NOVEMBER 2012 EXAMINATION

DATE: 14 NOVEMBER 2012

TIME: 09H00 – 12H00 TOTAL: 100 MARKS
DURATION: 3 HOURS PASS MARK: 40%

(RH-77 / BF-10)

BOOKKEEPING AND ACCOUNTING 2

THIS EXAMINATION PAPER CONSISTS OF 2 SECTIONS:

SECTION A: CONSISTS OF:
(i) 5 MULTIPLE-CHOICE QUESTIONS (5 MARKS)
(ii) 5 TRUE OR FALSE QUESTIONS (10 MARKS)

ANSWER ALL THE QUESTIONS

SECTION B: CONSISTS OF 5 QUESTIONS

ANSWER ALL THE QUESTIONS (85 MARKS)

INSTRUCTIONS:
1. Read the following instructions carefully before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers exactly as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated. Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated. The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall after the examination has taken place.

NOTE: YOU MAY USE A NON-PROGRAMMABLE CALCULATOR.

Examiner: R Pretorius
SECTION A

(15 MARKS)

ANSWER ALL THE QUESTIONS

(i) MULTIPLE-CHOICE QUESTIONS

Choose the correct option for each of the following. Write only the question number and your chosen answer. For instance, if you think that the correct answer for number 1 is (a), then write it as 1. (a).

1. A statement of cash flow reflects the following:
   (a) operating activities
   (b) investing activities
   (c) financing activities
   (d) All of the above.
   (e) Both (a) and (c).

2. Cash and cash equivalents are:
   (a) cash in bank.
   (b) petty cash.
   (c) cheque payments.
   (d) None of the above.
   (e) Both (a) and (b).

3. Sales revenue comprises:
   (a) cash and credit sales.
   (b) returns.
   (c) refunds.
   (d) All of the above.
   (e) Both (a) and (b).

4. If debtors or inventory levels increase:
   (a) leave the working capital the same.
   (b) adjust the working capital upward.
   (c) adjust the working capital downward.
   (d) apply for a tax rebate.
   (e) Both (a) and (d).

5. Items that do not represent cash flows include:
   (a) depreciation.
   (b) profit or loss on sale of assets.
   (c) wages.
   (d) All of the above.
   (e) Both (a) and (b).
(ii) TRUE OR FALSE QUESTIONS

Indicate whether the following statements are True or False. Motivate all your answers.

1. There are two types of companies.  
2. A company has limited capital.  
3. Persons who own interest in a public company are called partners.  
4. People who own interest in a company earn interest when the company makes profit.  
5. The owners of a company are liable for its debts.  

[5 × 2 = 10]
SECTION B (85 MARKS)

ANSWER ALL THE QUESTIONS

QUESTION 1: YEAR-END ACCOUNTING

One of the purposes of running a year-end is to determine the financial performance of the business for the past financial year. Financial performance is measured by the profit made by the business. The profit calculation takes place in two distinct stages. Give a concise overview of these two stages. [15]

QUESTION 2: ASSET DEPRECIATION

(a) An asset with an estimated 5-year economic life was bought for R120 000. A residual value of R20 000 is forecasted. Calculate the annual depreciation using the straight line method. (3)

(b) In table format, use the diminishing balance method and calculate the depreciation using the following values:

<table>
<thead>
<tr>
<th>Asset value R36 000</th>
<th>Depreciation at 15% per annum</th>
<th>Period is 5 years</th>
</tr>
</thead>
</table>

Use the following format:

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening balance</th>
<th>Depreciation for year</th>
<th>Closing balance</th>
</tr>
</thead>
</table>

(10)

(c) One step in asset disposal is to take the initial cost out of the books. State which account will be credited. (1) [15]

QUESTION 3: SOLE TRADER FINANCIAL STATEMENTS

(a) List the four qualitative characteristics to which a set of financial statements must adhere. (4)

(b) Give the full wording of the abbreviation GAAP. (1)

(c) Discuss the accrual concept of accounting. (5)

(d) Write up the ledger account (T account) for the annual insurance of R20 000, of which one month was prepaid. Ignore VAT. (5) [15]
QUESTION 4: PARTNERSHIPS

The following information was taken from the books of twins Rodney and Raymond who are in partnership. Appropriations are as per the partnership agreement at the end of the financial year, 30 April 2012.

Balances in the general ledger at the financial year-end, 30 April 2012:

<table>
<thead>
<tr>
<th>Folio</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital: Rodney</td>
<td>900 000</td>
<td></td>
</tr>
<tr>
<td>Capital: Raymond</td>
<td>600 000</td>
<td></td>
</tr>
<tr>
<td>Current: Rodney</td>
<td></td>
<td>67 000</td>
</tr>
<tr>
<td>Current: Raymond</td>
<td>55 000</td>
<td></td>
</tr>
<tr>
<td>Drawings: Rodney</td>
<td>90 000</td>
<td></td>
</tr>
<tr>
<td>Drawings: Raymond</td>
<td>30 000</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>700 000</td>
<td></td>
</tr>
<tr>
<td>Profit for the year (profit and loss)</td>
<td></td>
<td>180 000</td>
</tr>
<tr>
<td></td>
<td>875 000</td>
<td>747 000</td>
</tr>
</tbody>
</table>

1. Interest on capital accounts must be recorded at 6% per annum. Capital balances remain constant. 6%

2. Interest on drawings must be charged at 9% per annum as if drawings were all taken as a lump sum six months prior to the financial year end. 9%

3. Interest on the current accounts must be recorded as 5% of the operating balances. 5%

4. Then partners must receive the following annual salaries (these are not regarded as operating expenditure):
   - Raymond R120 000
   - Rodney R180 000

5. Raymond must receive a bonus of 10% of the profit for the year 10%

6. The remaining profits / losses must be distributed equally between the partners.

You are required to:

Draw up the current accounts for Rodney and Raymond. [20]
QUESTION 5: CLOSED CORPORATION ACCOUNTING

(a) List the advantages of trading as a Closed Corporation. (10)

(b) The data below is an extract from the books of Silver Ray CC jointly owned by brothers Steve and Joe.

Steve 70% interest
Joe 30% interest

Steve R50 000 contribution
Joe R35 000 contribution

Accounting date: 31-Dec

<table>
<thead>
<tr>
<th>TRIAL BALANCE 1 December 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
</tr>
<tr>
<td>Member contributions</td>
</tr>
<tr>
<td>Undrawn profits</td>
</tr>
<tr>
<td>Mortgage bond</td>
</tr>
<tr>
<td>Loan to: Joe</td>
</tr>
<tr>
<td>Land and Buildings</td>
</tr>
<tr>
<td>Bank</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Steve withdrew R10 000 loaned to the CC by Joe.

Land and building was valued at R150 000 on 1 December.

No interest payments are outstanding.

Profit after tax on 31 December 2011 amounted to R60 000.

Distribution = 50% of after tax profit

You are required to:

Draft a statement of changes in members' net investment and transactions, for the month of December. (10) [20]

[85]