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**3-in-1**

# Accounting

CLASS TEXT & STUDY GUIDE

Ann Botha

GRADE

**11**

CAPS



# Grade 11 **Accounting** 3-in-1 CAPS

## CLASS TEXT & STUDY GUIDE

This Grade 11 Accounting 3-in-1 study guide is the complete, simple solution to the Grade 11 CAPS curriculum. It mentors you through the course material with comprehensive notes, questions, answers and full exams, allowing you to boost your understanding and hone your exam technique.

### **Key features:**

- Step-by-step, methodical approach
- Comprehensive notes with worked examples per topic
- Graded questions and answers per topic
- Exam papers and answers with handy hints

The combination of detailed notes, worked examples, clear solutions, tips and focused advice make this book an invaluable study aid no matter your level of confidence.

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## THIS CLASS TEXT & STUDY GUIDE INCLUDES

- 1 Notes per Topic
- 2 Comprehensive Questions per Topic
- 3 Suggested Answers per Topic (*in separate booklet*)

eBook  
available 

*Plus bonus exam questions and suggested answers*



## TERM BY TERM OVERVIEW

<b>Term 1</b>	Topic 3: Reconciliations Topic 4: Tangible/Fixed Assets Topic 5: Partnerships
<b>Term 2</b>	Topic 6: Analysis and Interpretation of Financial Statements Topic 7: Clubs (Non-profit Organisations) – <i>no longer examinable for NSC</i>
<b>Term 3</b>	Topic 8: Cost Accounting Topic 9: Budgeting Topic 10: Inventory Systems
<b>Term 4</b>	Topic 11: Value Added Tax (VAT)

**Topic 1: Accounting concepts, GAAP and Ethics & Topic 2: Internal control and Internal audit** are continuously incorporated in the other Topics (as specified in the CAPS curriculum).



## CONTENTS

*How to do calculations* ..... i

### NOTES

#### TOPIC 1: QUICK REVISION OF BASIC CONCEPTS, GAAP AND ETHICS

Five basic concepts you need to know .....	1
The purpose of Accounting .....	2
The General Ledger	
The basic rule of Accounting	
The Subsidiary Ledgers	
The Subsidiary Journals	
The Accounting cycle .....	3
Transactions and documents	
Generally Accepted Accounting Principles (GAAP) .....	4
Ethics .....	5

#### TOPIC 2: INTERNAL CONTROL AND INTERNAL AUDIT

Internal control .....	6
Internal audit .....	9

#### TOPIC 3: RECONCILIATIONS

Bank reconciliation .....	10
Creditors' reconciliation .....	16

#### TOPIC 4: TANGIBLE/FIXED ASSETS

Revision .....	18
Two ways of calculating depreciation.....	19
Asset disposal .....	22
The Tangible asset Note .....	28

## When does one do this reconciliation process?

It is done as soon as the Bank Statement is received, i.e. at the beginning of the next month.



### NOTE

We always assume that the balance on the Bank Statement is credit, i.e. to our credit in their books.

This is a favourable balance.

As you will see on the next page, if this is not so, the bank will have to indicate this by stating 'DR', 'O/D' or '-!'.  
 (Note: The original image contains a large watermark 'ANS' over this text.)

## The procedure

**Compare the Bank Statement**, i.e. tick the items which agree, **with** ↓

- |   |   |   |   |
|---|---|---|---|
| ✓ | ① | ✓ | previous month's Reconciliation Statement                     |
| ✓ | ② | ✓ | the deposits shown in the CRJ                                 |
| ✓ | ③ | ✓ | the direct transfers in the CPJ                               |
| ✓ | ④ | ✓ | the direct transfers to pay employees in the Salaries Journal |

## THEN

**Items not ticked off in the** ↓: **are entered in the** ↓:

- |   |  |   |                               |
|---|--|---|-------------------------------|
| ⑤ | credit column of the Bank Statement  | → | Cash Receipts Journal         |
| ⑥ | debit column of the Bank Statement   | → | Cash Payments Journal         |
| ⑦ | <b>total the CRJ and CPJ and post these to the Bank account in the General Ledger and balance the account.</b> |   |                               |
| ⑧ | CRJ (last deposit for the month)   | → | Bank Reconciliation Statement |
| ⑨ | CPJ and the SJ (there can be many)   | → | Bank Reconciliation Statement |
| ⑩ | previous month's BRS   | → | this month's BRS              |

## The Bank Reconciliation Statement

It is done from the bank's point of view as it does not know about the outstanding items.

**OUTSTANDING**  
still has to happen



Example:

### MODEL BANK RECONCILIATION STATEMENT ON 31 JANUARY

	DEBIT	CREDIT
..... balance according to Bank Statement	overdraft	favourable
Credit outstanding deposit (the one on the last day) ⑧		XXX
Debit outstanding EFTs: no. 88 ⑩	XXX	
no. 124 ⑨	XXX	
no. 128 ⑨	XXX	
Debit error – this is when the bank credited our account wrongly	XXX	
Credit error – this is when the bank debited our account wrongly		XXX
..... balance according to Bank account ⑦	favourable	overdraft
	<b>TOTAL =</b>	<b>TOTAL</b>



The vehicle which cost R400 000 is **NEW** as it was bought less than a year ago, **BUT** it did not cost R400 000. It cost R420 000. This is the same principle as is used when buying Trading stock.

All costs of installing, transporting or otherwise enhancing the asset bought must be considered to be part of its cost and depreciated accordingly.

It was bought on 1 December which means they have had it for only 3 months.

$$R420\,000 \times 25\% \times 3/12 \quad (420\,000 \times 0,25 \times 1/4) = \underline{\underline{R\ 26\ 250}}$$

$$\text{Depreciation for the year ended 28 February 2017} = \underline{\underline{R101\ 249}}$$

### Diminishing balance/carrying value/book value

The words 'balance' and 'value' tells you **not** to work out depreciation on cost price.

The depreciation amount will not be the same each year because you work it out on the value which is a smaller/diminishing figure each year. Therefore this asset will never be completely written off.

Before we can calculate depreciation on the diminishing balance, we have to know the total of the depreciation already written off the asset to date, i.e. the accumulated depreciation.

#### EXAMPLE 3

Brand New Bros started business on 1 September 2015. It bought computer equipment costing R40 000 on this date. Their policy is to write off depreciation at 15% p.a. on the diminishing balance method.

#### REQUIRED

Show the journal entry and the ledger accounts to write off depreciation on the equipment for the year ended 28 February 2017.



#### CALCULATION

$$\text{Year-end 29.02.2016: cost } 40\,000 \times 0,15 \times \frac{1}{2} \text{ (1 Sept – 29 Feb)} = 3\,000$$

$$\text{Year-end 28.02.2017: book value } 40\,000 - 3\,000 = 37\,000 \times 0,15 = 5\,550$$

#### GENERAL JOURNAL OF BRAND NEW BROS – FEBRUARY 2017

28	Depreciation (E+)		5 550	
	Accumulated depreciation on equipment (A-)			5 550
	depreciation written off at 15% p.a. on			
	diminishing balance			

#### GENERAL LEDGER OF BRAND NEW BROS

##### Balance Sheet section

		+		EQUIPMENT		(A)		-	
2016	Sept	1	Bank	CPJ	40 000				

		+		ACCUMULATED DEPRECIATION ON VEHICLES		(A-)		-			
						2016	Feb	29	Depreciation	GJ	3 000
						2017	Feb	28	Depreciation	GJ	5 550
											8 550



It is not necessary to balance this account as it only has figures on the one side. Sub-total it, i.e. draw a single line and write the total/balance below BUT do **not** write any words next to it and do **not** draw double lines, as the two sides are not equal.

##### Nominal section

		+		DEPRECIATION		(E)		-			
2017	Feb	28	Accumulated			2017	Feb	28	Profit and loss	GJ	5 550
			depreciation								
			on equipment	GJ	5 550						

On 28 February 2017 the carrying value of this equipment would be R31 450.  
Cost R40 000 – Accumulated depreciation R8 550.

## WHAT'S NEW IN THE FINANCIAL STATEMENTS?

The **Notes to the Financial Statements** are almost the same, except that after the Note for Capital is a Note for Current accounts.

The **Balance Sheet or Statement of Financial Position**, as it is now called, is the same as that of a sole proprietor, except under Equity there are two items: Capital and Current accounts.

### New Equity Notes to Financial Statements

This information was taken from the books of Strawberry Supermarket on 30 June 2017, the last day of the financial period. The partners are S Straw and B Berry. Use this to complete the Equity Notes to the Financial Statements.

#### INFORMATION

- On 1 October 2016 S Straw had decreased his capital by R20 000 and B Berry had increased his capital by R40 000.
- Partners' Current accounts extracted from the ledger:



#### GENERAL LEDGER OF STRAWBERRY SUPERMARKET CURRENT ACCOUNT: S STRAW

2016				2017			
Jul	1	Balance	b/d	5 000	Jun	30	Salary: S Straw
							160 000
2017							Interest on Capital
Jun	30	Drawings: S Straw		170 000			12 400
		Balance	c/d	44 400			Partner's bonus
							20 000
				219 400			Appropriation (S)
							27 000
							219 400
					Jul	1	Balance
							b/d
							44 400

#### CURRENT ACCOUNT: B BERRY

2016				2017			
Jul	1	Balance	b/d	7 000	Jun	30	Salary: B Berry
							184 000
2017							Interest on Capital
Jun	30	Drawings: B Berry		190 000			11 200
		Balance	c/d	25 200			Appropriation (S)
							27 000
				222 200			
							222 200
					Jul	1	Balance
							b/d
							25 200



The Income Statement is now called Statement of Comprehensive Income in practice, but it may be called either in these notes.

## STRAWBERRY SUPERMARKET

### NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

CAPITAL		S STRAW	B BERRY	TOTAL
Balance at beginning of year	4 ↗	170 000	110 000	280 000
Additional capital introduced [1]	3 ↑		40 000	40 000
Decrease in capital [1]	2 ↑	(20 000)		(20 000)
Balance at end of year	1 ↑	150 000	150 000	300 000
CURRENT ACCOUNTS		S STRAW	B BERRY	TOTAL
Net profit per Statement of Comprehensive Income	↗ 10	219 400	222 200	441 600
Partners' salaries (S)	↑ 5 ↓	160 000	184 000	344 000
Interest on capital (I)	↑ 6 ↓	12 400	11 200	23 600
Partners' bonuses (B)	↑ 7 ↓	20 000		20 000
Primary distribution of profit	↑ 8 ↘	192 400	195 200	387 600
Final distribution of profit (S)	↑ 9	27 000	27 000	54 000
Drawings for year	11 ↓	(170 000)	(190 000)	(360 000)
Retained income for year	12 ↘	49 400	32 200	81 600
Balance at beginning of year	13 ↓	(5 000)	(7 000)	(12 000)
Balance at end of year	14 ↘	44 400	25 200	69 600

#### HOW TO DO THESE NOTES

- Complete the Capital Note first. The balances have been entered, but be careful – they are the end figures. Use information no 1 and work backwards to find the opening balances, i.e.  $1 + 2 - 3 = 4$
- Follow the words and the numbers to complete the Current account note.  $5 + 6 + 7 = 8$  and  $8 + 9 = 10$  and  $10 - 11 = 12$  and  $12 + 13 = 14$
- Be sure that each time you sub-total (add, i.e. lines 8, 10, 12, 14) Straw's column + Berry's column = Total column

Now LEARN THE WORDING – it does not change.

**HINT:** All the 'd' words are negative – *debit balance on Current account*  
*decrease in Capital and Drawings*

Now do **QUESTIONS 36 to 38** on pages **102 to 104**.



# 6 ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

Having learnt how to prepare Financial Statements, we now come to the reason why we did everything as accurately as possible. We are going to interpret the Financial Statements to determine whether the business is solvent, profitable and liquid.

Although certain conclusions can be made by studying these statements, meaningful information is only obtained by **comparing them** with the Financial Statements of previous years and, if possible, with the Financial Statements of similar businesses.

## The Financial Statements are of interest to:

- the **partners** who want to know how much they have earned on their investment and whether it is worthwhile continuing in this business
- the **bank manager** who wants to be sure that the overdraft or loan is secure
- the **loan holder** to ensure that it will get its money back
- the **trade union** which wants to ensure that adequate wages are being paid to the employees
- the **taxman** who works out how much personal tax the partners must pay on their earnings
- **anyone** interested in becoming a partner in the business or lending it money

## The analysis tests three aspects of the business

### Solvency

Determines whether the business can pay all its debts by showing that the total of all the assets is greater than the total of all the liabilities.

### Profitability

Measures whether the business was successful in making a profit and controlling its expenses in this financial period.

### Liquidity

Shows the ability of the business to pay its current/short-term liabilities using its current/short-term assets.

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## It is important that:

- the profit made by the business provides each **owner** with a reasonable **return on the capital they invested**. This return must be greater than the interest they would have earned if they had invested their money in a financial institution. They are taking the risk of entrepreneurship and must be rewarded for this.
- **some of this profit is retained** in the business so that:
  - it can cope with changing circumstances and assets can be replaced when they wear out. This will enable the business to be sustainable and even grow its market share.
  - it always has sufficient cash available to pay its debts on time, take advantage of special business opportunities and still be competitive. If the partners take all the profit out in cash the business may not be able to maintain its good reputation and position in the market.

This analysis and interpretation must be done every year so that any warning signs of things going wrong can be identified and the necessary steps can be taken as soon as possible to manage the business more effectively.

## REVISION OF FORMULAE

### Solvency

$$1. \text{ Solvency ratio} = \text{Total assets} : \text{Total liabilities}$$

This shows whether the total assets of the business are able to pay all its debts. The answer will be a **ratio** and must, of course, be at least 1 : 1. (*Some of us might like the answer to be 1 000 000 : 1, that is, if we want to be millionaires!*)

Anything less than 1 : 1 would mean the partnership is insolvent. It could be liquidated which means all the assets will be converted into cash, i.e. sold.

Any debts not paid from the proceeds of this sale will have to be paid by the partners personally as they are **jointly and severally liable for the debts**. A creditor can sue both of them together (jointly) or choose the richer one and sue him or her only (severally). This partner would then sue the other partner for his share of the debt. If the poorer partner cannot repay, the richer partner loses out. This is a serious disadvantage of forming a partnership.

In Grade 12 you will learn that it is safer to form a company.

You will be provided with a formula sheet in every exam (see page 176).



# 10 INVENTORY SYSTEMS

There are two ways of accounting for inventory in a business. In Grade 10 we used the perpetual stock system. Before studying the other system, the periodic system, let's do a little revision of the

## PERPETUAL STOCK SYSTEM

So far all the businesses we have studied have **continually** updated the Trading stock account so that they have **always** known how much stock they ought to have on the shelves.

When the firm buys stock the Trading stock account is debited (A+) and when this stock is sold the Trading stock account is credited (A-) with the **Cost of sales**.

Therefore the balance of the Trading stock account at any time will reflect the amount of stock that has not been sold.

It is easy enough to record the stock coming into the firm, but to record the Cost of sales requires a **sophisticated computer system** to scan the barcode on the item going out of the firm. As this system is very expensive, many small businesses cannot afford to use this stock system.



At the end of the financial period, or any other time the business needs to, a physical inventory count will calculate how much stock is actually on the shelves and in the storeroom. This total is then compared to the balance on the Trading stock account to determine how much shrinkage has taken place. Shrinkage is the normal loss of stock every day. We call this **Trading stock deficit**.

## PERIODIC STOCK SYSTEM

Periodic means **occasionally** or every **now and then**.

Not that many years ago all firms used the periodic stock system as the computer program for the perpetual system had not been invented. When the computer hardware and software was developed it was very expensive, so only very large, profitable firms could afford to implement this system. Of course, as computers have become cheaper, more firms have changed to the perpetual system.



We used the Periodic system in Non-profit Organisations, i.e. Clubs (Topic 7).

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This stock system is still used by some businesses because:

- they feel it is not worth investing in a very expensive computer system
- they may, for example, sell many small items at a variety of mark-ups, so the computer system needed would not be a simple, affordable one
- it is not possible to put the barcode on the products they sell.

Businesses which do not have a computer system to update the stock account by reading the barcode, will only know how much stock they have on hand occasionally. In fact, they will only know how much stock they have **when they do a physical inventory count** at the end of the financial year.

Quick comparison of:

	PERIODIC SYSTEM	PERPETUAL SYSTEM
<b>Cost of sales</b>	XXX ☹☹☹ There is <b>NO account</b> called Cost of sales because there is no computer to keep a record of the cost of each item sold.	✓✓✓ ☺☺☺ <b>YES</b> , the Cost of sales account is always used because the computer reads the barcode showing the cost price every time stock is sold.
<b>Trading stock deficit</b>	XXX ☹☹☹ There is <b>NO account</b> for Trading stock deficit because the business does not know how much has actually been stolen. It does not know how much stock it should have (see Note below).	✓✓✓ ☺☺☺ This business will be able to calculate how much has been stolen because the Trading stock account balance shows how much stock there should be on the shelves.

### REMEMBER

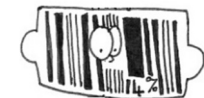
**PERIODIC** means **OCCASIONALLY** or now and then, which for us means: **NEVER**

↘ USE  
↘ THE

**TRADING STOCK ACCOUNT**

↙ THE  
↙ USE

**PERPETUAL** means **ALWAYS** ↙ or continuously



**QUESTION 29 – ASSET REGISTER, LEDGER AND TANGIBLE ASSET NOTE (\*\*\*)**

(28 minutes)

Answers on page A9.

**SCORPIO DELIVERIES**

Scorpio Deliveries had two delivery vans on 29 February 2016, the end of the previous financial period:

1. a Hyundai van, FS 312 578 bought on 1 December 2014 for R300 000
2. a Kia van, FS 389 578, bought on 31 May 2016 for R325 000.

Depreciation is calculated on the carrying value at a rate of 20% p.a.

The Hyundai was sold for R220 000 for cash on 1 September 2016.



**REQUIRED**

- 29.1 Complete the Asset Register for the Hyundai van.
- 29.2 Draw up the Asset disposal account in the General Ledger, properly closed.
- 29.3 Draw up the Tangible asset Note for Vehicles only.

**ASSET REGISTER OF SCORPIO DELIVERIES**

PAGE 8

VEHICLE			
DATE PURCHASED			
COST			
DEPRECIATION			
DATE SOLD			
SELLING PRICE	PROFIT/LOSS		
DATE	DEPRECIATION	ACCUMULATED DEPRECIATION	BOOK VALUE
28.02.2015	15 000	15 000	285 000
29.02.2016	57 000	72 000	228 000

**GENERAL LEDGER OF SCORPIO DELIVERIES**

**ASSET DISPOSAL**


**NOTE TO FINANCIAL STATEMENTS FOR THE YEAR ENDING 28 FEBRUARY 2017**

TANGIBLE ASSETS	Vehicles



**QUESTION 36 – CURRENT ACCOUNT NOTE TO FINANCIAL STATEMENTS (\*\*)**

**(21 minutes)**

Answers on page A13.



**REINDEER RETAILERS**

The information given below was taken from the records of Reindeer Retailers.

1. Balances on 28 February 2017:
 

	<u>R Rein</u>	<u>D Deer</u>
Capital	750 000	750 000
Current accounts (1 March 2016)	15 000	12 500
Drawings	150 000	160 000
  
2. On 1 December 2016 partner D Deer increased her capital contribution by R200 000. This entry had been recorded.
  
3. The partnership agreement stipulates the following:
  - 3.1 **Salaries**  
At the start of the financial year partners were entitled to the following monthly salaries: R Rein, R8 200 and D Deer, R8 800.  
The salaries of both partners increased by 10% on 1 December 2016.
  - 3.2 **Interest on capital**  
Partners are entitled to interest on capital at 5% p.a.
  - 3.3 **Bonus**  
Deer is entitled to a bonus of 12% on the net profit after salaries and interest on capital have been deducted.
  - 3.4 **Share of profits/losses**  
Partners divided the remaining profits/losses equally.
  
4. The net profit for the year was R369 900.



**REQUIRED**

36.1 Prepare the following Notes to the Financial Statements.

**NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED 28 FEBRUARY 2017**

CAPITAL	R REIN	D DEER	TOTAL
Balance at beginning of year			
Additional capital introduced			
Decrease in capital			
Balance at end of year			
CURRENT ACCOUNTS	R REIN	D DEER	TOTAL
Net profit as per Statement of Comprehensive Income			
Partners' salaries			
Interest on capital			
Partner's bonus			
Primary distribution of profit			
Final distribution of profit			
Drawings for year			
Retained income for the year			
Balance at beginning of year			
Balance at end of year			

36.2 **ANSWER THE FOLLOWING QUESTION:**

Give THREE advantages of being in partnership with someone rather than being in business on your own. (6)

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**QUESTION 49 – ANALYSIS OF FINANCIAL STATEMENTS (\*\*)** (45 minutes)

Answers on page A23.

**TRENDY THREADS**

Study the information taken from the records of this upbeat business owned by B Cool and I M Calm, which sells casual clothing.

**FROM THE POST-CLOSING TRIAL BALANCES ON 31 DECEMBER**

	2017	2016
Capital: B Cool	500 000	580 000
Capital: I M Calm	300 000	300 000
Current account: B Cool	76 750	60 000
Current account: I M Calm	(20 000)	(9 500)
Trading stock	350 000	210 000
Trade debtors	55 000	50 000
Bank	50 000	60 000
Trade creditors	100 000	95 000

**FROM STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER**

	2017	2016
Sales	1 250 000	1 350 000
Cost of sales	500 000	600 000
Gross profit	750 000	750 000
Operating expenses	440 000	345 000
Net profit	310 000	412 000

The following were the financial indicators on 31 December 2016:

Gross profit on Cost of sales	125%
Net profit on Sales	30,56%
Operating expenses on Sales	25,03%
Current ratio	3,37 : 1
Acid test ratio	1,16 : 1
Stock holding period	3,5 months
Average debtors' collection period	40 days
Return on partners' equity	44%



**ANSWER THE FOLLOWING QUESTIONS:** (correct to two decimal places)

49.1 Calculate the Gross profit as a percentage of Cost of sales for 2017. (4)

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49.2 Give a possible reason for the decrease in Sales in 2017. (2)

---

49.3 Explain why the Gross profit in 2017 was the same as 2016, even though sales decreases. (4)

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49.4 Calculate Operating expenses as a percentage of Sales for 2017. Comment on your answer. (6)

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49.5 Calculate the percentage Net profit on Sales for 2017. Compare this percentage to that of 2016 and give a possible reason for the change. (6)

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49.6 Calculate the Current ratio for 2017. (4)

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**QUESTION 76 – COST CALCULATIONS (\*)**

**(20 minutes)**

Answers on page A34.

**GARDEN FURNITURE MAKERS**

Peter Pine, the owner of this factory, makes the best wooden table and chair unit in the country.



**INFORMATION FOR THE YEAR**

Raw material issued by storeman to factory floor	R1 440 000
Direct labour cost	600 000
Fixed costs	840 000
Variable costs	2 040 000
Total cost of production	2 880 000
Number of units produced:	6 000

**USE THE INFORMATION GIVEN ABOVE TO CALCULATE:**

76.1 Direct material cost per unit produced

formula ↙	substitute figures ↙	answer ↓
Direct material cost.....	1 440 000	
Number of units produced	6 000	R..... per unit

76.2 Direct labour cost per unit produced


76.3 Variable cost per unit produced


**Did you notice that the answer to no 1 + 2 = answer 3?**

76.4 Fixed cost per unit produced


76.5 Total cost of production per unit produced


76.6 Peter Pine uses a mark-up of 80% on cost. At what price does he sell the wooden furniture?

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76.7 Calculate the break-even point.

1. Contribution = Selling price per unit [76.6] – Variable cost per unit [76.3]
= R..... – R..... = R.....
2. Fixed costs = R..... (use total of all fixed costs)
Contribution ..... (answer for contribution in 1)
= UNITS

**FOR FUN!** Prove that your break-even number of units is correct by doing this -

multiply ..... units by R..... direct material cost per unit [76.1] .....	
multiply ..... units by R..... direct labour cost per unit [76.2] .....	
add on fixed cost total	.....
SUB-TOTAL	.....
multiply ..... units by R..... selling price per unit [76.6] (.....)	
<b>AND THE ANSWER SHOULD BE</b>	<u><u>0</u></u>

76.8 Explain, in your own words, what the break-even point shows Peter Pine. (4)

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76.9 Explain the difference between a fixed cost and a variable cost and give an example of each. (6)

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**QUESTION 92 – CASH BUDGET AND DEBTORS' COLLECTION SCHEDULE (\*\*)**

(26 minutes)

Answers on page A41.

**PLANET DEALERS**



Use the information and additional information to complete the Debtors' Collection Schedule and the Cash Budget for the three months ended 28 February.

<b>INFORMATION</b>	<b>DECEMBER</b>	<b>JANUARY</b>	<b>FEBRUARY</b>
Credit purchases: Oct R42 240; Nov R96 800	133 920	52 800	66 600
Salaries (before bonus and increase): In January the employees will be paid a bonus of 80% of their monthly salary and their salaries will increase by 7½% from February.	48 000	?	?
Depreciation	1 200	1 200	1 325
Estimated cash proceeds from disposal of asset. Old equipment with a carrying value of R5 000, will be sold at a profit of R1 000.		?	
Estimated purchase of equipment for cash			35 000
Other expenses (excluding Salaries and Interest on loan) will increase by 8% from 1 January.	57 500	?	?

**ADDITIONAL INFORMATION**

- It is estimated that debtors will pay their accounts as follows:
  - 30% in the month of sale subject to a 5% discount for early payment
  - 55% in the following month
  - 10% in the second month after sale took place
  - 5% is unlikely to be collected.
- Creditors will be paid in full 60 days after date purchased.
- The interest rate on the loan is 9% p.a. It has been agreed that the loan is to be increased by R150 000 on 1 February. The interest is paid at the end of each month.

**DEBTORS' COLLECTION SCHEDULE**

	<b>CREDIT SALES</b>	<b>DECEMBER</b>	<b>JANUARY</b>	<b>FEBRUARY</b>
October	52 800	5 280	–	–
November	121 000	66 550		
December	167 400	47 709		
January	52 800			
February	66 600			
		119 539		

**CASH BUDGET FOR THREE MONTHS ENDED 28 FEBRUARY**

	<b>DECEMBER</b>	<b>JANUARY</b>	<b>FEBRUARY</b>
<b>RECEIPTS</b>			
Cash sales	83 700	26 400	33 300
Receipts from debtors	119 539		
<b>TOTAL RECEIPTS</b>			
<b>PAYMENTS</b>			
Cash purchases of stock	33 480	10 560	13 320
Payments to creditors			
Interest on loan	1 350		
<b>TOTAL PAYMENTS</b>			
Cash Surplus/ Shortfall (Deficit)			
Bank balance at beginning of month	200 709		
Bank balance at end of month			



QUESTION 8

2

8.1 CASH RECEIPTS JOURNAL OF MONKEY TRADERS – MAY 2023 CRJ21

DOC	DAY	DETAILS	BANK	SUNDRIES	
				AMOUNT	DETAILS
	4		3 668✓		
	8		2 720✓		
	15		5 765✓		
	22		10 000✓		
	30		<b>11 657</b>		
		Proboscis Enterprises [1]	1 500	1 500	Rent income
		Barbary Bank	40	40	Interest on current account
			35 350		

3

8.1 CASH PAYMENTS JOURNAL OF MONKEY TRADERS – MAY 2023 CPJ21

DOC	DAY	PAYEE	BANK	SUNDRIES	
				AMOUNT	DETAILS
706	1	Spider Suppliers	1 750 ✓		
707	3	Telkom	210 ✓	210	Telephone
708	7	City Treasurer	475 ✓	475	Electricity
709	13	Rhesus Traders	2 600 ✓		
710	15	Baboon and Co	620 ✓		
711	18	Orangutan & Son	352 ✓		
712	20	Gibbon Bros	973 ✓		
713	24	Cash	100 ✓	100	Petty cash
714	25	Apie Action Repairs	1 680 ✓	1 680	Repairs
715	28	Rhesus Traders	<b>657</b>		
716		SATS	1 390 ✓		
717	29	Gorilla Motors	19 000 ✓		
718	31	Woolly & Co	<b>1 850</b>		
		5 Barbary Bank	380	380	Bank charges (240 + 140)
		Talk Ltd [2]	1 365	1 365	Drawings
		Primate Insurers [3]	315	315	Insurance
			33 717		

6

8.2 GENERAL LEDGER OF MONKEY TRADERS



BANK

May	1	Balance	b/d	6 400	May	31	Total payments	CPJ21	33 717
	31	Total receipts	CRJ21	35 350			Balance	c/d	8 033
				41 750					41 750
Jun	1	Balance	b/d	8 033					

7

8.3 BANK RECONCILIATION STATEMENT ON 31 MAY 2023

	DEBIT	CREDIT
Credit balance according to Bank Statement		83
Credit outstanding deposit		11 657
Debit outstanding EFTs: no. 703 (ex old BRS)	1 200	
no. 715	657	
no. 718	1 850	
Debit balance according to Bank account	8 033	
	11 740	11 740

HINTS

Always start the Bank Reconciliation Statement (BRS) with the Balance according to the Bank Statement because it is correct.

If your BRS does not balance at the end:

1. work out the difference between the two totals
2. look for an outstanding EFT for this amount (especially in the previous month's BRS)
3. check the outstanding deposit figure (always the last one in the CRJ)
4. now look for an item not entered / incorrectly entered in the CJ's.



## 5 PARTNERSHIPS

### QUESTION 31

#### ICECREAM DEALERS

#### 31.1 Calculation of net profit

Sales	2 526 000
Cost of sales (2 526 000/1,5)	<u>(1 684 000)</u>
Gross profit	842 000
Rent income	70 000
Total expenses for year	<u>(540 000)</u>
Net profit	<u>R 372 000</u>



#### 31.2 GENERAL JOURNAL OF ICECREAM DEALERS – 30 JUNE 2018

1.	Drawings: I Ice Trading stock	1 500		1 500
2.1	Salary: I Ice (10 600 × 12) Salary: C Cream (9 000 × 12) Current account: I Ice Current account: C Cream	127 200 108 000		127 200 108 000
2.2	Interest on capital Current account: I Ice (600 000 × 0,06) Current account: C Cream (480 000 × 0,06)	64 800		36 000 28 800
2.3	Partner's bonus Current account: Cream (372 000 – 127 200 – 108 000 – 64 800 = 72 000 × 0,1)	7 200		7 200
2.4	Appropriation (72 000 – 7 200) Current account: I Ice (5/9 × 64 800) Current account: C Cream (4/9 × 64 800) Appropriation Salary: I Ice Salary: C Cream (closing transfer) Appropriation Interest on capital (closing transfer) Appropriation Partner's bonus (closing transfer) Current account: I Ice (231 000 + 1 500 [1]) Current account: C Cream Drawings: I Ice (closing transfer) Drawings: C Cream (closing transfer)	64 800  235 200  64 800 7 200  232 500 270 000  232 500 270 000		36 000 28 800  127 200 108 000  64 800 7 200  232 500 270 000

### QUESTION 32

#### 32.1

#### GENERAL LEDGER OF FANCYFREE FASHIONS

##### APPROPRIATION

2018 Jun 30	Salary: F Fancy Salary: F Free Interest on capital Partner's bonus Current a/c: F Fancy Current a/c: F Free	168 000 192 000 90 000 6 200 127 900 127 900		2018 Jun 30	Profit and loss	712 000
		712 000				712 000



Calculation of **bonus**: 712 000 – 450 000 (90 000 + 168 000 + 192 000)  
= 262 000 – 200 000 = 62 000 × 0,1 = R6 200

**Share of profit:** 262 000 – 6 200 = 255 800/2 = R127 900 each  
(You were told in the first paragraph that they will share profits equally.)

##### CURRENT ACCOUNT – F FREE

2018 Jun 30	Drawings: F Free (314 000 + 86 000)	400 000		2018 Jun 30	Salary: F Free Interest on capital Partner's bonus Appropriation Balance	192 000 30 000 6 200 127 900 c/d 43 900
		400 000				400 000
Jul 1	Balance	b/d 43 900				

32.2 Annual leave should have been discussed when the partnership agreement was entered into to ensure that neither partner takes leave at a critical time of the year. December is a critical time (40% of annual sales take place then). Freddie should try to convince Fanny that she should not go on holiday during that month.

Fanny Free is not behaving ethically. She knows that her holiday will have a disastrous effect on the profits of the business. A hired helper cannot replace the input of an owner. A clause about annual leave should be added to the contract immediately.



I would also comment on Fanny's excessive Drawings. She owes the business R43 900 and should repay this as soon as possible. She seems to be using the partnership's money to pay for her family's holiday.

She earned a very small bonus this year as the profit was not high enough.

Fanny should realise that a new business requires extra effort to get it to the planned level of profitability.

## QUESTION 42

### BLITZVINNIG DISTRIBUTORS



42.1 Donations; Maintenance and repairs; Motor expenses; Postage; Stationery; etc.

The business would have to give SARS a detailed list of the expenses so that it can calculate how much tax each partner must pay on their share of the profit.

42.2 Yes. Their share of the profit exceeded their drawings for the year which means the business has more resources (cash) to use to improve the profit in the future.

42.3 There was no provision for this in the partnership agreement. OR  
A bonus was provided for in the partnership agreement, but she did not qualify for it because she did not do whatever was required to earn it, e.g. create new business.

42.4 They withdrew only their salaries, reinvesting their interest and profit share.

42.5 Adjustment no. 4: Matching  
Adjustment no. 10: Prudence

42.6 **TWO internal control measures to prevent staff from stealing stock**

- All staff must leave the premises through the same exit.
- Security staff must control this exit and check all bags carried by staff. OR
- Random searches of the staff must be made to ensure they do not try to hide the stock on their person.

42.7 **TWO control measures to prevent customers from stealing stock**

- Restrict access to the shop to one entrance which can be monitored.
- Place cameras in strategic places to constantly watch customers. OR
- Electronically tag the merchandise so that customers have to pay for it to have the tag removed so that they do not set off the alarm at the door. OR
- Place security guards at the only exit door to check all items being taken out against the till slips. OR
- Have security guards constantly patrolling the shop as a deterrent to customers who intend to steal.

42.8 Lottie Loskop is not capable of doing the work as it is and would not cope with the expansion of the business.

1. she did not reverse the unused packing material at the beginning of the year
3. she left the new salesperson's salary out of the Salaries Journal
9. she did not know how to do the asset disposal entry.

42.9 **Reasons to retain net profit**

- They want to improve the liquidity of the business (i.e. the cash available) to acquire new tangible assets, e.g. premises; equipment, fleet of delivery vans.
- They want to expand the business by opening new branches in the same town or in another place.

42.10 **In favour (ONE only)**

- If the business does not advertise, business will decline as the public will support competitors who are advertising special offers, etc. OR
- If the business does not advertise, the public thinks it no longer exists. OR
- Advertising is the only way to inform the public of new developments, new stock lines, special offers, etc.

**Against (ONE only)**

- Advertising in certain media, e.g. TV, is too expensive for a business which does not have shops throughout the country to use. OR
- The correct media must be used, in other words, only potential customers should see the advert, e.g. a single shop in a suburb should advertise in the local newspaper not in the national Sunday paper.

42.11 **ONE advantage of selling on credit**

- People who would not be able to afford the product this month can still buy it and pay later. This increases sales. OR
- Customers develop loyalty to the business where they have their account. OR
- The business can personalise marketing for credit customers.

**TWO disadvantages of selling on credit**

- More staff will be needed and a better accounting system – this increases costs.
- Communication costs will increase, i.e. telephone and postage. OR
- Bad debts and legal costs will be incurred.

82.1 **Factory overhead cost:**

Indirect labour	+	Rent	+	Maintenance	+	Depreciation	+	Indirect materials	
97 500		48 000		28 025		32 750		46 250	
									= <b>R252 525</b>



82.2 Gross profit = Sales – Cost of sales: 1 312 500 – 875 000 = **R437 500**

82.3 Percentage mark-up on cost:  $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} = \frac{437\,500 \times 100}{875\,000} = 50\%$

## 9 BUDGETING

**QUESTION 83**

**SOUTHERN SUN SUPPLIERS**

**CALCULATIONS ONLY** (*the full answer is QUESTION 83 on PAGE 151*):

**1. Sales**

R1 260 000 represents Sales for one year so divide by 12	=	R105 000
January will decrease by 10% so multiply by 0,9 (i.e. 90%)	=	R94 500
February will increase by 20% on January figure, i.e. 94 500 × 1,2	=	R113 400
March will increase by a further 10%, i.e. 113 400 × 1,1	=	R124 740

**2. Cost of sales**

The easiest way is to work out the relationship between Sales, Cost of sales and Gross profit. You can see that the mark-up (Gross profit) is 100% of the Cost of sales as they are equal and both are ½ of the sales. R94 500/2 = R47 250. Write this in as Cost of sales and Gross profit.

**3. Commission income**

This increases by 10% in February. R3 840 × 1,1 = R4 224. March is the same.

**4. Depreciation**

Depreciation last year was R15 120/12 = R1 260 per month for January and February. In March the purchase of the new equipment for R48 000 will increase this by R400. R48 000 × 0,1 ÷ 12.

**5. Expenses increasing by 15%**

Divide figure by 12 and then multiply by 1,15.

**6. Expenses increasing by 12%**

Divide figure by 12 and then multiply by 1,12.

**7. Salaries and wages**

198 000/12 = R16 500 for January and February. March R16 500 × 1,08.

**8. Interest income**

R4 500/12.

**9. Interest expense**

R9 000/12 = R750 for January (or 120 000 × 0,075 ÷ 12).

February and March after repayment of R20 000 = R100 000 × 0,075 ÷ 12 = R625.

**QUESTION 84**

The most important point to notice in this question is the figures given are for only 6 months! This means divide each figure by 6 first.

**NORTH STAR TRADERS**

**PROJECTED INCOME STATEMENT FOR SEPTEMBER AND OCTOBER**

	SEPTEMBER	OCTOBER
Sales (2 160 000/6 = 360 000 × 1,1) (Oct × 1,15)	[1] 396 000	455 400
Cost of sales (Sept 396 000/1,6) (Oct 455 400/1,6)	[2] (247 500)	(284 625)
Gross profit (check that this is 60% of Cost of sales)	148 500	170 775
Other operating income	13 200	13 200
Rent income (Sept 72 000/6 = 12 000 × 1,1)	[3] 13 200	13 200
Gross operating income	161 700	183 975
Operating expenses	(85 475)	(87 955)
Bad debts (4 320/6 = 720 × 1,1) (Oct × 1,15)	[6] 792	911
Bank charges (Sept 12 600/6 = 2 100)(Oct × 1,2)	[4] 2 100	2 520
Consumables (Sept 14 700/6 = 2 450)(Oct × 1,2)	[4] 2 450	2 744
Depreciation	[7] 7 000	7 000
Rates, water and refuse removal (Sept 33 300/6 = 5 550)(Oct × 1,18)	[4] 5 550	6 549
Repairs and maintenance (51 000/6)	[7] 8 500	8 500
Salaries and wages (Sept 225 000/6 × 1,08)	[5] 40 500	40 500
Sundry operating expenses	18 583	19 231
Operating profit	76 225	96 020
Interest income	[9] 275	330
Profit before interest expense	76 500	96 350
Interest expense (9 000/6 = 1 500) (see Note 3)	[8] (1 500)	(1 350)
Net profit for the year	75 000	95 000

### ANSWER TO QUESTION

There is no account for Customs duty because Trawler Traders does not import stock from overseas.



#### BE CAREFUL!

Never be caught by Carriage on sales or any other selling, distribution, overhead or administrative expenses given. They have nothing to do with the Cost of sales. They would go to 'Profit and loss'.

### QUESTION 98

#### MARINER'S DISCOUNT CENTRE

No.	Source document	SJ	General Ledger		Amount
			Account debited	Account credited	
1.	EFT	CPJ	Purchases	Bank	10 000
2.	EFT	CPJ	Carriage on purchases	Bank	1 500
3.	duplicate debit note	CAJ	Creditors' control	Creditors' allowances	500
4.	duplicate invoice	DJ	Debtors' control	Sales	1 500
5.	journal voucher	GJ	Drawings	Purchases	800
6.	duplicate credit note	DAJ	Debtors' allowances	Debtors' control	150



#### REMEMBER

When working out which accounts to use in any question, you first look for the magic words 'cash' 'bank' 'paid' or 'EFT'. If you find one you know the Bank account is changing, so you have half of the answer already.



### QUESTION 99

#### ADMIRAL SWEETS

NO.	GENERAL LEDGER	DEBTORS' LEDGER	CREDITORS' LEDGER	R
1.	Purchases	Creditors' control	Tar CC	7 400
2.	Creditors' control	Creditors' allowances	Tar CC	370
3.	Debtors' control	Sales	C Cadet	4 440
4.	Theft of stock	Purchases		370
5.	Debtors' allowances	Debtors' control	C Cadet	1 110

#### Calculations and notes

- R7 400       $20 \times 400 \times 0,925$  ( $100 - 7\frac{1}{2} = 92\frac{1}{2}\% = 0,925$ )
- R370       $7\,400/20$
- R4 440       $8 \times 370 \times 1,5$  (mark-up)
- Remember not to use the Trading stock account. The debit can be called 'Uninsured loss/theft of purchases'. It cannot be Trading stock deficit as there is no such account in this system, and it is not 'shrinkage' as the business knows when it happened and who took it.
- R1 110      2 of 8 boxes were returned =  $\frac{1}{4} \times 4\,400$

**ANSWER TO QUESTION:** There are 12 boxes in stock ( $20 - 1 - 8 - 1 + 2$ ).

### QUESTION 100

NO.	PERIODIC STOCK SYSTEM		PERPETUAL STOCK SYSTEM	
	GENERAL LEDGER		GENERAL LEDGER	
	ACCOUNT DEBITED	ACCOUNT CREDITED	ACCOUNT DEBITED	ACCOUNT CREDITED
1.	Carriage on purchases	Bank	Trading stock	Bank
2.	Bank	Sales	Bank	Sales
		no entry	Cost of sales	Trading stock
3.	Drawings	Purchases	Drawings	Trading stock
4.	Creditors' control	Creditors' allowances	Creditors' control	Trading stock



This question emphasises the **continuous** use of the Trading stock account in the Perpetual system and the fact that it is NEVER used in the Periodic system.