

JUNE EXAM QUESTIONS

24 JULY 2014



Lesson Description

In this lesson we:

- Focus on Income Statement adjustments, Asset Disposal and notes to the Financial Statements.



Test Yourself

Question 1

P. Smith, a debtor whose debt had previously been written off during November 2013, honoured the amount of R250 on 25 February 2014. The bookkeeper made the following entry:

DR Bank

CR Debtors control

The correct entry would be

- CR Bank and DR Debtors control
- DR Bank and CR Bad debts recovered
- DR Debtors control and CR Bad debts recovered
- DR Debtors control and CR Bad debts

Question 2

The bookkeeper posted **discount allowed** and **discount received** to one account called 'Discount'. The Pre-adjustment trial balance at the end of the year shown a balance of R860 for 'Discount.'

Discount received from creditors for the year amounted to R470.

In the income statement the following will be disclosed in respect of 'discount':

- Separate entry for Discount received R470; Discount Allowed R1330
- One entry for 'Discount' under operating expenses R860
- Separate entry for Discount received R470, Discount Allowed R410
- None of the above

Question 3

Rent income is received for 13 months. The total rent received amounted to R26 000.

The correct adjustment will be:

3.1

- Decrease Rent income by R2 000 in the Income Statement
- No adjustment is required
- An entry is also made in the note 'Trade and other Payables'
- (a) and (c)

3.2

The GAAP principle used for the above adjustment is

- The Prudence principle
- Historical cost
- Matching principle
- Going concern principle

Question 4

The business sold equipment at a profit of R800. The cost price of the equipment was R8 800 and the accumulated depreciation at the date of sale was R6 600.

The selling price of the equipment sold was

- a) R3000
- b) R8000
- c) R2200
- d) None of the above



Improve your Skills

Question 1

The information below was taken from the records of GUGU Ltd. The financial year ends on 28 February 2014

Required

1. Prepare the Income Statement for the year ended 28 February 2014. (57)
2. Complete the following Balance Sheet notes:
 - a) Trade and other Receivables (9)
 - c) Trade and Other Payables (12)
3. Complete the Trading Stock in the General Ledger as at 28 February 2014. (8)
4. Refer to adjustment number 9 and 11. In each case identify and briefly explain the GAAP principle that will be used when preparing the financial statements. (4)

Information

EXTRACT OF THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2014

Equipment	100 000
Accumulated depreciation on equipment	88 000
Trading Stock	78 400
Debtor's control	55 200
Provision for bad debts	3 000
Bank (dr)	8 400
Petty cash	400
Creditors control	48 210
Loan	36 000
SARS (Income tax) (Dr)	55 000
Sales	606 270
Cost of sales	239 250
Debtors allowance	5 730
Water and electricity	3 240
Packing material	2 180
Rent income	39 420
Bad debts	3 480
Telephone	3 520
Directors fees	120 000

Salaries	79 200
Pension fund contribution	5 940
Bank charges	1 430
Interest on overdraft	1 190
Interest on loan	3 240
Depreciation	320
Asset disposal (dr)	2 800

ADJUSTMENTS AND ADDITIONAL INFORMATION

- The details of an employee, T. Meyer, who was appointed on 1 February 2014, were omitted from the Salaries Journal for February 2014 by mistake. The details of his salary were as follows:

Gross Salary	R10 800
Deductions: SARS: PAYE	R1 020
Pension Fund	R660

For every R1 that the employee contributes to the pension fund, the business contributes R1, 50. No payments in respect of the above salary/deductions have been made.

- The business donated inventory to the local high school, selling price R1 200, cost price R730.
- A debtor returned goods claiming that the quality was inferior, selling price R800, mark up 60%.
- No entry was made of an invoice received from Trumpet Transporters for the transport of goods purchased R200.
- Physical stocktaking revealed that the following: were on hand on 28 February 2014:

Trading stock	R72 800
Packing Material	R480
- The business sold a laptop on 1 February 2014 for R1 000 on credit. The laptop originally costed R8 000 and the accumulated depreciation at the date of sale was R5 200. The accountant recorded the transfer of the cost price and accumulated depreciation to the Asset disposal account. No other entries were made.
- Provide for depreciation on equipment at 20% on cost price method. Note: All equipment was purchased four years ago.
- Provision for bad debts must be adjusted to 5% of debtors.
- After the Pre-adjustment Trial Balance was drawn up, the business received the February 2014 Bank Statement with the following information:-
 - Cash Handling Fee R120
 - Interest on Debit balance R160
- Rent has been received for March and April 2014. On the 1 January 2014, the rent was increased by 15%. Adjust accordingly.
- The following payments have not yet been made for February 2014:-

Water and Electricity	R300
Telephone	R200

12. The Income Tax assessment for the year amounted to R65 000.

Answer Book

Question 1

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2014

SALES (506270 – 5730)		
COST OF SALES (239250)		
GROSS PROFIT		
OTHER OPERATING INCOME		
Rent income (39420)		
GROSS OPERATING INCOME		
OPERATING EXPENSES		
Water and electricity (3 240)		
Packing material (2180)		
Bad debts (3480)		
Telephone (3520)		
Salaries (79 200)		
Pension fund contribution (5940)		
Bank charges (1430)		
Depreciation (320)		
Directors fees (120 000)		
Donations		
Trading stock deficit		
OPERATING PROFIT		
Interest expense (1190 + 3240)		
Net Profit before Tax		
Income Tax		

TRADE AND OTHER RECEIVABLES

Trade Debtors (55 200)	
Provision for bad debts (3 000)	
Net Trade Debtors	

notes for...

TRADE AND OTHER PAYABLES

Trade creditors (48 210)	
Sars – Paye	
Pension fund	
Creditors for salary	

TRADING STOCK						B			
	Balance		78400						

Adjustment:
 Gaap Principle –
 Explanation -

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 Gaap Principle -
 Explanation -