



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

GREENBURY SECONDARY SCHOOL

ACCOUNTING

FINAL EXAMINATION: 2018

GRADE 11

MARKS: 300

TIME : 3 hours

N. B. This paper consists of 18 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

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

QUESTION 1: 30 marks; 18 minutes	
Topic of the question:	This question integrates:
Reconciliations	Managerial accounting Bank Reconciliation Creditors' Reconciliation Managing resources Internal control

QUESTION 2: 50 marks; 30 minutes	
Topic of the question:	This question integrates:
Manufacturing	Financial accounting Concepts Calculations Ledger account Managing resources Internal control

QUESTION 3: 100 marks; 60 minutes	
Topic of the question:	This question integrates:
Partnership Financial Statements and Fixed Assets	Financial accounting Concepts Income Statement Balance Sheet Managing resources Fixed assets

QUESTION 4: 40 marks; 24 minutes	
Topic of the question:	This question integrates:
Analysis and Interpretation of Financial Statements	Financial accounting Concepts Interpretation of financial information Managing resources Internal control

QUESTION 5: 40 marks; 24 minutes	
Topic of the question:	This question integrates:
Cash Budget	Managerial accounting Concepts Cash Budget Calculations Managing resources Internal control

QUESTION 6: 40 marks; 24 minutes	
Topic of the question:	This question integrates:
Inventory systems and VAT	Managerial accounting Periodic inventory system Ledger account Calculations Managing resources Internal control

QUESTION 1: RECONCILIATIONS**(30 marks; 18 minutes)****1.1 BANK RECONCILIATION**

The information provided, was taken from the records of Perfect Stores on 31 July 2018.

REQUIRED:

1.1.1 Analyse each transaction by completing the columns in the table provided. (15)

Example: The bank statement showed bank charges of R200.

NO.	CASH JOURNALS	BANK ACCOUNT		BANK RECONCILIATION STATEMENT		NO ENTRY (X)
	Account Details	Amount Debited	Amount Credited	Amount Debited	Amount Credited	
<i>Eg.</i>	<i>Bank charges</i>		<i>R200</i>			

TRANSACTIONS:

- A. A deposit of R20 000 made on 30 July 2018 was in the cash journals but did not appear on the bank statement.
- B. Interest of R180 earned on the credit bank balance was not recorded by the business.
- C. A stop-order payment of R5 000 for the monthly repayment on the loan from Flexi Bank must still be recorded by the business.
- D. Cheque No.143, for R1 400 (a post-dated cheque) issued to a creditor in part-payment of account appeared in the cash journal only.
- E. Cheque No. 238 for R175 appeared on the bank statement. This cheque was issued to Get-Fit Gym for the owner's membership fees. It was incorrectly entered as R157 in the cash journal.
- F. A cheque for R680 was received from P. Botha (a debtor), dated 31 August 2018. This will be deposited on the due date.
- G. A cheque for R300 issued to the local newspaper for an advertisement was lost and must be cancelled. This cheque will be replaced with a new cheque for the same amount in August 2018.
- H. Cheque No. 151 for R600 from the previous reconciliation statement issued to Telkom for the monthly telephone account appeared in the July 2018 bank statement.
- I. An EFT payment for the salary of the receptionist who was on leave was not processed by the bank. The gross salary of the receptionist was R7 500. Total deductions for the month amounted to R2 200.

1.2 CREDITORS' RECONCILIATION

A statement received from Fashion Traders, on 27 July 2018, reflects that Stylish Stores owes them **R14 770**. According to Stylish Stores, the amount due to Fashion Traders is only **R10 300**.

REQUIRED:

Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditor's Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

1.2.1 Total the columns to show the correct balances at the end of July 2018. (11)

1.2.2 The internal auditor wants to improve the internal control of stock and creditors. Provide TWO control measures that he may consider. (4)

INFORMATION:

- A. Stylish Stores entered a discount of R500 when a payment of R5000 was made during June 2018. Fashion Traders however, did not allow this discount stating that this cheque was received by them very late.
- B. Goods returned to Fashion Traders for R690 was recorded as R760 on the statement. Stylish Stores incorrectly calculated the cost of goods returned.
- C. Goods were purchased for R3 500 on 31 August 2018 after the statement received from Fashion Traders was closed off.
- D. An invoice received from Fashion Traders for R6 280 was correctly recorded in the books of Stylish Stores. It was incorrectly reflected as R6 820 on the statement.
- E. An invoice for R1 000 received from Fashion Traders was incorrectly recorded as a debit note in the Creditors Ledger of Stylish Stores.
- F. A cheque for R5 000 issued on 30 August 2018 to Fashion Traders appeared only in the Creditors Ledger account of Stylish Stores.

QUESTION 2: MANUFACTURING**(50 marks; 30 minutes)****2.1 CONCEPTS**

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (2.1.1– 2.1.3) in the ANSWER BOOK.

2.1.1 Factory rent is a (fixed/variable) cost.

2.1.2 Packing materials used are regarded as a/an (selling and distribution/ administration) cost.

2.1.3 Break-even point refers to the (minimum/maximum) number of units that must be produced and sold to cover all costs.

(3 x 1) (3)

2.2 PANDA CLOTHING

You are provided with information related to Panda Clothing. Panda Clothing make rugby jerseys. The financial year ends 28 February each year.

NOTE: Show calculations in brackets to earn part marks.

REQUIRED:

2.2.1 Calculate the Direct Materials cost. (10)

2.2.2 Calculate the Factory Overhead cost. (19)

2.2.3 Prepare the Work in Process Stock account. (9)

INFORMATION:**A. Summary of transactions for the year 28 February 2018**

Raw materials purchased for cash	850 000
Carriage on purchases paid on raw materials purchased	53 000
Customs duty paid on raw materials purchased	127 500
Indirect materials purchased	43 000
Rent paid	320 000
Water and electricity paid	28 000
Wages paid	835 000
Factory foreman's salary	142 000
Salespersons' salaries	150 000
Office administrative assistants' salaries	130 000
Commission paid to salespersons	100 000
Insurance paid	42 000
Advertising paid	55 000
Motor vehicle expenses paid (selling and distribution)	25 200
Stationery and printing paid (all administration)	11 000
Telephone costs paid	32 000
Sundry expenses paid	17 400

B. The following balances appeared amongst others in the books of the business.

	28 Feb 2018	1 March 2017
Raw materials stock	54 000	72 000
Consumable Stores on Hand (indirect materials)	3 800	7 000
Work in process stock	62 000	81 000
Finished goods stock	138 000	165 000

C. Additional information and adjustments:

- Special high quality imported fabric is used to make the jerseys. A supply was purchased on credit from the USA on 28 February 2018 but has not yet been recorded. The cost price was \$8 000. The prevailing exchange rate was 15,50 to the US Dollar. The customs duty of 15% on this purchase was paid but not recorded.
- The office cleaner as well as the factory cleaner earn wages of R3 000 per month. **All other wages relate to workers in the factory.**
- Certain costs are allocated according to percentage floor space used:
 Factory : 80% Office : 5% Shop : 15%.

These costs are: Rent and Sundry expenses.

- Insurance is to be apportioned in the ratio 4:1:1 to factory, selling and distribution and administration costs respectively.
- Water and electricity of R21 000 relates to the factory. The rest is shared equally between the administration and sales departments.
- Telephone costs are shared equally between the administration and sales departments.
- Motor vehicle expenses are shared between the factory, selling and administration departments in the ratio 5:3:1. However, it was allocated in the ratio 5:2:1 in error.

2.3 MISTRY MANUFACTURERS

The following information relates to Mistry Manufacturers, a business making wooden tables. The business made and sold 5 000 tables for the financial year ending 28 February 2018.

NOTE: There was no work-in-process at the beginning and at the end of the year.

REQUIRED:

- 2.3.1 Calculate the break-even point for the year ended 28 February 2018. (4)
- 2.3.2 Why is the owner happy with the break-even point? Explain using figures. (2)
- 2.3.3 The owner has been importing hard wood from Brazil. He wants to change to a local supplier who is supplying locally grown, sustainable timber which is slightly of lower quality.
Do you agree/disagree with his decision. Give a reason for your answer. (3)

INFORMATION:

The following information was extracted from the books.

Selling price per unit	R360
Variable cost per unit	R120
Fixed costs	R300 000

50

QUESTION 3: PARTNERSHIP FINANCIAL STATEMENTS (100 marks; 60 minutes)**3.1 CONCEPTS**

Choose the correct word/s from those given in brackets. Write only the word/s next to the question number (3.1.1 – 3.1.3) in the ANSWER BOOK.

- 3.1.1 The difference between current assets and current liabilities is known as (net assets / net working capital).
- 3.1.2 This statement reflects the financial performance of the business (Income Statement / Balance Sheet).
- 3.1.3 The portion of fixed deposit that will mature within a year is a (non-current / current) asset.

(3 x 1) (3)

3.2 INCOME STATEMENT

You are provided with information relating to Ying-Yang Traders for the year ended 28 February 2018. The business is owned by partners, Y. Ying and Y. Yang.

REQUIRED:

- 3.2.1 Prepare the Income Statement for the year ended 28 February 2018. (45)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balance on 28 February 2018

Balance Sheet Accounts Section	R
Capital : Ying	650 000
Capital : Yang	650 000
Debtors control	98 750
Provision for bad debts	3 555
Creditors Control	75 900
Nominal Accounts Section	
Sales	2 000 000
Cost of Sales	?
Debtors Allowances	200 000
Rent income	22 225
Water and Electricity	25 350
Depreciation	78 350
Consumable Stores	2 900
Advertising	62 545
Repairs	5 720
Interest on loan	9 180
Salaries and Wages	128 450
Sundry expenses	?
Interest Income	13 180
Bad Debts Recovered	360
Bad Debts	2 900
Employers' Contribution (for UIF and pension fund)	42 000

Adjustments and additional information:

- A. The business aims to achieve a mark-up percentage on cost of 90% but this year has only achieved an actual mark-up of 80%.
- B. Merchandise to the value of R38 000 was damaged because of a burst pipe during February 2018. After the claim, Outsurance agreed to pay R34 000 during March 2018.
- C. Stock counts on 28 February 2018 revealed the following:
- Consumable Stores used for the financial year amounted to R2 750.
 - Trading stock deficit of R23 400
- D. Ying-Yang Traders rents out a storeroom since 1 March 2014 to Izala Traders. Due to financial difficulties experienced in the current financial year, Izala Traders decided to decrease the floor space used. As a result, Ying-Yang decreased the rent by 10% on 1 January 2018. The rent for March 2018 has already been received.

- E. One employee was omitted from the Salaries Journal in error. The employee's salary details are as follows:

Gross Salary	R96 000 p.a.
Deductions for February 2018	
PAYE	R860
Pension	R520
UIF	R80

The employer contributes on a Rand for Rand basis to the Pension Fund and 1% of gross salary to UIF.

- F. Ying-Yang Traders paid a 40% deposit on repairs to the building's roof. The outstanding balance will be settled on 5 June 2018.
- G. Advertising includes an amount of R43 200 that was paid for the period 1 January 2018 to 31 December 2018.
- H. A debtor, P.S. Soni with an outstanding balance of R600 has left the country. His account must be written off as irrecoverable.
- I. Use the following percentage to calculate certain missing figures:
Operating profit on sales: 22%
- J. Sundry Expenses is the **missing figure** in the income statement.
- K. The partnership agreement stipulates the following:
- Partners are entitled to a monthly salary of R15 000 each.
 - Interest on Capital is calculated at 10% p.a.
 - Profit / losses are shared equally.

3.3 BALANCE SHEET

You are provided with information relating to Paradise Traders for the year ended 28 February 2018. The business is owned by two partners, Adam and Eve.

REQUIRED:

3.3.1 Refer to Information A and Information B.

Calculate the missing amounts denoted by (a) to (c) on the fixed asset note. (15)

3.3.2 Prepare the Balance Statement on 28 February 2018. (37)

NOTE: All workings must be shown in brackets since notes are **NOT** required.

A. INFORMATION:

LIST OF BALANCES ON 28 FEBRUARY 2018

BALANCE SHEET ACCOUNTS SECTION	R	
Capital: Adam	1 500 000	
Capital: Eve	1 577 000	
Current Account: Adam	1 750 000	CR
Current Account: Eve	598 950	DR
Fixed Assets at Carrying Value at end of the year	3 881 000	
Fixed Deposit: Alpha Bank	600 000	
Trading Stock	61 750	
Debtors Control	50 000	
Bank (unfavourable balance)	15 000	
Petty Cash	6 000	
Cash Float	2 450	
Deposit for water and electricity	14 850	
Mortgage Loan: Omega Bank	336 000	
Creditors Control	25 200	
Expenses Payable/Accrued Expenses	9 000	
Prepaid Expenses	8 000	
Income Receivable/ Accrued Income	18 000	
Income Received in Advance/Deferred Income	14 000	
Creditors for salaries	12 300	

B. FIXED ASSET NOTE:

Fixed assets comprise only Land & Buildings and Equipment.

	LAND & BUILDINGS	EQUIPMENT
Carrying value (01/03/2017)	426 100	1 028 000
Cost (01/03/2017)		1 340 000
Accumulated depreciation (01/03/2017)		(312 000)
Movements:		
Additions	(a)	300 000
Disposals		(c)
Depreciation		(b)
Carrying value (28/02/2018)		1 142 900
Cost (28/02/2018)		
Accumulated depreciation (28/02/2018)		

C. LAND AND BUILDINGS

Land was purchased for R1 500 000 for future expansion.

An amount was also paid to Eden Construction for:

- Tiling of the office Block, R129 000
- Extension to the existing factory area, R683 000
- Repairs to buildings, R24 000

D. EQUIPMENT

- Additional equipment was purchased on 1 June 2017.
- Equipment with a cost price of R44 000 was taken over by one of the partners on 28 February 2018 for personal use for R24 000 cash. This has been recorded in the Bank and Asset Disposal Account. No other entries have been made. The Accumulated Depreciation on 1 March 2017 was R11 000.
- Equipment is calculated at 10 % p.a. on the cost price.

E. The following adjustment has **not** been taken into account yet:

- Provision for bad debts is set at 5% of the outstanding debtors.

F. FIXED DEPOSIT

- One third of the total fixed deposit will mature on 30 April 2018 and the remainder will mature in 2020.

G. LOAN STATEMENT ON 28 FEBRUARY 2018

OMEGA BANK	
Balance on 1 March 2017	R 384 000
Interest charged	57 600
Monthly instalments in terms of the loan agreement (including interest) (R8 800 x 12)	105 600
Balance on 28 February 2018	336 000

QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS
(40 marks; 24 minutes)

You are provided with the following information relating to ADEZ Stores, a partnership business selling expensive, brand name sports equipment owned by Adon and Ezra Naidoo. The partners are concerned about certain aspects of their business and approach you for assistance/advice. The business sells for cash and on credit. Debtors are allowed credit terms of 30 days. Creditors allow the business a payment term of 60 days.

REQUIRED:

- 4.1. Calculate the following indicators for 2018 (correct to one decimal place)
- 4.1.1. Acid test ratio (4)
 - 4.1.2. Return on partners equity (average) (7)
 - 4.1.3. Debt-equity ratio (4)
 - 4.1.4. Percentage net profit on sales (4)
- 4.2. Partner Adon is of the opinion that the business is in an unsatisfactory liquidity position.
- 4.2.1. Quote THREE financial indicators in support of his opinion. (6)
 - 4.2.2. Suggest TWO ways in which the business can improve its liquidity position. (4)
- 4.3. The business might need extra funds in the future. What must the partners consider before they take a further loan. Explain your reason by quoting ONE relevant indicator to support of your answer. (3)
- 4.4. Z. Zak, the store manager feels that she deserves a performance bonus for the efficient running and overall profitability of the business. Do you agree? (YES/NO). Provide TWO reasons, quoting appropriate indicators/figures. (5)
- 4.5. The partners have been approached by Mr. Zen, a manufacturer and supplier of counterfeit goods. ADEZ Stores will be able to buy fake stocks of most items sold at prices that are less than half the prices currently being paid. What advice would you give the partners regarding accepting Mr. Zen as a new supplier. Provide ONE reason for your answer. (3)

INFORMATION:

Extracts from the Financial Statements on 28 February

BALANCE SHEET (extract)	2018	2017
Fixed/Tangible assets (carrying value)	800 000	700 000
Financial assets: Fixed deposit: XYZ Bank (8%)	120 000	140 000
Current assets (including trading stock)	160 000	300 000
Trading stock	100 000	100 000
Capital	600 000	250 000
Adon	400 000	100 000
Ezra	200 000	150 000
Current accounts	160 000	200 000
Adon	200 000	180 000
Ezra	(40 000)	20 000
Non-current liabilities: Mortgage loan: ABC Bank (12%)	200 000	240 000
Current liabilities	120 000	150 000

INCOME STATEMENT (extract)	2018	2017
Sales	2 400 000	2 170 000
Cost of sales	1 600 000	1 400 000
Operating expenses	554 400	480 000
Operating profit	360 000	350 000
Net profit	350 000	320 000

FINANCIAL INDICATORS	2018	2017
Current ratio	1,3:1	2:1
Acid-test ratio	?	1,3:1
Debtors average collection period	75 days	30 days
Creditors average payment period	28 days	45 days
Return on partners equity	?	42%
Debt equity ratio	?	0,4:1
Solvency ratio	3,4:1	2,8:1
Operating profit on sales	15%	16,1%
Operating expenses on sales	23,1%	22,1%
Net profit on sales	?	14,8%

40

QUESTION 5: CASH BUDGET**(40 marks; 24 minutes)**

You are provided with information relating to UFO Furniture Stores owned by A. Alien.

REQUIRED:

- 5.1 Identify **TWO** items incorrectly entered in the Cash Budget.
(Refer to Information F) (2)
- 5.2 Complete the Creditors' Payment Schedule. (10)
- 5.3 Identify/Calculate the missing figures (**A**) to (**G**). (21)
- 5.4 On 31 September 2018, A. Alien identified figures below. Comment on the control of each item and give one point of advice in each case. (4)

	September 2018		
	Budgeted	Actual	Variance
Telephone	1 000	3 800	- 2 800
Staff training	2 500	800	+ 1 700

- 5.5 A. Alien wants to save on costs by not offering a free delivery service. Is this a good idea? Explain. (3)

INFORMATION:**A. Sales, purchases of stock and cost of sales:**

- Total Sales:

	Actual	Budgeted
August	R120 000	
September	R135 000	
October		R150 000
November		R180 000

- 40% of all sales are cash.
- The mark-up is 50% on cost.
- Stock is replaced on a monthly basis
- 20% of all purchases are cash.

B. Creditors' payment:

It is expected that creditors will be paid as follows:

- 75% are paid in the month of purchases to receive a 5% discount.
- 15% are paid in the month after purchases.
- 10% are paid in the second month after purchases.

C. Delivery expenses:

A. Alien pays Speedy Deliveries to deliver goods to customers free of charge. He budgets a fixed percentage of monthly sales for this expense.

D. Salaries and wages:

Employees receive an increase of 7,5% from 1 November 2018.

E. Loan:

Part of the loan will be repaid on 1 November 2018. Interest of 15% p.a. is paid monthly and is not capitalised.

F. Extract from Cash Budget for October and November 2018:

RECEIPTS	October	November
Cash sale	60 000	(A)
Collection from debtors	78 300	89 550
Commission income	6 000	5 000
Rent income	7 500	7 750
PAYMENTS		
Cash purchase of stock	(B)	
Payments to creditors	74 200	
Delivery expenses of goods to customers	9 000	(C)
Salaries and wages	(D)	38 700
Stationery	3 200	3 500
Telephone	1 000	1 000
Office furniture bought on credit	40 000	0
Training of staff	2 500	2 500
Advertising	1 500	1 800
Depreciation	12 500	12 500
Loan repayment		(E)
Interest on loan	2 100	1 500
Sundry expenses	3 300	3 400
Cash drawings by owner		
Vehicle expenses	0	800

G. After finalising the budget, the following was identified:

	October	November
Cash deficit for the month	(19 450)	(G)
Cash at the beginning of the month		35 500
Cash at the end of the month	(F)	(7 300)

QUESTION 6: INVENTORY SYSTEMS AND VAT**(40 marks; 24 minutes)****6.1 PERIODIC INVENTORY SYSTEM**

You are provided with information relating to Riteon Stationery Shop for the month October 2018. He uses the periodic inventory system.

REQUIRED:

- 6.1.1 Prepare the Purchases account for October 2018. (12)
- 6.1.2 Calculate the Cost of sales for the month of October 2018. (7)
- 6.1.3 Calculate the mark-up% achieved in October 2018. (4)
- 6.1.4 The owner was expecting to achieve a mark-up of 60% on cost during the month of October 2018. He suspects that the cashier has stolen some of the cash received from cash sales.
Briefly explain one internal control measure that can be implemented to prevent theft of cash. (2)

INFORMATION:

- A. Trading stock was valued as follows:
- R 122 000 on 1 October 2018
 - R 135 500 on 31 October 2018
- B. Total of source documents for the month:
- Invoices received from the suppliers of stationery, R 423 500
 - Credit notes received for defective stationery returned to suppliers, R 35 000
- C. Carriage paid to Northstar Deliveries during the month:
- on goods delivered to Riteon Stationery Shop, R 25 000
 - on goods delivered to customers, R 15 000
- D. Customs duty amounted to R 21 750
- E. One supplier, Krayon Paper, admitted that an error had been made on an invoice for goods delivered during the month. The invoice stated that a 5% trade discount had been granted. The amount of the invoice, R39 900, is included in the figure mentioned in **INFORMATION B** above. Krayon Paper has agreed that a 15% trade discount should have been granted. They issued a credit note for the appropriate amount.
- F. The owner took goods costing R 1 200 for personal use.
- G. Goods were sold during the year for R 649 506.

6.2. VAT CALCULATIONS

You are provided with information relating to Ndledla Traders for their two month VAT period ended 30 September 2018. The standard VAT rate of 15 % is applicable. The owner of the business is Vusi Ndledla.

REQUIRED:

- 6.2.1 Calculate the VAT amount that is either payable or receivable from SARS on 31 September 2018. Indicate whether this amount is receivable or payable. (11)
- 6.2.2 As the internal auditor, you noticed that Vusi has not been submitting the VAT due to SARS on the regular due date. On enquiry, Vusi stated that the business was experiencing a cash flow problem and he used the money to pay for business expenses. What advice would you offer Vusi concerning this practice? State two points. (4)

INFORMATION:

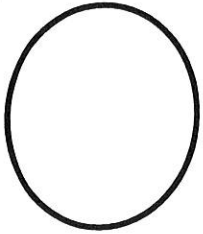
A. Amount payable to SARS on 1 August 2018, R 45 200

B. Amounts from the journals for the two-month period ending 30 September 2018:

	EXCLUDING VAT	INCLUDING VAT	VAT
Sales	1 251 000	1 438 650	?
Credit purchases of stock	?	600 990	?
Stock returned to suppliers	10 500	12 075	1 575
Stock returned by debtors	17 480	?	2 622
Goods taken by the owner for personal use	?	7 130	930
Bad debts written off	9 520	?	1 428

40

TOTAL: 300



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

GREENBURY SECONDARY SCHOOL
ACCOUNTING
FINAL EXAMINATION: 2018
ANSWER BOOK
GRADE: 11

NAME OF LEARNER: _____

GRADE: 11 _____

QUESTION	TOTAL MARKS	MARK OBTAINED	MODERATED MARK	MODERATOR INITIAL
1	30			
2	50			
3	100			
4	40			
5	40			
6	40			
TOTAL	300			

CHECKER	
DATE	

This answer book consists of 16 pages.

QUESTION 1: RECONCILIATIONS**1.1 BANK RECONCILIATION**

NO	CASH JOURNALS	BANK ACCOUNT		BANK RECONCILIATION STATEMENT		NO ENTRY (X)
	Account Details	Amount Debited	Amount Credited	Amount Debited	Amount Credited	
<i>Eg.</i>	<i>Bank charges</i>		<i>R200</i>			
A.						
B.						
C.						
D.						
E.						
F.						
G.						
H.						
I.						

15

1.2.1 CREDITORS' RECONCILIATION

	CREDITORS' LEDGER OF STYLISH STORES	STATEMENT RECEIVED FROM FASHION TRADERS
Balance	R10 300	R14 770
A		
B		
C		
D		
E		
F		
Final Balance		

11

1.2.2

The internal auditor wants to improve the internal control of stock and creditors. Provide TWO control measures that he may consider.

4

TOTAL MARKS
30

QUESTION 2: MANUFACTURING

2.1 CONCEPTS

Write only the word/s next to the question number.

2.1.1	
2.1.2	
2.1.3	

3

2.2. PANDA CLOTHING

2.2.1 Calculate the Direct Materials cost.

10

2.2.2 Calculate the Factory Overhead cost.

Wages (factory cleaner)	
Salary (factory foreman)	

19

2.2.3 Work in Process Stock account

2017									
Mar	1	Balance	b/d	81 000					

9

2.3 MISTRY MANUFACTURERS

2.3.1

<p>Calculate the break-even point for the year ended 28 February 2018.</p>
--

4

2.3.2

Why is the owner happy with the break-even point? Explain using figures.

2

2.3.3

The owner has been importing hard wood from Brazil. He wants to change to a local supplier who is supplying locally grown, sustainable timber which is slightly of lower quality. Do you agree/disagree with his decision. Give a reason for your answer.

3

TOTAL MARKS
50

QUESTION 3: PARTNERSHIP FINANCIAL STATEMENTS

3.1 CONCEPTS

Write only the word/s next to the question number.

3.1.1	
3.1.2	
3.1.3	

3

**3.2.1 YING-YANG TRADERS
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

Sales	
Cost of Sales	
Gross Profit	
Other Operating Income	
Gross Operating Income	
Operating Expenses	
Water and Electricity	25 350
Depreciation	78 350
Operating Profit	
Interest Income	
Profit before Interest Expense	
Interest Expense	
NET PROFIT FOR THE YEAR	

3.3.1

NO.	WORKINGS	AMOUNT
(a)	Additions to buildings	
(b)	Total depreciation on equipment	
(c)	Disposal of equipment at carrying value	

3.3.2 PARADISE TRADERS
BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS	
NON-CURRENT ASSETS	
Tangible/Fixed Assets at carrying value	3 881 000
Financial Assets:	
CURRENT ASSETS	
Inventories	61 750
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Partners' Equity	
Capital	
Current accounts	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

TOTAL MARKS
100

37

QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

4.1.1

Calculate the acid test ratio.

4

4.1.2

Calculate the return on partners' equity (average).

7

4.1.3

Calculate the debt-equity ratio.

4

4.1.4

Calculate the percentage net profit on sales.

4

4.2.1

Partner Adon is of the opinion that the business is in an unsatisfactory liquidity position.
Quote THREE financial indicators with figures in support of his opinion.

INDICATOR 1:

INDICATOR 2:

INDICATOR 3:

6

4.2.2

Suggest TWO ways in which the business can improve its liquidity position.

SUGGESTION 1:

SUGGESTION 2:

4

4.3.

The business might need extra funds in the future. What must the partners consider before they take a further loan.
Explain your reason by quoting ONE relevant financial indicator together with figures to support your answer.

3

4.4.

Z. Zak, the store manager feels that she deserves a performance bonus for the efficient running and overall profitability of the business. Do you agree? (YES/NO). Provide TWO reasons, quoting appropriate indicators/figures.

Opinion :

Reason 1:

Reason 2:

5

4.5.

The partners have been approached by Mr. Zen, a manufacturer and supplier of counterfeit goods. ADEZ Stores will be able to buy fake stocks of most items sold at prices that are less than half the prices currently being paid. What advice would you give the partners regarding accepting Mr. Zen as a new supplier. Provide ONE reason for your answer.

Advice:

Reason:

3

TOTAL MARKS
40

QUESTION 5: CASH BUDGET

5.1.

Identify TWO items incorrectly entered in the Cash Budget.

2

5.2

CREDITORS' PAYMENT SCHEDULE			
MONTH	CREDIT PURCHASES	OCTOBER	NOVEMBER
August	R64 000	6 400	
September	R72 000	10 800	
October		57 000	
November	R96 000		
		74 200	

10

5.3

10	CALCULATION	AMOUNT
(A)	Cash sales	
(B)	Cash purchases of stock	
(C)	Delivery expenses	
(D)	Salaries and wages	
(E)	Repayment of loan	
(F)	Cash at end of month	
(G)	Cash deficit for the month	

21

5.4

Comment on the control of each item and give one point of advice in each case.

	COMMENT	ADVICE
Telephone		
Staff training		

4

5.5

A. Alien wants to save on costs by not offering a free delivery service. Is this a good idea? Explain

3

TOTAL MARKS
40

QUESTION 6: INVENTORY SYSTEMS AND VAT

6.1 PERIODIC INVENTORY SYSTEM

6.1.1

Purchases account

12

6.1.2

Calculate the cost of sales for the month of October 2018.

7

6.1.3

Calculate the actual mark-up % on cost achieved for the month.

4

6.1.4

The owner was expecting to achieve a mark-up of 60% on cost. He suspects that the cashier has stolen some of the cash received from cash sales.

Briefly explain one internal control measure that can be implemented to prevent theft of cash.

2

6.2 VAT CALCULATIONS

6.2.1

Calculate the VAT amount that is either payable or receivable from SARS on 30 September 2018. Indicate whether this amount is receivable or payable. (You may complete a VAT Control Account.)

Receivable/ Payable:

11

6.2.2.

As the internal auditor, you noticed that Vusi has not been submitting the VAT due to SARS on the regular due date. On enquiry, Vusi stated that the business was experiencing a cash flow problem and he used the money to pay for business expenses. What advice would you offer Vusi concerning this practice? State two points.

4

TOTAL MARKS
40

**PHOENIX CIRCUIT ACCOUNTING SOCIETY
(PCAS)**

HELPING ACCOUNTING EDUCATORS EXCEL

GRADE 11

ACCOUNTING

NOVEMBER 2018

MARKING GUIDELINES

QUESTION	LEARNER'S MARK	MODERATED MARK
1		
2		
3		
4		
5		
6		
TOTAL		

QUESTION 1: RECONCILIATIONS

1.1 BANK RECONCILIATION

NO	CASH JOURNALS	BANK ACCOUNT		BANK RECONCILIATION STATEMENT		NO ENTRY (X)
	Account Details	Amount Debited	Amount Credited	Amount Debited	Amount Credited	
Eg.	Bank charges		R200			
A.					20 000✓	
B.	Interest income/interest on current account✓	180✓				
C.	Loan: Flexi Bank		5 000✓			
D.				1 400✓		
E.	Drawings✓ (175 – 157)		18✓			
F.						X
G.	Advertising✓	300✓				
H.						X
I.				(7 500 – 2 200) 5 300✓✓		

15

-1 for foreign entries (maximum -2) foreign entries are extra entries per line where marks are scored.

1.2.1 CREDITORS' RECONCILIATION

	CREDITORS' LEDGER OF STYLISH STORES	STATEMENT RECEIVED FROM FASHION TRADERS
Balance	R10 300	R14 770
A	+ 500✓	
B	- 70✓✓	
C		+ 3 500✓
D		- 540✓✓
E	(1000 + 1000) + 2 000✓✓	
F		- 5 000✓✓
Final Balance	12 730	12 730☒*

11

* Any ONE part correct; Totals do not have to agree

-1 for foreign entries (maximum -2)

Sign and amount must be correct to award marks; If no sign, assume positive /Accept brackets as a negative figure

1.2.2

The internal auditor wants to improve the internal control of stock and creditors. Provide TWO control measures that he may consider.

Any TWO valid control measures ✓✓ ✓✓

- Division and rotation of duties for checks and balances.
- Clear procedures for ordering, documenting, receiving and dispatching of goods.
- Maintaining all documentation and ensuring that the relevant people receive and deal with them timeously.
- Random and regular stock check against records to detect losses and/or fraud/theft.
- Update stock records against sales so that stock piling does not occur.

4

TOTAL MARKS
30

QUESTION 2: MANUFACTURING

2.1 CONCEPTS

Write only the word/s next to the question number.

2.1.1	fixed ✓
2.1.2	selling and distribution ✓
2.1.3	minimum ✓

3

2.2. PANDA CLOTHING

2.2.1

Calculate the Direct Materials cost.

$$72\,000\checkmark + 850\,000\checkmark + 53\,000\checkmark + 127\,500\checkmark + 124\,000\checkmark\checkmark + 18\,600\checkmark\checkmark - 54\,000\checkmark$$

(8 000 x 15,5) *

= R1 191 100✓

* method mark can only be awarded if figure is 15% of credit purchases not recorded

10

2.2.2

Calculate the Factory Overhead cost.

Wages (factory cleaner) (3 000 x 12)	✓✓	36 000
Salary (factory foreman)	✓	142 000
Indirect materials (7 000✓ + 43 000✓ - 3 800✓) <small>One part correct</small>	☑	46 200
Factory rent (320 000 x 80/100)	✓✓	256 000
Sundry expenses (17 400 x 80/100)	✓✓	13 920
Insurance (42 000 x 4/6)	✓✓	28 000
Water and electricity	✓	21 000
Motor vehicle expenses (25 200✓ x 8/2✓ x 5/9✓) <small>100 800 two marks One part correct</small>	☑	56 000
	☑	599 120

19

2.2.3

Work in Process Stock account

2017 Mar	1	Balance	b/d	81 000	2018 Feb	28	Finished Goods Stock	GJ	<input checked="" type="checkbox"/> 2 572 220
2018 Feb	28	Direct Material cost	GJ	<input checked="" type="checkbox"/> 1 191 100			Balance	c/d	<input checked="" type="checkbox"/> 62 000
		Direct Labour cost (835 000✓ - 36 000✓ - 36 000✓)	GJ	<input checked="" type="checkbox"/> 763 000					
		Factory Overhead cost	GJ	<input checked="" type="checkbox"/> 599 120					
				2 634 220					<input checked="" type="checkbox"/> 2 634 220
2018 Mar	1	Balance	b/d	62 000					

9

2.3 MISTRY MANUFACTURERS

2.3.1

Calculate the break-even point for the year ended 28 February 2018.

$$\frac{300\,000\checkmark}{360\checkmark - 240\checkmark}$$

= 1 250 units operation one part correct

4

2.3.2

Why is the owner happy with the break-even point? Explain using figures.

The business is making and selling 5 000✓ tables which is 3 750 units above the break-even point of 1 250 units.✓

OR

The business is selling 3 750✓ units more than the break-even point of 1 250 units.✓

2

2.3.3

The owner has been importing hard wood from Brazil. He wants to change to a local supplier who is supplying locally grown, sustainable timber which is slightly of lower quality. Do you agree/disagree with his decision. Give a reason for your answer.

Yes ✓

- Supporting the local economy✓✓
- Creating jobs in our country
- Using sustainable timber will not damage the natural forests

OR

No✓

- Quality of the product will not be the same.✓✓
- Customer may not be made aware of the cheaper quality material.
- He may not charge a lower price.

3

TOTAL
MARKS

50

QUESTION 3: PARTNERSHIP FINANCIAL STATEMENTS

3.1 CONCEPTS

Write only the word/s next to the question number.

3.1.1	net working capital✓
3.1.2	Income Statement✓
3.1.3	current asset✓

3

3.2.1 YING-YANG TRADERS

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

Sales (2 000 000 ✓ – 200 000 ✓)	One part correct	<input checked="" type="checkbox"/> 1 800 000
Cost of Sales	Award 2 marks (1 800 000 x 100/180)	<input checked="" type="checkbox"/> (1 000 000)
Gross Profit	One part correct. COS must be subtracted 6	<input checked="" type="checkbox"/> 8 00 000
Other Operating Income	Operation one part correct	<input checked="" type="checkbox"/> 21 010
Rent income (22 225 ✓ – 1 575 ✓✓)		✓ 20 650
Bad debts recovered		✓ 360
Gross Operating Income	Operation 7	<input checked="" type="checkbox"/> 821 010
Operating Expenses	Operation	<input checked="" type="checkbox"/> (425 010)
Water and Electricity		25 350
Depreciation		78 350
Consumable stores		✓✓ 2 750
Advertising (62 545 ✓ – 36 000 ✓✓)		✓ 26 545
Repairs (5 720 ✓ + 8 580 ✓)		✓ 14 300
Salaries and wages (128 450 ✓ + 8 000 ✓)		✓ 136 450
Sundry expenses Any figure less than op exps total /Beware of inappropriate figures inserted		<input checked="" type="checkbox"/> 70 305
Bad debts (360 ✓ + 600 ✓)		✓ 960
Employers' contribution (42 000 ✓ + 520 ✓ + 80 ✓)	One part correct	<input checked="" type="checkbox"/> 42 600
Loss due to water damage/burst pipe (38 000 ✓ – 34 000 ✓)		✓ 4 000
Trading stock deficit	25	✓ 23 400
Operating Profit	Check Sales x 0,22	<input checked="" type="checkbox"/> 396 000
Interest Income		✓ 13 180
Profit before Interest Expense	Operation	<input checked="" type="checkbox"/> 409 180
Interest Expense		✓ (9 180)
NET PROFIT FOR THE YEAR	7	<input checked="" type="checkbox"/> (400 000)

Misplaced items -1 (max -2) Foreign items -1 (max -2)

3.3.1

NO.	WORKINGS	AMOUNT
(a)	Additions to buildings $1\,500\,000 \checkmark + 129\,000 \checkmark + 683\,000 \checkmark$ <div style="text-align: right;">4</div> OR $3\,881\,000 - 1\,142\,900 - 426\,100$	$2\,312\,000 \checkmark$ one part correct
(b)	Total depreciation on equipment Old: $1\,340\,000 \checkmark \times 10\% = 134\,000 \checkmark$ one part correct New: $300\,000 \checkmark \times 10\% \times 9/12 \checkmark = 22\,500 \checkmark$ one part correct <div style="text-align: right;">6</div>	$156\,500 \checkmark$ one part correct
(c)	Disposal of equipment at carrying value $44\,000 \checkmark - 11\,000 \checkmark - 4\,400 \checkmark \checkmark$ OR $1\,028\,000 \checkmark + 300\,000 \checkmark - 156\,500 \checkmark - 1\,142\,900$ See (b) above <div style="text-align: right;">5</div>	$28\,600 \checkmark$ one part correct

15

3.3.2 PARADISE TRADERS BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS		
NON-CURRENT ASSETS	operation	<input checked="" type="checkbox"/> 4 281 000
Tangible/Fixed Assets at carrying value		3 881 000
Financial Assets:		
Fixed Deposit: Alpha Bank (600 000 ✓ – 200 000 ✓)	one part correct	<input checked="" type="checkbox"/> 400 000
CURRENT ASSETS	operation	<input checked="" type="checkbox"/> 358 550
Inventories		61 750
Trade & other receivables(50 000✓– 2 500✓✓+ 14 850✓+ 8 000✓ + 18 000✓)		<input checked="" type="checkbox"/> 88 350
Cash & cash equivalents (200 000 <input checked="" type="checkbox"/> + 6 000 ✓ + 2 450 ✓)		<input checked="" type="checkbox"/> 208 450
TOTAL ASSETS	see Total equity and liabilities	<input checked="" type="checkbox"/> 4 281 000
EQUITY AND LIABILITIES		
Partners' Equity	operation	<input checked="" type="checkbox"/> 4 228 050
Capital (1 500 000 ✓ + 1 577 000 ✓)	one part correct	<input checked="" type="checkbox"/> 3 077 000
Current accounts (1 750 000 ✓ – 598 950 ✓)	one part correct	<input checked="" type="checkbox"/> 1 151 050
NON-CURRENT LIABILITIES		288 000
Mortgage Loan: Omega Bank (336 000 ✓ – 48 000 ✓✓)	one part correct	<input checked="" type="checkbox"/> 288 000
CURRENT LIABILITIES	Award full marks if all items included in T&OP	<input checked="" type="checkbox"/> 123 500
Trade and other payables (25 200✓ + 9 000 ✓ + 14 000 ✓ + 12 300 ✓)		<input checked="" type="checkbox"/> 60 500
Bank overdraft		✓ 15 000
Current portion of loan	see loan	✓ 48 000
TOTAL EQUITY AND LIABILITIES	operation	<input checked="" type="checkbox"/> 4 639 550

Misplaced items -1 (max -2) Foreign items -1 (max -2) Presentation/Incorrect details -1 (max -2)

TOTAL MARKS
100

37

QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

4.1.1

Calculate the acid test ratio.

$$\frac{160\,000\checkmark - 100\,000\checkmark}{120\,000\checkmark} \\ = 0,5 : 1 \quad \checkmark$$

4

4.1.2

Calculate the return on partners' equity (average).

$$\frac{350\,000\checkmark}{\frac{1}{2}\checkmark (600\,000\checkmark + 160\,000\checkmark + 250\,000\checkmark + 200\,000\checkmark)} \\ = 57,9\% \quad \checkmark$$

7

4.1.3

Calculate the debt-equity ratio.

$$\frac{200\,000\checkmark}{(600\,000\checkmark + 160\,000\checkmark)} \\ = 0,3 : 1 \quad \checkmark$$

4

4.1.4

Calculate the percentage net profit on sales.

$$\frac{350\,000 \checkmark}{2\,400\,000 \checkmark} \times 100 \checkmark$$

$$= 14,6 \% \quad \checkmark$$

4

4.2.1

Partner Adon is of the opinion that the business is in an unsatisfactory liquidity position. Quote THREE financial indicators with figures in support of his opinion.

INDICATOR 1:

Acid test ratio decreased from 1,3 : 1 to 0,5 : 1. ✓✓

INDICATOR 2:

Debtors collection period increased from 30 days to 75 days. ✓✓

INDICATOR 3:

Creditors payment period decreased from 45 days to 28 days. ✓✓

6

4.2.2

Suggest TWO ways in which the business can improve its liquidity position.

SUGGESTION 1: ✓✓

- sell off slow moving stock

SUGGESTION 2: ✓✓

- improve collection from debtors (discounts, charge interest)
- pay creditors as per terms

Accept other valid alternatives

4

4.3.

The business might need extra funds in the future. What must the partners consider before they take a further loan. Explain your reason by quoting ONE relevant financial indicator together with figures to support your answer.

They must consider the level of financial risk ✓

Debt equity ratio of 0,3 : 1 indicates low financial risk ✓✓

3

4.4.

Z. Zak, the store manager feels that she deserves a performance bonus for the efficient running and overall profitability of the business. Do you agree? (YES/NO). Provide TWO reasons, quoting appropriate indicators/figures.

Opinion : No

Reason 1:

Operating profit on sales decreased from 16,1 % to 15 % ✓✓

Reason 2:

Net profit on sales decreased from 14,8 % to 14,6%. ✓✓

Accept operating expenses on sales increased from 22,1 % to 23,1 %.

5

4.5.

The partners have been approached by Mr. Zen, a manufacturer and supplier of counterfeit goods. ADEZ Stores will be able to buy fake stocks of most items sold at prices that are less than half the prices currently being paid. What advice would you give the partners regarding accepting Mr. Zen as a new supplier. Provide ONE reason for your answer.

Advice: Do not accept the offer ✓

Reason:

- Illegal to sell counterfeit goods ✓✓
- Will lose customers

Accept other valid reasons

3

TOTAL MARKS
40

QUESTION 5: CASH BUDGET

5.1. Identify TWO items incorrectly entered in the Cash Budget.

Office furniture bought on credit✓
Depreciation✓

2

5.2. CREDITORS' PAYMENT SCHEDULE

MONTH	CREDIT PURCHASES	OCTOBER	NOVEMBER
August	R64 000	6 400	
September	R72 000	10 800	✓✓7 200
October	✓✓ R80 000	57 000	✓✓12 000
November	R96 000		✓✓68 400
		74 200	✓☑87 600

5.3

	CALCULATION	AMOUNT
	Cash sales	
(A)	R180 000 x 40% If correct workings are shown without answer, award 1 mark only	R72 000 ✓✓
	Cash purchases of stock	
(B)	R100 000 two marks R150 000✓ x 100/150✓ x 20%✓	R20 000 <input checked="" type="checkbox"/> one part correct
	Delivery expenses	
(C)	6% two marks 9 000✓ / 150 000✓ x 180 000✓	10 800 <input checked="" type="checkbox"/> one part correct
	Salaries and wages	
(D)	38 700✓ x 100✓ / 107,5 ✓	36 000 <input checked="" type="checkbox"/> one part correct
	Repayment of loan	
(E)	two marks one mark 168 000✓✓ - 120 000✓ OR 600 ✓ x 100/15✓ x 12✓ OR two marks one mark 7 200✓✓ x 100/15✓	48 000 <input checked="" type="checkbox"/> one part correct
	Cash at end of month	
(F)		35 500 ✓
	Cash deficit for the month	
(G)	35 500 + 7 300 If correct workings are shown without answer, award 1 mark only	(42 800) ✓✓ ignore brackets

5.4

Comment on the control of each item and give one point of advice in each case.

	COMMENT✓✓	ADVICE✓✓
Telephone	Over-spent Budget figure too low	Private calls should be controlled / keep record of all calls / charge the staff for private calls / possibly increase budget
Staff training	Under-spent	This is an essential expense / staff training improves the interaction with customers / this leads to efficiency and goodwill.

4

5.5

A. Alien wants to save on costs by not offering a free delivery service. Is this a good idea? Explain

Yes / No✓ mark independently

Any one possible response✓✓ One mark for incomplete / unclear answer

- Whether his competitors are offering the service or not
- What the reaction from his customers will be should he withdraw the service (i.e. will they go to other suppliers?)
- The possibility of charging customers for the delivery service
- The possibility of finding a cheaper delivery service
- The possibility of using his own vehicles instead of subcontracting / extra costs of providing his own service (e.g. depreciation of vehicle, petrol)
- Could have been the reason for the increase in sales

3

TOTAL
MARKS

40

QUESTION 6: INVENTORY SYSTEMS AND VAT

6.1 PERIODIC INVENTORY SYSTEM

6.1.1 Purchases account

2017 Oct	31	Creditors Control✓	GJ	✓	423 500	2018 Oct	31	Creditors Control/ Allowances✓ (35 000✓+ 4 200✓✓)	GJ	☑	39 200
								Drawings✓	GJ	✓	1 200
								Trading account✓	GJ	☑	383 100
					423 500					☑	423 500

12

6.1.2 Calculate the cost of sales for the month of October 2018.

Opening stock	122 000✓
Purchases	383 100 ☑
Carriage on purchases	25 000 ✓
Customs duty	21 750 ✓
	551 850
Cost of stock available for sale	(135 500)✓
Closing stock	416 350✓☑
COST OF SALES	416 350✓☑

7

6.1.3 Calculate the actual mark-up % on cost achieved for the month.

$$\frac{649\ 506 - 416\ 350}{416\ 350} \times \frac{100}{1}$$

= 56%☑

4

6.1.4

The owner was expecting to achieve a mark-up of 60% on cost. He suspects that the cashier has stolen some of the cash received from cash sales.

Briefly explain one internal control measure that can be implemented to prevent theft of cash.

Any valid answer ✓✓

- Division of duties where one person serves as a check on another
- Daily deposits to be made at the bank and deposit slips to tally with CRT's and receipts for the day

2

6.2 VAT CALCULATIONS

6.2.1

Calculate the VAT amount that is either payable or receivable from SARS on 30 September 2018. Indicate whether this amount is receivable or payable. (You may complete a VAT Control Account.)

$$45\,200✓ + 187\,650✓✓ - 78\,390✓✓ + 1\,575✓ - 2\,622✓ + 930✓ - 1\,428✓$$

$$= 152\,915\boxed{✓}$$

OR

Balance at beginning ..	=	42 200✓
Output (187 650✓✓ - 2 622✓ + 930✓ - 1 428✓)	=	184 530
Input (78 390✓✓ - 1 575✓)	=	(76 815)
		<u>152 915</u> ✓

Receivable/ Payable: Payable ✓

11

6.2.2.

As the internal auditor, you noticed that Vusi has not been submitting the VAT due to SARS on the regular due date. On enquiry, Vusi stated that the business was experiencing a cash flow problem and he used the money to pay for business expenses. What advice would you offer Vusi concerning this practice? State two points.

Any TWO valid answers ✓✓ ✓✓

Vusi must keep accurate records of VAT and make timeous submissions to SARS for the following reasons :

- It is illegal business practice(fraud) / not prudent practice – can be charged/sentenced
- The business is an agent of SARS – money is collected on behalf of SARS.
- The business will be liable for penalties/fines and charged with interest for late payments.

4

TOTAL MARKS
40