined ✓ • And/or jailed ✓ 	(6)
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QUESTION 2: RECONCILIATION (45 marks; 35 minutes)

2.1.1	<p>Calculate the correct Cash Receipts and Cash Payments totals for the month of March 20.9</p> <table border="1" data-bbox="320 360 1279 622"> <thead> <tr> <th>CASH RECEIPTS JOURNAL</th> <th>CASH PAYMENTS JOURNAL</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">125 000</td> <td style="text-align: right;">78 000</td> </tr> <tr> <td style="text-align: right;">2 800✓</td> <td style="text-align: right;">250✓</td> </tr> <tr> <td></td> <td style="text-align: right;">1 200✓</td> </tr> <tr> <td></td> <td style="text-align: right;">6 400✓</td> </tr> <tr> <td></td> <td style="text-align: right;">13 500✓✓</td> </tr> <tr> <td style="text-align: right;">127 800</td> <td style="text-align: right;">99 350</td> </tr> </tbody> </table>	CASH RECEIPTS JOURNAL	CASH PAYMENTS JOURNAL	125 000	78 000	2 800✓	250✓		1 200✓		6 400✓		13 500✓✓	127 800	99 350	(6)										
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2.1.2	<p>Calculate the bank account balance on 31 March 20.9.</p> <p>7 300✓✓ + 127 800 ☒ - 99 350 ☒ = R35 750☒</p>	(5)																								
2.1.3	<p>Prepare the bank reconciliation statement on 31 March 20.9</p> <p>Bank reconciliation statement on 31 March 20.9</p> <table border="1" data-bbox="320 846 1279 1137"> <tbody> <tr> <td>Balance as per bank statement</td> <td style="text-align: right;">32 120☒</td> <td></td> </tr> <tr> <td>Outstanding deposit</td> <td style="text-align: right;">10 100✓</td> <td></td> </tr> <tr> <td>Outstanding EFT</td> <td style="text-align: right;">(7 350) ✓</td> <td></td> </tr> <tr> <td>Correction of error</td> <td style="text-align: right;">880✓✓</td> <td></td> </tr> <tr> <td>Balance as per bank account</td> <td style="text-align: right;">35 750☒</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Balance as per bank statement	32 120☒		Outstanding deposit	10 100✓		Outstanding EFT	(7 350) ✓		Correction of error	880✓✓		Balance as per bank account	35 750☒											(6)
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2.1.4	<p>Refer to the deposit of R13 500:</p> <p>Which GAAP principle informs the bookkeeper as to whether to make an entry or not?</p> <ul style="list-style-type: none"> • Prudence ✓ <p>Explain why an entry had to be made.</p> <p>The business does not have the money anymore so they must delete it from the bank account otherwise they might spend money they do not have. ✓✓ They need to follow up with the driver and /or the thief.</p>	(1) (2)																								

QUESTION 2.2

2.2.1	<p>Calculate the correct balance in the creditor's ledger account of Archie Bros.</p> <p>7 350 + 240✓✓ + 360✓✓ + 2900✓ + 2 900✓ + 600✓ = R14 350☑</p>	(8)												
2.2.2	<p>Prepare the Creditors reconciliation statement on 31 March 20.9</p> <table border="1" data-bbox="304 539 1121 768"> <tr> <td>Balance as per statement</td> <td>18 600</td> </tr> <tr> <td>Invoice 101</td> <td>(2 300)✓</td> </tr> <tr> <td>Outstanding cheque</td> <td>(1 450) ✓</td> </tr> <tr> <td>Outstanding discount</td> <td>(150) ✓</td> </tr> <tr> <td>Outstanding return</td> <td>(350) ✓</td> </tr> <tr> <td>Balance as per ledger account</td> <td>R14 350☑</td> </tr> </table>	Balance as per statement	18 600	Invoice 101	(2 300)✓	Outstanding cheque	(1 450) ✓	Outstanding discount	(150) ✓	Outstanding return	(350) ✓	Balance as per ledger account	R14 350☑	(5)
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2.3.1	<p>Identify two debtors that are problems. Quote figures to support your answer.</p> <ul style="list-style-type: none"> • B Bheki current balance of R34 000 is over the credit limit of R20 000. ✓✓ • A Singh has R25 000 90 days overdue but still bought for R5 000✓✓ 	(4)
2.3.2	<p>Explain why the debtors' collection period is acceptable but there are problem debtors. Quote figures to support your answer.</p> <p>A Hall✓ account accounts for R75 000 of the total debtors of R147 000 (51%) ✓✓of the total debtors balance and is well controlled. ✓ This is the reason why the debtors collection period which is an average of all the debtors looks perfect ✓</p>	(4)
2.3.3	<p>What advice can you give Fred to improve his cash flow problem? Discuss two possible measures.</p> <ul style="list-style-type: none"> • Not sell to debtors that are over their credit limit. ✓✓ • Not sell to debtors whose accounts are overdue – 60 or 90 days. ✓✓ 	(4)

QUESTION 3 FIXED ASSETS (46 marks; 35 minutes)

COLUMN A	COLUMN B
1	C✓
2	E✓
3	A✓
4	D✓
5	B✓

1. **GENERAL LEDGER OF ROVER STORES** (13)

ASSET DISPOSAL

June	30	Vehicle ✓	160 000✓✓	June	30	Acc Dep on vehicle✓ 90 000✓ + 8 000☒	98 000☒
		Profit on sale of asset✓	16 000☒			Creditor control✓ 280 000✓ – 202 000✓	78 000✓
			176 000				176 000

CALCULATION OF DEPRECIATION: (18)

VEHICLE:

Sold: $160\,000 \times 20\% \times \frac{3}{12} = 8\,000$

New: $280\,000 \times 20\% \times \frac{9}{12} = 42\,000$

Old: $(720\,000 - 160\,000) \times 20\% = 112\,000$

EQUIPMENT:

OLD: R28 500

DEPRECIATION RATE: $28\,500 / 190\,000 = 15\%$

New: $80\,000 \times 15\% \times \frac{2}{12} = R2\,000$

FIXED ASSET NOTE TO THE FINANCIAL STATEMENT ON 31 MARCH 20.9 (10)

	VEHICLES	EQUIPMENT
Book value 1 April 20.8	480 000	190 000✓
Cost	720 000	390 000
Accumulated depreciation	240 000✓	(200 000)
MOVEMENTS		
Additions	280 000	80 000
Disposals	(62 000)☒	0
Depreciation	(162 000)☒	(30 500)☒
Book value 31 March 20.9	536 000☒	239 500☒
Cost	840 000	470 000✓
Accumulated depreciation	(304 000)☒	(230 500)☒

QUESTION 4 RATIO AND ANALYSIS (35 marks; 30 minutes)

<p>4.1</p>	<p>Calculate the following for Zebra Stores for 20.9: Debtors collection period</p> $\frac{(200\ 000 + 131\ 300) / 2}{2\ 160\ 000} \times \frac{365}{1}$ $\frac{165\ 650 \checkmark\checkmark}{2\ 160\ 000 \checkmark\checkmark} \times \frac{365}{1}$ <p>28 days <input checked="" type="checkbox"/></p> <p>Creditors payment period</p> $\frac{(283\ 013 + 216\ 713) / 2}{2\ 400\ 000} \times \frac{365}{1}$ $\frac{249\ 863 \checkmark\checkmark}{2\ 400\ 000 \checkmark} \times \frac{365}{1}$ <p>38 days <input checked="" type="checkbox"/></p> <p>Stock turnover rate</p> $\frac{2\ 400\ 000}{(200\ 000 + 600\ 000) / 2}$ $\frac{2\ 400\ 000 \checkmark}{400\ 000 \checkmark\checkmark}$ <p>6 times <input checked="" type="checkbox"/></p>	<p>(5)</p> <p>(4)</p> <p>(4)</p>
<p>4.2</p>	<p>Tom is of the opinion that Lion Stores has a better liquidity situation as their current and acid test ratios are higher. You do not agree. Explain using your answers from 4.1 to support your answer.</p> <p>Lion Stores has higher ratios as their debtors are taking 35 days <input checked="" type="checkbox"/> to pay, while they are paying their creditors in 20 days <input checked="" type="checkbox"/> so they require more liquidity as they have not collected all the money from the debtors before paying the creditors. <input checked="" type="checkbox"/> Their stock levels are higher as they are only turning over their stock 3 times a year. <input checked="" type="checkbox"/></p> <p>Zebra Stores debtors are paying quicker in 28 days <input checked="" type="checkbox"/> and they are paying their creditors after this at 38 days, <input checked="" type="checkbox"/> so they do not require as much liquidity. <input checked="" type="checkbox"/> Their stock is also turning over much quicker at 6 times so they are getting the cash in quicker than Lion Stores. <input checked="" type="checkbox"/></p> <p>Although Zebra has lower ratios, their liquidity is better controlled. <input checked="" type="checkbox"/></p>	<p>(9)</p>

4.3	<p>Which business has a better profitability position? Quote at least 3 figures/indicators from both businesses to support your answer.</p> <p>Must quote both business to earn marks</p> <ul style="list-style-type: none"> • Mark-up: Lion Stores has a higher mark-up % of 80% compared to Zebra Stores of 50%✓ ✓ • Sales: Lion sales are higher by R1 900 000 than Zebra (5 500 000 compared to 3 600 000)✓✓ • Operating expenses: Lion Stores has better control of their expenses at 28% of turnover while Zebra is 35%✓✓ • Net Profit on sales: Lion has a final net profit of 22% compared to Zebra at 15% so Lion is making a larger %. • Overall: Lion is in a better profitability position than Zebra.✓ 	(7)
4.4	<p>Which business is making better use of the owner's capital investment in the business? Explain by quoting two financial indicators/figures from the table below.</p> <p>Zebra's return is 18%,✓ which is higher than the net profit of 15%✓, while Lion has a return of 12%✓, and the net profit of 22%✓. Lion has a larger amount of capital invested in the business that is not earning an adequate return on his investment – capital is lying idle✓. Zebra is making better use of his capital investment in the business✓.</p> <p>If the learner compares only to current interest rates a max of 4 marks can be earned.</p>	(6)