

**ACCOUNTING GRADE 12 TEST 1 SELF-STUDY (LOCKDOWN)**

**TOPIC: FINANCIAL STATEMENTS (I/S)&NOTES**

**QUESTION 1 GAAP, INCOME STATEMENT AND NOTES**

**(75 marks; 45 minutes)**

**1.1 GAAP**

Choose the relevant GAAP principle from the list given below, to match the applicable scenarios indicated in 1.1.1 ‒ 1.1.4:

|  |  |  |
| --- | --- | --- |
| Business entity | Historical cost | Going concern |
| Matching | Prudence | Materiality |

|  |  |  |
| --- | --- | --- |
| 1.1.1 | A client sent through a proof of payment but the payment is not recorded in the journals until the payment is reflected on the bank statement. |  |
| 1.1.2 | Interest on overdraft and bank charges are recorded as two different accounts. |  |
| 1.1.3 | The owner of the business inherited R80 000. He still has to decide if he is going to invest this in the business or use it for his holiday. |  |
| 1.1.4 | Surveyors valued the current building at amounts varying between R1 400 000 and R2 300 000. The Balance Sheet reflects Land and Buildings at R730 000. | (4) |

**1.2 AUDITING**

**REQUIRED**

|  |  |  |
| --- | --- | --- |
| 1.2.1 | Explain the role of the independent auditor. Provide ONE point. | (2) |
| 1.2.2 | Name TWO persons/parties other than the shareholders, who would be interested in the audit report. Give a reason for each. | (4) |
| 1.2.3 | Explain why it is important for an independent auditor to belong to a professional body like SAICA. Provide ONE reason. | (2) |

**1.3 INCOME STATEMENT AND NOTES**

Corona Wholesalers Ltd is a general dealer. You are presented with their records on 29 February 2020, the end of their financial year.

**REQUIRED:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1.3.1 | Prepare the Income Statement for the year ended 29 February 2020. | | (42) | |
| 1.3.2 | Complete the following notes to the Balance Sheet on 29 February 2020: | |  | |
|  | * ( | Ordinary share capital | (10) |
|  | * () | Retained income | (11) |

**INFORMATION**

|  |  |
| --- | --- |
| **EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON**  **29 FEBRUARY 2020** | |
| **Balance sheet accounts** |  |
| Ordinary share capital (780 000 shares) | 4 212 000 |
| Retained income | 872 000 |
| Loan: Quarantine Bank | 1 450 000 |
| Fixed deposit: Covid-19 Bank (interest rate: 14% p.a.) | 86 000 |
| Debtors control | 87 930 |
| Trading stock | 1 050 300 |
| Bank | 42 550 |
| SARS (Income tax) (Dr) | 176 000 |
| Provision for bad debts | 3 600 |
| Consumables on hand (Packing material – 1 March 2019) | 820 |
| **Nominal accounts** |  |
| Sales | 6 200 500 |
| Cost of sales | 3 468 400 |
| Debtors allowance | 17 200 |
| Advertisements | 24 600 |
| Audit fees | 188 410 |
| Salaries and wages | 1 081 600 |
| Rent income | 126 800 |
| Directors fees | 950 900 |
| Interest on fixed deposit | 9 030 |
| Telephone | 36 700 |
| Stationery | 14 700 |
| Bad debts | 6 730 |
| Packing material | 4 400 |
| Ordinary share dividends | 340 000 |

**ADJUSTMENTS AND ADDITIONAL INFORMATION:**

|  |  |  |  |
| --- | --- | --- | --- |
| A. | Depreciation for the financial year is R74 200. | | |
| B. | V. Nodada, a debtor, returned stock worth R2 400. The mark up percentage is 50% on cost. This has not been recorded. These items were placed back into stock. | | |
| C. | The bookkeeper did not do the reversal of packing material on hand on 1 March 2019. | | |
| D. | The physical stock taking also indicated the following on 29 February 2020: | | |
|  | Trading stock  Packing material  Stationery | R1 036 000  R 650  R 1 200 |
| E. | N. Nkampinis’ debt of R680 was written off as bad debts in July 2019. Nkampini paid his debt during February 2020, but this was incorrectly recorded as a credit on the bad debts account. | | |
| F. | Provision for bad debts should be adjusted to R4 250. | | |
| G. | The telephone account for February 2020 is still outstanding, R1 400. | | |
| H. | The interest on fixed deposit for the last quarter is still outstanding. Interest is not capitalised. | | |
| I. | One of the three directors requested his fees for March 2020 be paid in February 2020 due to financial problems. All three directors receive the same monthly salary. | | |
| J. | The loan statement received from Quarantine Bank reflects the following:   |  |  | | --- | --- | | Balance 1 March 2019 | R1 601 600 | | Repayments during the year (including interest) | R 214 600 | | Interest capitalised | R ? | | Balance 29 February 2020 | R1 450 000 | |  |  | | | |
| K. | Income tax is calculated at 30% of net profit | | |
| L. | During June 2019 the company issued 15 000 new shares at R9,50. This transaction was correctly recorded.  On 26 January 2020 the company bought back 20 000 shares at R7,20. This transaction was not recorded. | | |
| M. | On 29 February 2020 a final dividend of 60c per share was declared. Only shares in issue on 29 February 2020 qualifies for the final dividend. | | |

**75**