



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2009

MARKS: 300

TIME: 3 hours

This question paper consists of 18 pages.

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. Workings must be shown in order to achieve part-marks.
4. Non-programmable calculators may be used.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Refer to the table on the next page.

Use the information given in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 20 minutes	
The topic of the question is:	Learning outcomes covered:
Bank and creditors' reconciliation	LO1 Financial accounting - AS4 Analyse and interpret reconciliations LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 2: 35 marks; 20 minutes	
The topic of the question is:	Learning outcomes covered:
Inventory valuation	LO3 Managing resources - AS4 Validate and calculate inventories - AS6 Apply internal control processes LO1 Financial accounting - AS5 Final accounts

QUESTION 3: 45 marks; 30 minutes	
The topic of the question is:	Learning outcomes covered:
Projected Income Statement	LO2 Managerial accounting - AS2 Analyse and interpret projected income statements LO3 Managing resources - AS5 Code of ethics - AS6 Apply internal control processes

QUESTION 4: 50 marks; 30 minutes	
The topic of the question is:	Learning outcomes covered:
Manufacturing	LO2 Managerial accounting - AS1 Analyse and report on cost information - AS1 Prepare production cost statement

QUESTION 5: 55 marks; 35 minutes	
The topic of the question is:	Learning outcomes covered:
Interpretation of financial information	LO1 Financial accounting - AS1 Define concepts - AS5 Interpret financial statements LO3 Managing resources - AS5 Code of ethics & role of professional bodies

QUESTION 6: 80 marks; 45 minutes	
The topic of the question is:	Learning outcomes covered:
Fixed assets and cash flow	LO3 Managing resources - AS3 Interpret and report on asset disposal LO1 Financial accounting - AS5 Prepare and interpret cash-flow statement

QUESTION 1**RECONCILIATION****(35 marks; 20 minutes)****1.1 BANK RECONCILIATION**

You are provided with information from the Bank Reconciliation Statement of Phatudi Traders on 31 August 2008. The business banks with Topbank.

REQUIRED:

- 1.1.1 Why is it important for a business to prepare a monthly Bank Reconciliation Statement? State TWO points. (2)
- 1.1.2 One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it? Explain your choice. Indicate the correct course of action to be taken. (4)
- 1.1.3 Calculate the correct balance for the bank account in the ledger of Phatudi Traders (take into account your response to QUESTION 1.1.2 above). (4)
- 1.1.4 Explain how cheque No. 2719 should be treated when preparing the financial statements as at 31 August 2008, and explain the reason for this treatment. (4)
- 1.1.5 Explain why a post-dated cheque received by Phatudi Traders on 20 August 2008, but dated 20 September 2008, does not appear in the Bank Reconciliation Statement. (2)
- 1.1.6 In September the internal auditor noticed that the deposit of R12 390 that appeared in the August Bank Reconciliation Statement, appeared on the September Bank Statement from Topbank as R2 390. Topbank is correct.
- (a) Why should the internal auditor be seriously concerned about the difference of R10 000? (2)
- (b) What should the internal auditor do about this? Name TWO points. (4)

INFORMATION:

The following items appeared on the Bank Reconciliation Statement of Phatudi Traders as at 31 August 2008. The bookkeeper is not sure if any errors were made.

Bank overdraft as per the bank statement from Topbank	R25 260
Outstanding deposit (31 August 2008)	12 390
Outstanding cheques	
No. 2461 (dated 12 February 2008)	6 000
No. 2719 (dated 19 September 2008)	2 500
No. 2874 (dated 21 August 2008)	3 800
Balance as per bank account in the ledger of Phatudi Traders	?

1.2 CREDITORS' RECONCILIATION

The Creditors' Control Account and Creditors' List of Mega Stores were prepared by an inexperienced bookkeeper. She identified the following figures at the end of the month:

- Creditors' Control balance, R55 670
- Creditors' List total, R39 240

REQUIRED:

- 1.2.1 Why should these two figures agree? (2)
- 1.2.2 Calculate the amended balance of the Creditors' Control Account and Creditors' List. Use the format provided to show your workings. (11)

INFORMATION:

An investigation revealed the following:

- (a) An adding error in the Creditors' List resulted in the total being undercast by R480.
- (b) A credit purchase of stationery from Micro Ltd for R1 960 was left out of the books in error.
- (c) Trading stock returned to Excess Ltd, R720, was entered correctly in the Creditors' Allowances Journal (CAJ) but was posted as R270 to the creditors' account of Excess Ltd.
- (d) The Creditors Control total in the Cash Payments Journal is R8 200. The bookkeeper credited this to the Creditors Control Account by mistake.

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QUESTION 2**INVENTORY VALUATION****(35 marks; 20 minutes)**

You are provided with information in respect of Magic Soccer Balls Shop for the year ended 28 February 2009. The business is owned by Peter Pule.

The business uses the perpetual inventory system and the FIFO method of valuing stock.

REQUIRED:

- 2.1 Explain the meaning of the term *FIFO*. (2)
- 2.2 The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball. (3)
- 2.3 The owner, Peter Pule, is aware that some soccer balls were stolen from the storeroom in April 2008. No entry has been made. (5)
- Calculate the number of balls that are missing. (5)
 - What double entry would you make in the books to record this? Also provide the amount. (3)
- 2.4 Value the stock on hand at the year-end according to the FIFO method. (7)
- 2.5 Calculate following: (5)
- Cost of sales (5)
 - Gross profit for the year (3)
- 2.6 Peter is not sure when to place his next order of soccer balls. (3)
- How long can he expect the closing stock to last? Provide figures or a calculation to support your answer. (3)
 - What advice will you offer Peter in respect of the final stock? Provide TWO points. (4)

INFORMATION:**Accounting records relating to the soccer balls:**

Details	Date	Number of balls	Unit price	Total
Opening stock	1 March 2008	750	R110	R82 500
Purchases		2 480		R340 800
	20 May 2008	800	R150	R120 000
	25 October 2008	1 200	R120	R144 000
	16 December 2008	480	R160	R76 800
Closing stock	28 February 2009	1 100	?	?
Sales	1 March 2008 to 28 February 2009	2 100	?	R430 500

QUESTION 3**PROJECTED INCOME STATEMENT****(45 marks; 30 minutes)**

You are provided with a Projected Income Statement for Riverside Traders for January and February 2009. The actual figures are also provided. The business is owned by Cheryl Rivers.

She uses a fixed mark-up percentage at all times and credit sales comprise 60% of all sales.

RIVERSIDE TRADERS**PROJECTED INCOME STATEMENT FOR JANUARY AND FEBRUARY 2009**

	JANUARY BUDGET	JANUARY ACTUAL	FEBRUARY BUDGET	FEBRUARY ACTUAL
Sales	540 000	396 000	594 000	360 000
Cost of sales	300 000	220 000	330 000	200 000
Gross profit	240 000	176 000	264 000	160 000
Other income	47 000	34 000	53 000	44 000
Commission received	11 000	16 000	11 000	23 000
Rent income	36 000	18 000	42 000	21 000
Gross operating income	287 000	210 000	317 000	204 000
Operating expenses	(154 480)	(147 580)	(136 128)	(143 300)
Salary of the store manager	40 000	40 000	50 000	50 000
Wages of shop assistants	24 000	24 000	24 000	16 800
Sundry operating expenses	13 000	9 000	14 000	9 000
Motor vehicle expenses	12 000	13 200	12 000	13 200
Telephone	1 000	3 000	1 000	5 000
Security expenses	7 000	3 500	7 000	3 500
Trading stock deficit	0	18 000	0	12 000
Training of employees	30 000	10 000	0	0
Advertising	5 000	1 000	5 000	1 000
Discount allowed	2 000	0	2 000	0
Bad debts	6 480	11 880	7 128	10 800
Stationery	4 000	4 000	4 000	7 000
Depreciation	10 000	10 000	10 000	15 000
Operating profit	132 520	62 420	180 872	60 700
Interest income (6% p.a.)	12 000	12 000	12 000	9 000
Profit before interest expense	144 520	74 420	192 872	69 700
Interest expense (15% p.a.)	(37 500)	(37 500)	(37 500)	(37 500)
Net profit for the year	107 020	36 920	155 372	32 200

REQUIRED:

- 3.1 Calculate the mark-up % that Cheryl uses for her business. (4)
- 3.2 Refer to the actual figures for February for Interest income and Depreciation.
In each case, give a probable reason why the actual figure is different from the budget for February. (4)
- 3.3 Cheryl is always worried about the internal control over three expenses in particular: Stationery, Telephone and Motor Vehicle Expenses (especially as the petrol price increased unexpectedly by 25% at the beginning of January).
Comment on whether or not these expenses have been well controlled. Quote figures to support your answer. (7)
- 3.4 Cheryl is concerned that she has to keep contributing more capital each month so that the business can settle its debts. Explain why the Projected Income Statement will not help her in identifying the reasons for this problem. (3)
- 3.5 Cheryl has also borrowed money to set up this business. She is not sure if she can afford the loan repayments which start in March.
- Calculate the amount of the loan. (4)
 - What advice would you give her regarding accessing funds in order to repay the loan? Name TWO points. (4)
- 3.6 Cheryl is concerned about the support she is getting from her customers. She is concerned about losing 'goodwill'.
- Quote figures from the question which indicate that she appears to be losing customers. (2)
 - Identify THREE points, with appropriate figures from the Projected Income Statement, which indicate that she has made mistakes in dealing with her customers. (6)
- 3.7 The shop assistants earn equal wages. Two of the six shop assistants resigned at the beginning of February. They have not been replaced.
- Calculate the monthly salary earned by each shop assistant in January. (3)
 - Calculate the % salary increase that Cheryl granted the shop assistants in February. (4)
 - Give TWO reasons why they would not be happy with this increase. Quote evidence to support your answer. (4)

QUESTION 4**MANUFACTURING****(50 marks; 30 minutes)**

Glen Tables Manufacturers produce wooden dining-room tables. The business is owned by Glen Mabaso.

REQUIRED:

- 4.1 Refer to Information 8 below. Calculate the Direct Labour Cost for the month. (7)
- 4.2 Prepare the Production Cost Statement for the month ended 31 July 2008, with a separate note for Factory Overhead Cost. Show ALL other workings in brackets. (27)
- 4.3 Calculate the unit cost of the production of 410 completed tables (finished goods) for July 2008. (4)
- 4.4 Glen feels that the power cuts have had a significantly negative effect on his business. Name TWO points from the question which indicate that he is correct. Quote figures/calculations from the question to support your answer. (4)
- 4.5 Glen is concerned about the control over certain costs. Direct materials account for more than 40% of the cost of one table, while direct labour accounts for more than 30%. Glen wants your advice. (8)
- Make TWO suggestions on how to improve efficiency in the use of direct materials.
 - Make TWO suggestions on how to improve the efficiency of the direct labourers.

INFORMATION FOR JULY 2008:

1. Stocks on hand at the beginning and end of the month.

	1 July 2008	31 July 2008
Raw materials stock	R40 000	R65 000
Work-in-progress	55 000	40 000
Finished goods	Nil	Nil
Indirect material	6 000	Nil

2. Raw materials purchased on credit, R180 000
3. Depreciation is as follows:
- Factory plant, R7 400
 - Office equipment, R2 400
4. Factory maintenance paid in July, R8 000. A further amount of R3 500 is owed for repairs to a machine.
5. Electricity and water paid amount to R4 600 for July. The administration office uses 10% of this and the factory uses the rest.

6. Rent and insurance are allocated between the factory and the administration office on the basis of floor area. The factory comprises 630 square metres, while the office comprises 270 square metres. The **monthly** rent for the entire premises is R30 000. The **annual** insurance premium is R43 200.
7. Indirect materials bought for cash, R20 000. There was no stock of indirect materials on hand at the end of the month. The factory uses 75% of these materials, while the office uses the rest.
8. **Direct labour and production:**
- The 15 factory workers who make the tables each work 9 hours per day. The normal rate is R36 per hour per person.
- There were normally 20 working days in a month. However, due to power cuts, the factory could operate for only 14 week days in July 2008.
- In order to make up for lost time, the 15 factory workers each worked 45 hours overtime on weekends. The overtime rate is double the normal rate.
- However, they were unable to meet their target production of 450 tables per month. They managed to complete 410 tables. The break-even point is 320 tables.
9. **Other salaries and wages comprise:**
- The factory cleaner earns R2 600 per month
 - The factory foreman earns R15 000 per month. The bookkeeper had forgotten to process the foreman's pension. The employees' pension deduction is 7% and the employer's contribution is 10%. The contributions are added to the salaries account.
 - The administration staff earn R13 000 per month in total.
10. The **selling price of each table** is set at cost of production plus R500 gross profit per table.
11. The two salespersons work from home on a commission basis. The business incurs no fixed costs in this regard.

QUESTION 5**INTERPRETATION OF FINANCIAL INFORMATION****(55 marks; 35 minutes)**

You are provided with information relating to Bhaga Toys Limited.

REQUIRED:

- 5.1 A company's published annual report comprises five main parts. Match the components of the annual report in COLUMN 1 with the description in COLUMN 2. The first one has been done for you.

Write only the letter (A – E) next to the question number (1 – 5) in the special ANSWER BOOK, for example 6 – C.

COLUMN 1		COLUMN 2	
COMPONENTS OF THE ANNUAL REPORT		DESCRIPTION	
1	Income Statement	A	this is a written verbal explanation of the operations of the company during a financial year
2	Balance Sheet	B	this reflects whether or not the shareholders can rely on the financial statements
3	Cash-Flow Statement	C	this reflects the profit/loss of the company for the year
4	Directors' Report	D	this reflects the effect of the operating, financial and investing activities on the cash resources
5	Independent Auditor's Report	E	this reflects the net worth of the company

(4)

- 5.2 Refer to information 1, 2 and 3 at the end of this question.

Calculate the following financial indicators for 2008:

- Acid-test ratio (4)
- Stock turnover rate (4)
- Debt/Equity ratio (3)
- Net asset value per share (4)
- Earnings per share (3)

- 5.3 Comment on the liquidity situation of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support your answer. (8)

- 5.4 The company directors feel that the shareholders should be very happy with the returns, earnings and dividends of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support their opinion. (6)

- 5.5 Refer to the market value per share. Many people feel that the market value of the share on the JSE indicates whether or not the directors are doing a good job.
- Explain why the market value is so important in this regard. (2)
 - If the company issued all its unissued shares next year, how much capital could they expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares of R2 par value. (4)
- 5.6 Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion. (4)
- 5.7 The auditors have told the directors that Directors' Fees must be shown separately in the financial statements and not as part of Salaries and Wages. The directors do not want to change this. What is your opinion on this problem? Explain. (3)
- 5.8 Refer to the newspaper article below.

JSE SUSPENDS WOODVIEW LTD OVER NO ANNUAL REPORT

[By Ima Snoop, 12 Feb. 2009]

The trading of shares of furniture company Woodview Ltd were suspended by the JSE Securities Exchange yesterday after the company failed to publish its annual report three months after the end of their financial year-end.

The CEO of Woodview Ltd put out a statement explaining that the auditors had withheld their report and that this was causing a delay.

The company postponed its AGM. The shareholders have not been informed of the reason for the postponement.

Prior to the JSE's action, the share price of Woodview Ltd dropped 30% to 140 cents per share.

The directors of Bhaga Toys Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. Name TWO points. (6)

INFORMATION:

1. The following information was extracted from the Income Statement for 2008:

▪ Cost of sales	R976 000
▪ Interest on loan (interest 13% p.a.)	25 000
▪ Net profit before tax	750 000
▪ Net profit after tax	525 000

2. The following **financial indicators** were calculated for the past two years:

	2008	2007
Current ratio	4,1:1	2,1:1
Acid-test ratio	?	1,3:1
Stock turnover rate	?	8 times p.a.
Debtors collection period	30 days	30 days
Creditors payment period	90 days	60 days
Debt/Equity ratio	?	0,1:1
% return on average shareholders' equity (after tax)	33,3%	25%
% return on total capital employed (before tax)	44,3%	25,8%
Net asset value per share	?	213,6 cents
Market value per share	240 cents	220 cents
Dividends per share	20 cents	10 cents
Earnings per share	?	55,2 cents

3. BALANCE SHEET AS AT 30 JUNE 2008

	2008	2007
ASSETS		
Non-current assets	1 619 040	1 611 000
Fixed assets (carrying value)	1 619 040	1 611 000
Current assets	248 500	157 500
Inventory	99 500	62 500
Trade and other receivables	100 000	40 000
Cash and cash equivalents	49 000	55 000
TOTAL ASSETS	1 867 540	1 768 500
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	1 657 040	1 495 000
Ordinary share capital (R2,00 par value)	1 525 000	1 400 000
Share premium	52 000	40 000
Retained income	80 040	55 000
Non-current liabilities	150 000	200 000
Mortgage loan: Tshwane Bank (13% p.a.)	150 000	200 000
Current liabilities	60 500	73 500
Trade and other payables	60 500	73 500
TOTAL EQUITY AND LIABILITIES	1 867 540	1 768 500

QUESTION 6**FIXED ASSETS AND CASH FLOW****(80 marks; 45 minutes)**

The information given below was extracted from the accounting records of Ryan Limited on 29 February 2009.

REQUIRED:

- 6.1 Refer to the Note to the Balance Sheet for Fixed/Tangible Assets (Note 1). You are told that the Land and Buildings can be sold for R5 million. Explain why they are shown at a much lower figure in the financial statements. Mention the applicable GAAP concept to support your answer. (3)
- 6.2 What is a *Fixed Assets Register*? Explain how this register assists the internal auditor in the course of his duties. (4)
- 6.3 Refer to the Note to the Balance Sheet for Fixed/Tangible Assets (Note 1). A vehicle was sold at carrying value on 31 December 2008 for cash. Its original cost price was R130 000. Draw up the Asset Disposal Account. (8)
- 6.4 Refer to the Note to the Balance Sheet for Fixed/Tangible Assets (Note 1). Fill in the missing figures denoted by * . (11)
- 6.5 Prepare the Cash-Flow Statement for the year ended 28 February 2009. (24)
- Provide notes for:
- Reconciliation between profit before taxation and cash generated from operations (14)
 - Taxation paid (5)
 - Dividends paid (5)
- 6.6 The Cash-Flow Statement indicates certain important decisions that have been made by the directors. List THREE of these decisions. In each case provide a possible reason why the directors took that decision. (6)

INFORMATION:**Extract from the Balance Sheet:**

	28 Feb. 2009	29 Feb. 2008
Fixed/Tangible assets (see Note 1)	R2 795 000	R2 185 000
Current assets (see Note 2)	1 874 000	1 863 000
Ordinary share capital (R10 par value)	2 250 000	1 800 000
Share premium	410 000	230 000
Retained income (see Note 3)	497 000	335 000
Non-current liabilities (see Note 4)	900 000	1 200 000
Current liabilities (see Note 5)	558 000	483 000

Extract from the Income Statement:

	28 Feb. 2009
Net profit before tax	750 000
Income tax for the year (28%)	(210 000)
Net profit after tax	540 000

Notes to the Balance Sheet:

Note 1. FIXED/TANGIBLE ASSETS	Land and buildings	Equipment	Vehicles
Carrying value at beginning of year	*	435 000	*
Cost	*	615 000	900 000
Accumulated depreciation	0	*	(570 000)
Movements			
Additions at cost	230 000	300 000	*
Disposals at carrying value	0	0	(72 000)
Depreciation for the year	0	*	(64 000)
Carrying value at end of year	1 650 000	*	500 000
Cost	1 650 000	*	1 076 000
Accumulated depreciation	0	(270 000)	*

NOTE: Notes 2 – 5 are on the next page.

Note 2. CURRENT ASSETS	28 Feb. 2009	29 Feb. 2008
Inventories	920 000	780 000
Trade and other receivables	345 000	429 000
Cash and cash equivalents	555 000	654 000
	1 820 000	1 863 000

Note 3. RETAINED INCOME	
Balance on 1 March 2008	335 000
Net profit after tax	540 000
Dividends for the year	(378 000)
Interim dividends paid	(126 000)
Final dividends recommended	(252 000)
Balance on 28 February 2009	497 000

Note 4. NON-CURRENT LIABILITIES	
Mortgage loan balance on 1 March 2008	1 200 000
Interest capitalised	?
Monthly payments including interest (12 x R37 000)	444 000
Mortgage loan balance on 28 Feb. 2009	900 000

Note 5. CURRENT LIABILITIES	28 Feb. 2009	29 Feb. 2008
Creditors	288 000	378 000
SARS – Income Tax	18 000	24 000
Shareholders for dividends	252 000	81 000
	558 000	483 000