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GRADE 11

NOVEMBER 2020

**ACCOUNTING P1
FINANCIAL REPORTING AND EVALUATION
(EXEMPLAR)**

MARKS: 150

TIME: 2 hours

This question paper consists of 12 pages, a formula sheet and an 8-page answer book.

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. A FORMULA SHEET for Financial Indicators is attached to this question paper. You may use it if necessary.
8. Write neatly and legibly.
9. A breakdown of the question paper is provided. You must attempt to comply with the suggested time allocation for each question. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	TIME (MINUTES)
1	Fixed assets	30	25
2	GAAP and Income statement	45	35
3	Balance sheet and Notes	45	35
4	Financial indicators and Interpretation of financial information	30	25
TOTAL:		150	120



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QUESTION 1: FIXED ASSETS**(30 marks; 25 minutes)**

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 The historical-cost principle applies only to vehicles and equipment.

1.1.2 Land and buildings purchased will be recorded as a disposal in the fixed asset-note.

1.1.3 Depreciation refers to the decrease in the value of an asset.

(3 x 1) (3)

1.2 **SA CARPENTERS**

The following information for the year ended on 29 February 2020 relates to SA Carpenters, a partnership between Surkaan and Anele.

REQUIRED:

1.2.1 Refer to information A:

Do a calculation to prove that the diminished balance-method of depreciation is used for vehicles. (4)

1.2.2 Refer to information D:

- Calculate the missing figures denoted by **(i)** to **(iv)**. (11)

- Indicate if a profit or loss was made on the disposal of the vehicle. Do a calculation to support your answer. (6)

1.2.3 Refer to Information E:

- Calculate the percentage increase in the value of the property, as at 29 February 2020. (4)

- Explain why would you not agree with this partner. Provide ONE point with reference to a GAAP principle. (2)

INFORMATION:**A. Fixed Asset Register (Motor vehicles):**

Units: 2			
Make: Toyota Hilux 2.4 (2017)			
Date of purchase: 30 June 2017			
Cost: R780 000			
Depreciation: 10% p.a. on diminishing balance-method			
Date	Depreciation	Accumulated depreciation	Carrying Value
28 Feb 2018	52 000	52 000	?
28 Feb 2019	72 800	124 800	?

- B.** Extension to buildings were made on 1 September 2019.
- C.** One of the vehicles was sold at R310 000 on 30 November 2019.

D. Fixed Asset Note:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value at the beginning		(i)	40 000
Cost	(ii)	780 000	300 000
Accumulated depreciation		?	(260 000)
Movements			
Additions at cost	750 000		250 000
Disposal at Carrying value		?	
Depreciation for the year		(iii)	(60 500)
Carrying value at the end	3 000 000		(iv)

- E.** The land and buildings were bought three years ago. The market value of the property as at 29 February 2020 is estimated at R3 450 000.

One of the partners (Surkaan) is of the opinion that this amount should be reflected in the books of the business.

QUESTION 2: GAAP AND INCOME STATEMENT**(45 marks; 35 minutes)**

- 2.1 GAAP principles are provided as options for each of the following statements. Choose the GAAP principle and write only the letter (A–D) next to the question numbers (2.1.1–2.1.3) in the ANSWER BOOK, for example 2.1.4 E.

A	Materiality
B	Matching
C	Going concern
D	Business entity

2.1.1 Significant information must be included in financial statements.

2.1.2 The financial activities of a business are kept separately from those of the owner.

2.1.3 Income and expenses are recognised and recorded in the current financial period.

(3 x 1) (3)

2.2 TERA PRIVATE HOSPITAL

A group of doctors owns this hospital. The information relates to the financial year ended 30 September 2020.

REQUIRED:

Complete the Income Statement for the year ended 30 September 2020. (42)

INFORMATION:**A. Extract from Pre-adjustment TRIAL balance on 30 September 2020**

Fixed deposit: Buffalo Bank @ 8% p.a.	370 000
Loan (Jankee Bank)	625 000
Trading stock	410 150
Debtors control	277 500
Provision for bad debts	12 980
Sales	1 290 450
Cost of Sales	1 032 350
Debtors allowance	18 200
Fee income	1 584 000
Rent Income	121 650
Salaries and wages	367 500
Consumable stores	72 790
Advertising	12 120
Sundry Expense	247 760
Employer's Contribution	33 210
Interest on loan	11 500

B. ADDITIONAL INFORMATION AND ADJUSTMENTS:

- (a) Goods, which were due to be obsolete on 30 October 2020, were sold for cash, R18 900, which is 10% below cost. This transaction was not recorded.
- (b) Provision for bad debts will decrease by R150.
- (c) Stock counts on 30 September 2020 revealed the following on hand:
- Trading stock: R389 230
 - Consumable stores: R9 950
- (d) Rent was received up until November 2020. Monthly rent was increased by R950 on 1 July 2020.
- (e) Advertising is exceeded by a one-month premium of R3 120.
- (f) One employee was left out from the salaries journal for September 2020. The details are as follows:

Employer's contributions			Deductions				Net Salary
Pension fund	UIF	Medical aid	Pension fund	UIF	PAYE	Medical aid	
R610	R90	R390	R670	R120	R880	R430	R8 400

- (g) Consultation fees for 12 patients have not been recorded yet. The fee is R660 per patient.
- (h) Depreciation for the year amounted to R25 000.
- (i) Interest on fixed deposit has not been recorded yet.

QUESTION 3: BALANCE SHEET AND NOTES**(45 marks, 35 minutes)****COVID TRADERS**

The information provided is for the year ended on 29 February 2020.

REQUIRED:

3.1 Complete the following notes to the Balance Sheet:

- Current accounts (17)
- Trade and other receivables (6)

3.2 Complete the Balance Sheet as at 29 February 2020. (22)

INFORMATION:

A. The following were extracted from the records on 29 February 2020:

Capital: Corne	R300 000
Capital: Vidio	400 000
Current account: Corne (1 March 2019)	Cr 12 100
Current account: Vidio (1 March 2019)	Dr 10 200
Drawing: Corne	172 500
Drawing: Vidio	140 300
Fixed assets at cost	1 920 000
Accumulated depreciation	?
Fixed deposit: FCC Bank	310 000
Trading stock	?
Debtors control	202 330
Bank (unfavourable balance)	14 400
Cash float	6 510
Creditors control	295 500
Provision for bad debts	2 450
Loan	?

- B.** R50 000 of the investment will mature on 30 September 2020.
- C.** A credit note for R2 400 (cost R1 500), issued for goods returned was not posted to the debtors control account.
- D.** A debtor with an outstanding balance of R11 650 was declared insolvent. The estate has paid 80% of the amount which was recorded. The balance must still be written off as bad debts.
- E.** Provision for bad debts must be adjusted by R250 as an expense.

F. Loan Statement from Fani Bank

Balance on 1 March 2019	R900 000
Repayment including interest	164 500
Interest capitalised	90 000

The partners decided to pay R70 500 on the capital in the next financial year.

G. Net profit for the year after adjustments and additional information, R378 300.

H. The partnership agreement stipulates the following:

- Interest on capital:
The partners are entitled to interest at 15% per annum. Vidio has decreased his capital by R100 000 on 1 June 2019. This was recorded.
- Partners' salaries:
Vidio earn R120 000 per year and Corne earns 10% less than Vidio.
- Bonus to partners:
Vidio is entitled to a bonus equal to a month's salary.
- Profits are shared in favour of Vidio in the ratio 3 : 2.

I. The current ratio at the end of the financial year is 1,5 : 1.

J. The following are balancing figures:

- Fixed assets
- Inventories

QUESTION 4 FINANCIAL INDICATORS AND INTERPRETATION (30 marks, 25 minutes) OF FINANCIAL INFORMATION

4.1 Calculate the following financial indicators as at 30 June 2020:

4.1.1 Acid-test ratio (4)

4.1.2 Debt-equity ratio (3)

4.1.3 Return earned by Kagiso (6)

4.2 Provide figures, financial indicators or calculations in EACH case below to support your comments and explanations.

REQUIRED:

4.2.1 Comment on the liquidity of the business and explain in which year the working capital was managed more efficiently. (6)

4.2.2 The partners decided to increase the loan during the financial year. Comment on this decision with reference to the degree of financial risk. (4)

4.2.3 Comment on Kagiso's return on his investment in the partnership.

- Provide ONE reason why he should be happy with his return. (3)
- Provide ONE reasons why he should be concerned about his return on his investment and give an explanation. (4)

INFORMATION:**A. Appropriation Account**

2020 June 30	Interest on capital: Kagiso	47 250	2020 June 30	Profit and loss	502 200
	Interest on capital: Radaba	31 500			
	Salary: Kagiso	168 750			
	Salary: Radaba	205 200			
	Bonus to Radaba	17 100			
	Current account: Kagiso	16 200			
	Current account: Radaba	16 200			

B. Balances at the end of June 2020.

	2020	2019
Owners equity	1 425 800	1 385 900
Capital: Kagiso	750 000	650 000
Capital: Radaba	675 000	700 000
Current account: Kagiso	Dr 15 500	10 750
Current account: Radaba	16 300	25 150
Current assets	294 650	530 250
Trade and other receivables	159 750	307 350
Cash and cash equivalents	41 150	32 650
Inventories	93 750	190 250
Non-current liabilities: Loan	450 000	250 000
Current liabilities	190 500	219 000

C. Financial Indicators as at 30 June 2020.

	2020	2019
Current ratio	1,5 : 1	2,4 : 1
Acid test ratio	?	1,6 : 1
Debt equity ratio	?	0,2 : 1
Return earned by Kagiso	?	36%
Return earned by Radaba	38%	39%
Return on partner's equity	36%	38%
Interest rate on alternative investments	8%	8%

30

TOTAL: 150

GRADE 11 ACCOUNTING: FINANCIAL INDICATOR FORMULA SHEET		
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	
$\frac{\text{Total earnings by partner}}{\text{Partner's average equity}} \times \frac{100}{1}$	$\frac{\text{Net profit}}{\text{Average owner' equity}} \times \frac{100}{1}$	
Current assets : Current liabilities	(Current assets – Inventories) : Current liabilities	
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}} \times \frac{365}{1}$	
Non-current liabilities : Owners' equity	Total assets: Total liabilities	