

**SAIPA NATIONAL ACCOUNTING OLYMPIAD 2008: FIRST ROUND QUESTION PAPER
9 MAY 2008**

Choose the most appropriate answer to each question by marking a ● on the answer sheet.

NOTE: Where appropriate all answers must be worked to 1 decimal place.

1. Writing off of provision for bad debts is covered principally by which GAAP principle:
 - (a) Historical cost rule
 - (b) Prudence principle
 - (c) Going concern
 - (d) Matching principle

2. The concept of materiality refers to:
 - (a) All possessions of a business
 - (b) The raw materials used in the manufacturing process
 - (c) All entries must be entered for the correct time period
 - (d) The importance of a transaction

3. Businesses that enjoy limited liability are:
 1. Private companies
 2. Public companies
 3. Close corporations
 4. Partnerships
 - (a) 1, 2, 3 and 4
 - (b) 1, 2 and 4
 - (c) 1, 2 and 3
 - (d) 2, 3 and 4

4. The following procedures are essential to ensure effective internal control in a business:
 1. Proper authorization
 2. Division of duties
 3. Appointment of an external auditor
 4. Proper documentation
 - (a) 1, 2, 3 and 4
 - (b) 1, 2 and 4
 - (c) 1, 2 and 3
 - (d) 2, 3 and 4

5. Company tax % for the year 2008 – 2009 is:
 - (a) 28%
 - (b) 30%
 - (c) The higher the income the higher the amount
 - (d) 35%

Use the following information for questions 6 and 7.

Benny Bears is a registered VAT vendor. The following information was extracted from his records for the 2 months ended 30 June 2008.

Sales (inclusive of VAT, where appropriate)

40% of all sales were zero-rated	R 132 500
Purchases of trading stock (exclusive of VAT. All goods subject to standard VAT)	R 67 400
Purchases of stationery and packing materials (inclusive of VAT)	R 1 800

6. The amount of VAT Output for the 2 month period is:
- (a) R16 271.93
 - (b) R18 550
 - (c) R11 130
 - (d) R9 763.16
7. The amount of VAT Input for the 2 month period is:
- (a) R9 436
 - (b) R8 277.19
 - (c) R9 657.05
 - (d) R8 498.25
8. Assume that Benny Bears sold some of their goods on credit for R860 (VAT inclusive). 20% were zero-rated goods. Benny gave the debtor a discount of 10% for early settlement. What amount will Benny be able to claim back from SARS?
- (a) R8.45
 - (b) R9.63
 - (c) R10.56
 - (d) R12.04
9. Which of the following items are zero-rated goods:
- 1 Brown bread
 - 2 Interest
 - 3 Computers
 - 4 Lentils
- (a) 1, 2, 3 and 4
 - (b) 1, 2 and 3
 - (c) 1 and 4
 - (d) 1, 2 and 4
10. Which of the following vendors are required by law to register for VAT
- (a) Businesses with a turnover of more than R300 000
 - (b) Businesses with a turnover of more than R1 000 000
 - (c) Businesses that are involved in foreign trade
 - (d) Businesses that sell goods to the public.

Use the following information to answer questions 11 – 14.

Jabu produces leather belts. The following are his costs for the period ended 31 March 2008. During this period he produced and sold 1360 belts. There was no work-in-process at the beginning or end of the period.

	TOTAL	PER UNIT
Direct material cost	R111 520	R82
Direct labour cost	R129 200	R95
Factory overhead cost	R28 560	R21
Administration	R16 320	R12
Selling & distribution cost	R24 480	R18
Sales	R523 600	R385

11. The prime cost per unit is:
- (a) R82
 - (b) R95
 - (c) R177
 - (d) R198
12. The gross profit made on the belts is:
- (a) R213 520
 - (b) R282 880
 - (c) R229 840
 - (d) R254 320
13. The number of belts that Jabu needs to make in order to break-even is:
- (a) 218 belts
 - (b) 334 belts
 - (c) 237 belts
 - (d) 160 belts
14. Factory overhead costs consist of the following:
- (a) Rent, water and electricity, receptionist salary, depreciation on equipment
 - (b) Rent, water and electricity, depreciation on equipment, consumable stores
 - (c) Factory manager's salary, delivery expenses, rent, consumable stores
 - (d) Consumable stores, accounts clerk's salary, water & electricity, maintenance

Use the following information to answer questions 15 – 17.

NOTES TO THE BALANCE SHEET ON 29 FEBRUARY 2008 (end of the financial year)							
TANGIBLE ASSETS / FIXED ASSETS				Equipment		Vehicles	
Carrying value on 1 March 2007				140 000		39 000	
Cost				320 000		330 000	
Accumulated depreciation				(180 000)		(291 000)	
Movements:							
Additions				0		320 000	
Disposals at carrying value				*		0	
Depreciation				(32 000)		*	
Carrying value on 29 February 2008				*		*	
Cost				260 000		*	
Accumulated depreciation				*		*	
ASSET DISPOSAL							
2007 Aug	31	Equipment		2007 Aug	31	Accumulated depreciation on equipment	42 000
		Profit on sale of the asset	4 500			Debtors control	
Extra information:							
1. Vehicles are depreciated by 20% p.a. on cost.							
2. The new vehicle was bought on 1 December 2007.							

15. The selling price of the equipment sold was:
- (a) R18 000
 - (b) R22 500
 - (c) R13 500
 - (d) R60 000
16. The balance of the accumulated depreciation on 29 February 2008 for equipment was:
- (a) R212 000
 - (b) R172 000
 - (c) R130 000
 - (d) R170 000
17. The amount of depreciation to be written off vehicles for the year ended 29 February 2008 is:
- (a) R66 000
 - (b) R54 999
 - (c) R82 000
 - (d) R38 999

Use the following information to answer question 18.

The incorrect bank reconciliation statement of Waldorf was prepared by an inexperienced bookkeeper at the end of January 2008 and appeared as follows:

Positive balance as per bank statement	8 200
Outstanding deposit	1 100
Outstanding cheques: No 111 (dated 26 February 2008)	880
No 78 (dated 20 July 2007)	1 300
Correction of cheque incorrectly entered in Waldorf's bank account by the bank	350
Bank charges	56

18. The correct balance as per the bank account of Waldorf should be:
- (a) R8 770
 - (b) R7 470
 - (c) R6 770
 - (d) R7 414

Use the following information to answer questions 19 – 29.

Betty Designer sells childrens' clothing to the public at a mark-up of 60%.

Extracts from the INCOME STATEMENT of Betty Designer for the year ended 31 May 2008

	2008
Sales (50% of goods sold were on credit)	3 200 000
Cost of sales (60 % of purchases were on credit)	<u>(1 750 000)</u>
Gross profit	1 450 000
Operating expenses	<u>(520 000)</u>
Operating profit	930 000
Interest income	18 900
Interest expense (on mortgage loan)	<u>(72 000)</u>
Net profit	<u><u>876 900</u></u>

BALANCE SHEET of Betty Designer for the year ended 31 May 2008		
	2008	2007
ASSETS		
Non-current assets		
Fixed assets	1 600 000	1 100 000
Financial assets (9%)	*	200 000
Current assets	331 200	
Inventories	250 000	220 000
Trade & other receivables (all debtors)	70 000	230 000
Cash & cash equivalents	11 200	*
TOTAL ASSETS		
EQUITY & LIABILITIES		
Owner's equity	1 613 200	
Non-current liabilities (Mortgage loan)	374 000	400 000
Current liabilities		200 000
Trade & other payables (all creditors)	150 000	120 000
Bank overdraft	*	80 000
TOTAL EQUITY & LIABILITIES		

19. The mark-up achieved by the business is:
- 60%
 - 45%
 - 55%
 - 83%
20. The interest on the mortgage loan was capitalized during the year. The amount paid off the loan during the year amounted to:
- R98 000
 - R26 000
 - R72 000
 - R46 000
21. The fixed deposit was increased on 1 February 2008. The interest rate was unchanged all year and interest is not capitalized. What amount would appear in the Balance Sheet on 31 May 2008 for the fixed deposit (non-current asset)?
- R30 000
 - R210 000
 - R240 000
 - R230 000
22. The average debtors collection period for 2008 is:
- 0.6 months
 - 1.1 months
 - 0.3 month
 - 1.5 months

23. The average creditors payment period for 2008 is:
- (a) 0.9 month
 - (b) 1 month
 - (c) 1.5 months
 - (d) 1.7 months
24. The stock holding period for 2008 is:
- (a) 1.6 months
 - (b) 1.7 months
 - (c) 2.7 months
 - (d) 2.9 months
25. The acid test ratio in 2007 was 3.1 : 1. The cash and cash equivalents figure is:
- (a) R170 000
 - (b) R390 000
 - (c) R142 000
 - (d) R152 000
26. During the year fixed assets were bought for R566 000 but no fixed assets were sold. The amount of depreciation is:
- (a) R66 000
 - (b) R500 000
 - (c) R132 000
 - (d) R1 066 000
27. The current ratio in 2008 is 1.8 : 1. The bank overdraft figure is:
- (a) R446 160
 - (b) R296 160
 - (c) R184 000
 - (d) R34 000
28. During the year the owner had drawings of R803 700. The owner's equity for 2007 is:
- (a) R1 540 000
 - (b) R809 500
 - (c) R2 416 900
 - (d) R1 686 400
29. The debt : equity ratio for 2008 is:
- (a) 3 : 1
 - (b) 0.2 : 1
 - (c) 4.3 : 1
 - (d) 0.3 : 1

Use the following information to answer questions 30 – 32.

FINANCIAL INDICATORS		
	2008	2007
Debt : equity ratio	1.2 : 1	0.7 : 1
Return on owner's equity	8%	12%
Return on total capital employed	14.5%	16.5%
Non-current liabilities (loans)	R500 000	R300 000
Interest on loans	18%	15%

- 30 A valid comment on the return on owner's equity is:
- This is a good return as the economy is slowing down and the business has still made a profit
 - This is a bad return as you can earn 20% return on investments at financial institutions
 - The return has decreased from last year but needs to be compared to alternative investments
 - This is a good return as it has improved since last year
- 31 The debt : equity ratio indicates the following:
- The increased risk has resulted in higher profits
 - The change in the debt : equity ratio is due to the increase in owner's investment
 - The risk has increased this year due to the increase in loans
 - The business is in a bad situation as the debt : equity ratio must never go above 1 : 1
- 32 The gearing indicates the following:
- The increase in borrowing was justified as this has resulted in positive gearing.
 - The gearing is favorable if compared to the borrowing rate
 - If the interest rate on loans had stayed the same then the extra borrowings would have been justified.
 - The increased in borrowing was not justified as this has resulted in negative gearing.

Use the following information to answer questions 33 – 35.

Debtors control balance on 31 March 2008	R56 600
Debtors ledger: A Smith	R1 800 (Dr)
B Singh	R450 (Cr)

The following errors were noted when a reconciliation was done:

- The debtors allowances journal was overcast by R500
- B Singh's account had been written off previously. He paid R450 and the bookkeeper Dr Bank and Cr Debtors Control.
- A Smith returned goods worth R320. The entry was correctly entered in the journal but posted to the wrong side of Smith's account.

33. The correct balance on B Singh's account is:
- R450 (Dr)
 - R900 (Cr)
 - R0
 - R450 (Cr)
34. The correct balance on A Smith's account is:
- R1 160
 - R1 480
 - R2 120
 - R2 440
35. The correct balance on the Debtors Control account is:
- R55 650
 - R55 330
 - R57 230
 - R57 550

Use the following information to answer questions 36 – 38.

The following extracted information relates to the partnership owned by Julie and Ben on 30 April 2008, the financial year-end.

CAPTIAL ACCOUNTS	JULIE	BEN
Capital on 1 May 2007	R360 000	
Withdrawal of capital 31 January 2008	(R50 000)	
CURRENT ACCOUNTS		
Partner's salaries	R72 000	R108 000
Interest on capital	*	R26 100
Share of remaining profit	*	R84 000

ADDITIONAL INFORMATION:

- Interest on capital is 9% p.a.
- The remaining profit is shared in the ratio 5 : 2 between Julie and Ben
- Ben retained 55% of his earnings for the year in the business

36. Julie's primary distribution is:

- (a) R31 275
- (b) R30 900
- (c) R103 275
- (d) R102 900

37. Julie's final share of the remaining profit is:

- (a) R210 000
- (b) R294 000
- (c) R168 000
- (d) R33 600

38. Ben's drawings amounted to:

- (a) R119 955
- (b) R37 800
- (c) R98 145
- (d) R46 200

Use the following information to answer questions 39 – 41.

The following extracts were taken from the budget of Remco:

	MAY	JUNE	JULY
Total sales	R550 000	R620 000	*
Credit sales	*	*	R312 000

- 40% of all sales are on credit
- The business uses a mark-up of 60% on cost
- 90% of purchases are on credit.
- Creditors are paid in 60 days subject to a 5% discount
- An analysis of the debtors payment period revealed the following:
 - 10% paid within the same month of purchase subject to a 10% discount
 - 50% paid in the following month (30 days) subject to a 7.5% discount
 - 35% paid in the second month (60 days)

39. The cash sales for July are:
- (a) R208 000
 - (b) R468 000
 - (c) R780 000
 - (d) R520 000
40. The cash collected from debtors during July is:
- (a) R142 780
 - (b) R232 200
 - (c) R124 070
 - (d) R219 780
41. The amount paid to Creditors in July is:
- (a) R293 906.25
 - (b) R326 562.50
 - (c) R313 500
 - (d) R282 150
42. The acronym IFAC in the accounting world stands for:
- (a) International Freedom of Accountants
 - (b) Institute of Financial Accountants
 - (c) International Federation of Accountants
 - (d) Institute of Financial Auditors
43. Only members of which association can sign the letters CS(SA) after their names:
- (a) SAIPA
 - (b) IFAC
 - (c) IASC
 - (d) SAICA
44. "It should be possible for readers of financial statements to safely use the figures in the financial statements to make business decisions," describes which characteristic of financial statements:
- (a) Understandability
 - (b) Reliability
 - (c) Fairness
 - (d) Comparability
45. Which principle of GAAP determines how you treat the following entry:
When a sale is recorded the cost of that sale must be recorded at the same time.
- (a) Prudence
 - (b) Materiality
 - (c) Matching
 - (d) Business entity
46. Who is the current Chairperson of SAIPA
- (a) Mr. S. Daniels
 - (b) Mr. S. Kharwa
 - (c) Mr. Q. Dobeyn
 - (d) Mr. U. Naidoo

47. Who is the current Chief Executive of SAIPA
- (a) Mr. R. Dixie
 - (b) Mr. S. Daniels
 - (c) Mr. V. Patel
 - (d) Mr. Q. Dobeyn
48. What is the name of the bi-monthly magazine of SAIPA
- (a) Executive Business Brief
 - (b) Accountancy SA
 - (c) The Professional Accountant
 - (d) Finance Week
49. The Tag Line of SAIPA is:
- (a) Leading the Development of the Global Profession
 - (b) Your Wealth
 - (c) Accounting for the future
 - (d) Growth for the Future
50. What is the designation of a SAIPA member
- (a) Professional Accountant (SA)
 - (b) PA (SA)
 - (c) CFA (SA)
 - (d) CPA (SA)

