JUNE PAPER 1
MEMO
QUESTION 1 ANALYSIS AND PARTNERSHIP LEDGER (38 marks; 30 minutes)

1.1 Analyse the transactions under the following headings. (6)

NO	AMOUNT	A	OE	L	
1.1.1	R50 000	+	0	+	✓
1.1.2	R350	0	+	-	✓
1.1.3	R15 000	-	-	0	✓
1.1.4	R20 000	0	+-	0	✓
1.1.5	R10 000	+	+	0	✓
	R6 000	-	-	0	✓

1.2 **GENERAL LEDGER OF RAYMAND AND SONS**

FINAL ACCOUNTS SECTION

APPROPRIATION ACCOUNT **(16)**

Mar	31	Salary: Ray	180 000✓	Mar	31	Profit and loss✓	**800 750**
		Salary: Mandy	144 000✓				
		Interest on capital: Mandy	25 000✓				
		Interest on Capital: Ray 27 750✓✓ + 10 000✓✓	37 750☑				
		Bonus: Mandy	24 000✓				
		Current account: Ray✓	240 000☑☑ If 8 : 5				
		Current account: Mandy✓	150 000☑☑ If 8 : 5				
			800 750				**800 750**

Interest on capital: 25 000/500 000 X 100 = 5%

BALANCE SHEET SECTION

CURRENT ACCOUNT: RAY **(8)**

Apr	1	Balance	5 600✓	Mar	31	Salary: Ray	180 000✓
Mar	31	Drawings: Ray	135 000☑			Interest on capital: Ray	37 750☑
		Balance	317 150☑			Appropriation✓	240 000☑
			457 750				**457 750**
				Apr	1	Balance	317 150☑

Alternative names for contra accounts can be used.

1.3 Calculate the % return earned by Ray on his average investment in the business. (8)

<u>180 000✓ + 37 750 ☑+ 240 000</u> ☑ X 100
740 000✓ + 800 000 ✓+ (5 600) ✓+ 317 150☑

<u>457 750</u> X 100
925 775

49,4% (49,5%)☑

QUESTION 2 STATEMENT OF COMPREHENSIVE INCOME AND NOTES TO THE FINANCIAL STATEMENTS
(50 marks: 40 minutes)

STATEMENT OF COMPREHENSIVE INCOME OF MPGI TRADERS FOR THE YEAR ENDED 28 FEBRUARY 20.9 **(37)**

Sales **4 499 912 – 50 000** – 6 912✓		4 443 000	✓
Cost of sales **2 600 000** – 4 800✓✓		(2 595 200)	☑
GROSS PROFIT	**6**	1 847 800	☑
Other operating income		882 240	☑
Fee Income		**880 000**	
Trading stock surplus 193 000 - (267 000 - 80 000+ 4 800)		1 200	✓✓☑
Bad debts recovered		840	✓✓
Provision for bad debts		200	✓✓
GROSS INCOME	**9**	2 730 040	☑
OPERATING EXPENSES		(1 777 200)	☑
Lease of equipment **78 000** + 5 000✓		83 000	✓
Insurance **112 000** – 10 150✓✓		101 850	☑
Bank charges		**42 000**	
Discount allowed		**550**	
Salaries and wages		**960 000**	
Employer's contributions		**38 400**	
Electricity		**120 000**	
Bad debts **5 800** + 3 300✓✓		9 100	☑
Depreciation		**42 000**	
Printing and stationery		**6 400**	
Consumables stores **24 000** – 5 400		18 600	✓✓
Loss due to flood		20 000	✓✓
Rent **242 100** – 19 620✓✓✓		222 480	☑
Sundry expenses	**18**	*112 820	☑
OPERATING PROFIT		952 840	☑
Interest Income		39 000	☑☑
Profit before interest expense		991 840	☑
Interest expense	4	**(132 000)**	
NET PROFIT		**859 840**	

TRADE AND OTHER RECEIVABLES **(13)**

NET TRADE DEBTORS	141 178☑
Debtors control **156 000** – 6 912✓ + 840✓ + 1 350✓ – 3 300✓✓	147 978☑
Provision for bad debts **7 000** - 200	(6 800) ✓
Expenses prepaid 10 150☑ + 19 620☑	29 770☑
Income receivable 60 000	60 000✓✓
DO NOT TOTAL	

QUESTION 3 STATEMENT OF FINANCIAL POSITION AND NOTES (40 marks; 30 minutes)

STATEMENT OF FINANCIAL POSITION OF BHEKI & SONSAS AT 28 FEBRUARY 20.9

(26)

NON-CURRENT ASSETS 3 009 000 – 412 500		2 596 500 ☑
Fixed assets 2 596 500 – 70 000		2 526 500☑
Financial assets 180 000✓ - 110 000✓	5	70 000✓
CURRENT ASSETS		**412 500**
Inventory 412 500 – 264 000		148 500☑
Trade and other receivables 264 000 – 162 500		101 500✓✓
Cash and cash equivalent 40 000✓ + 12 500✓ + 110 000✓		162 500✓
TOTAL ASSETS same as total equity and liabilities	**8**	**3 009 000☑**
EQUITY AND LIABILITIES		
PARTNERS' EQUITY		1 900 000☑
Capital		**2 000 000**
Current account	3	(100 000)✓✓
NON-CURRENT LIABILITIES		944 000
Loan **1 100 000** + 132 000✓ - 210 000✓ - 78 000✓✓	5	944 000☑
CURRENT LIABILITIES412 500 ÷ 2.5		165 000✓
Trade and other payables		37 000☑
Current portion of loan		78 000☑
Bank overdraft		50 000✓
TOTAL EQUITY AND LIABIILITIES	**5**	**3 009 000☑**

TRADE AND OTHER PAYABLES **(9)**

Creditors control missing figure	18 000☑
Expenses payable	5 100✓
Income received in advance	3 800✓
Creditors for salaries	8 100✓
SARS (PAYE)	1 800✓✓
UIF 100 + 100	200✓✓
Same as figure in current liabilities	37 000☑

3.3	**The owner is very pleased with the improvement in the liquidity ratios from 20.8 to 20.9. You do not agree. Explain why quoting figures to support your answer. Discuss two possible reasons.** The current ratio has increased from 1.7 to 2.5 : 1. ✓ The acid test ratio has increased from 0.8 to 1.6 : 1✓ The business has too much liquidity in 20.9✓ Too much stock is on hand which can become outdated✓ The trade and other receivables is too high – debtors are taking too long to pay✓ Too much cash on hand – should be invested in a fixed deposit (although some of the cash has not yet been received and we are not sure what decision the owner would have made with this investment.)	(5)

QUESTION 4 RATIO AND ANALYSIS (22 marks: 20 minutes)

4.1	**The owner changed the mark-up policy of the business during the year.** **Explain the decision and the effect on the sales of the business** The mark-up% decreased by 15% (80% to 65%)✓ Sales increased by R1 100 000 (30%)✓✓ OR Gross profit increased by 12% (40 – 52%) **The effect on the final net profit of the business** Net profit only increased by 1% (13 – 14%)✓ Operating expenses increased by 6% (24 – 30%)✓✓	(3) (3)
4.2	**The owners increased the loan during the year. Was this a viable business decision? Calculate and quote TWO financial indicators to support your answer.** **Debt : equity ratio** 1 800 000✓ : 1 200 000✓ 1.5 : 1✓✓ **Return on total capital employed** 672 000 + 171 500 X 100 1 200 000 + 1 400 000 843 500✓✓ X 100 2600 000✓✓ 32,4%☑☑ **Comment:** Although the risk increased✓ from a low risk of 0.8 : 1 to a high risk of 1.5 : 1☑ The return on capital employed increased✓ from 19% to 32%.☑ There is positive gearing in the business as the interest rate on the loan was 9.5%.✓ Was a viable decision as the return was more than the interest rate on the loan and has increased from last year.✓	 (4) (6) (6)