education

Department:
Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCN.1

ACCOUNTING

NOVEMBER 2009

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and an answer book.

MORNING SESSION

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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 dark pencil or blue/black ink to answer the questions.
6. Use the information given in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 40 marks; 20 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Bank reconciliation	LO1 Financial accounting - AS4 Bank reconciliation and interpretation LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 2: 30 marks; 15 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Manufacturing	LO2 Managerial accounting - AS2 Prepare, analyse and report cost information

QUESTION 3: 70 marks; 40 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Financial statements of a company	LO1 Financial accounting - AS5 Balance sheet of a company - AS6 Analyse audit report LO3 Managing resources - AS5 Code of ethics - AS6 Apply internal control and audit processes

QUESTION 4: 75 marks; 45 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Cash flow statement Analysis and interpretation and fixed assets	LO1 Financial accounting - AS5 Financial statements and interpretation LO3 Managing resources - AS3 Asset disposal

QUESTION 5: 40 marks; 25 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Inventory valuation, internal control and VAT	LO1 Financial accounting - AS7 Apply VAT principles LO3 Managing resources - AS4 Inventory valuation - AS6 Apply internal control and audit processes

QUESTION 6: 45 marks; 35 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Projected Income Statement, Debtors collection	LO2 Managerial accounting - AS3 Analyse and interpret a Projected Income Statement

QUESTION 1

BANK RECONCILIATION AND INTERPRETATION (40 marks; 20 minutes)

You are provided with information relating to Rover Jewellers.

REQUIRED:

1.1 Explain why it is important for a business to prepare a Bank Reconciliation Statement each month. (2)

1.2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for May 2009. (12)

1.3 Calculate the Bank Balance on 31 May 2009. (You may prepare a ledger account in order to do so.) State whether this is a favourable or an unfavourable balance. (6)

1.4 Prepare the Bank Reconciliation Statement on 31 May 2009. (10)

1.5 Refer to Information 3 below.

The fixed deposit of R84 000 matures next month. What advice would you offer the owner in this regard? Explain TWO points, quoting appropriate figures to support your answer. (4)

1.6 Refer to Information 4 below.

- Explain why the internal auditor should be concerned about the outstanding deposit of R20 295. (3)
- Explain how cheque No. 674 should be dealt with when the financial statements are prepared on 31 May 2009. Give a reason for your answer. (3)

INFORMATION:

1. At the end of the previous month, 30 April 2009, the following items were reflected in the Bank Reconciliation Statement:

   - Favourable balance in the ledger of Rover Jewellers, R6 325
   - Favourable balance on the Bank Statement, R12 545
   - Outstanding deposit (dated 30 April 2009), R12 000
   - Outstanding cheques:
     No. 261 (dated 3 November 2008), R5 000
     No. 519 (dated 14 April 2009), R8 920
     No. 543 (dated 12 May 2009), R4 300

     NOTE:
     Cheque No. 261 and 519 did not appear on the May Bank Statement either.

2. On 31 May 2009, the provisional totals in the journals were:
   - CRJ R70 600
   - CPJ R105 320

3. The following items were reflected on the Bank Statement but not in the journals for May 2009:

- Direct deposit by a debtor, K Kwela, R2 400
- Bank charges, R520
- Interest on fixed deposit for May, R700
- Interest on overdraft for May, R810
- Stop order in favour of Rama Insurance Co., R660
- Dishonoured cheque on 30 May 2009, originally presented by a debtor, M Maduna, R6 200

4. The following differences were noticed:

- Cheque No. 565 for repairs was shown in the CPJ as R1 570, but on the May Bank Statement as R1 750. The Bank Statement is correct.
- A deposit of R12 000 appeared on the Bank Statement on 1 May 2009, but did not appear in the May CRJ.
- A deposit of R20 295, dated 20 May 2009, appeared in the May CRJ, but not on the May Bank Statement.
- The following cheques appeared in the May CPJ, but not on the Bank Statement:
  No. 654 (dated 23 May 2009), R2 800
  No. 674 (dated 29 August 2009), R2 520

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QUESTION 2

MANUFACTURING **(30 marks; 15 minutes)**

2.1 **PD Pencils Manufacturers**
The business produces one type of mechanical pencil.

INFORMATION:

The following information was extracted from the financial records of PD Pencils Manufacturers on 31 October 2009, the end of the financial year.

	R
Administration cost	810 000
Direct/Raw material cost	1 770 000
Factory overhead cost	827 000
Selling and distribution cost	603 000
Direct labour cost	?
Prime cost	2 745 000
Total cost of production of finished goods	3 525 000
Work-in-process (1 November 2008)	37 600
Work-in-process (31 October 2009)	?
Sales	6 390 000
Cost of sales	3 337 000

REQUIRED:

2.1.1 Prepare the Production Cost Statement. (10)

2.1.2 750 000 pencils were produced during the financial period. Calculate the cost of production per unit. (3)

2.1.3 Calculate the net profit. (5)

2.2 Garden Manufacturers

The business produced 4 100 garden spades for the year ended 31 October 2009. The following information was extracted from their books:

INFORMATION:

	Total	**Per unit**
Sales	R615 000	R150
Variable costs	R287 000	R70
Fixed costs	R348 500	R85

2.2.1 Calculate the break-even point for the year ended 31 October 2009. (5)

2.2.2 Should the business be satisfied with the number of units that are currently produced? Explain. (3)

2.2.3 Despite the fact that there was an increase in the price of raw materials, the direct/raw materials cost per unit decreased from R32 to R27. Give a valid reason for the decrease. (2)

2.2.4 Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase. (2)

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QUESTION 3

BALANCE SHEET AND AUDIT REPORT **(70 marks; 40 minutes)**

You are provided with information relating to Qwando Limited for the financial year ended 30 June 2009.

REQUIRED:

3.1 Prepare the Notes to the Balance Sheet for:
- Ordinary share capital
- Retained income (14)

3.2 Prepare the Balance Sheet on 30 June 2009.
Where notes are not required, show workings in brackets to earn part-marks. (38)

3.3 Answer the questions that follow.

INFORMATION:

1. The following figures were identified from the accounting records at the end of the financial year on 30 June 2009.

	R
Ordinary share capital (see Information 2 below)	2 400 000
Share premium	248 000
Retained income (on 1 July 2008)	490 000
Shareholders for dividends (see Information 4 below)	?
Fixed deposit at Supa Bank (see Information 5 below)	60 000
Mortgage loan from Supa Bank (see Information 7 below)	?
Fixed/Tangible assets	4 021 000
Debtors' control	45 000
Creditors' control	85 200
Creditors for salaries	12 300
Provision for bad debts (see Information 6 below)	?
SARS (Income tax – provisional tax payments)	400 000
SARS (PAYE)	6 650
Expenses payable (accrued)	7 200
Income receivable (accrued)	7 950
Bank (favourable balance)	28 450
Trading stock	129 600
Consumable stores on hand	5 600

2. The authorised share capital comprises 1 000 000 ordinary shares of R3 par value.

   On 1 January 2009, 100 000 ordinary shares were issued to the public at a premium of 80 cents each. This has been properly recorded and is included in the figures above.

3. The net profit before tax for the year ended 30 June 2009 was calculated to be R1 250 000. No entry has been made for income tax at the rate of 30% of the net profit.

4. Dividends were as follows:
   - Interim dividends of 20 cents per share were paid on 31 December 2008.
   - Final dividends of 35 cents per share were declared on 30 June 2009.

5. One third of the fixed deposit matures on 31 August 2009.

6. Provision for bad debts is maintained at 5% of debtors.

7. The loan statement from Supa Bank on 30 June 2009 reflects the following:

SUPA BANK LOAN STATEMENT ON 30 JUNE 2009	
Balance on 1 July 2008	R384 000
Interest charged	57 600
Monthly payments in terms of the loan agreement (12 x R8 800) (These monthly payments include interest and capital repayments of the loan)	105 600
Balance on 30 June 2009	R336 000
The monthly capital repayments of the loan will remain constant until the loan is fully repaid on 30 June 2017.	

3.3 You are provided with an extract from the report of the independent auditors:

Audit opinion – To the shareholders:

We have examined the financial statements set out on pages 8 to 20.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2009 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act in South Africa.

Barlow & Bokwe
Chartered Accountants (SA)
Registered Accountants and Auditors
Cape Town 6 September 2009

3.3.1 State whether the shareholders would be satisfied or dissatisfied with this audit report. Give a reason for your answer. (3)

3.3.2 Explain why the auditors found it necessary to stipulate the page numbers (that is 8 to 20) in this report. (2)

3.3.3 Explain why the Companies Act makes it a requirement for public companies to be audited by an independent auditor. (2)

3.3.4 Explain TWO major consequences for Barlow and Bokwe should they be negligent in performing their duties. (4)

3.3.5 What actions would Barlow and Bokwe have to perform to verify the Fixed/Tangible Assets figure in the Balance Sheet? Provide THREE points. (3)

3.3.6 Quinton Qwando, the major shareholder and managing director, has informed the auditors that he intends to buy the unissued shares himself next year without advertising the new issue to the other shareholders or the public. What advice should the auditors give to Quinton? Briefly explain. (4)

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QUESTION 4

CASH FLOW AND INTERPRETATION OF INFORMATION (75 marks; 45 minutes)

You are provided with information relating to Koola Limited for the financial year ended 31 August 2009.

REQUIRED:

4.1 Refer to the Note for Fixed/Tangible assets below.

4.1.1 Calculate the fixed/tangible assets purchased. (2)
4.1.2 Calculate the depreciation on vehicles. (3)
4.1.3 Calculate the proceeds of fixed/tangible assets sold. (4)

4.2 Prepare the Cash Flow Statement for the year ended 31 August 2009. Notes are not required. Show workings in brackets. (23)

4.3 The Cash Flow Statement reflects some important decisions that have been taken by the directors.

Name TWO of these decisions, quote figures to support your answer and explain how each decision benefits the company. (6)

4.4 Calculate the following financial indicators on 31 August 2009:

4.4.1 Debt : Equity ratio (5)
4.4.2 Net asset value per share (4)
4.4.3 Acid-test ratio (6)
4.4.4 Earnings per share (4)

4.5 The directors feel that the liquidity position of the company has generally improved. Quote THREE financial indicators to support their opinion. Briefly explain. (6)

4.6 One of the directors feels that the company should make more use of loans. Quote TWO financial indicators to support his opinion. Briefly explain. (4)

4.7 The market price of the shares on the Johannesburg Securities Exchange (JSE) was 1 750 cents on 31 August 2009.

As a major shareholder, you are very satisfied with the performance of the company. Explain by quoting financial indicators to support your opinion. Comment on share price, returns, earnings and dividends. (8)

INFORMATION:

1. NOTES FROM THE FINANCIAL STATEMENTS

FIXED/TANGIBLE ASSETS	Land and Buildings	Equipment	Vehicles
Carrying value at the end of the previous year	818 200	52 800	**?**
Cost	818 200	120 000	382 800
Accumulated depreciation	0	(67 200)	(146 800)
MOVEMENTS	**?**	(7 920)	**?**
Additions at cost	**?**	0	0
Disposals at carrying value	0	0	**?**
Depreciation	0	(7 920)	**?**
Carrying value at the end of the current year	2 273 300	44 880	**?**
Cost	2 273 300	120 000	172 800
Accumulated depreciation	0	(75 120)	(83 000)

NOTE:

- A vehicle was sold at carrying value on the last day of the financial period.
- Depreciation on vehicles is provided at 20% on the diminishing balance method.
- No equipment was purchased or sold during the year.
- Extensions to land and buildings were made during the year.

2. The following figures were extracted from the financial records for the past two years:

Extracted from the Post-closing Trial Balance:	2009 R		2008 R	
Ordinary share capital (R10 par value)	1 200 000		432 000	
Share premium (on new shares issued on 1 Sept. 2008)	54 000		-	
Retained income	781 380		205 200	
Non-current liability: Loan from Uno Bank (15% p.a.)	580 000		820 000	
Fixed/Tangible assets	**?**		**?**	
Inventories (all Trading Stock)	276 800		261 800	
Debtors' Control	70 200		84 000	
Creditors' Control	69 000		53 400	
Shareholders for dividends	78 000		58 320	
SARS – Income tax	66 600	**Cr**	29 200	**Dr**
Cash and cash equivalents	74 000	**Dr**	86 920	**Dr**

3.

Extracted from notes to the financial statements:	2009 R
Depreciation on vehicles	**?**
Depreciation on equipment	7 920
Interest on loan (all capitalised and paid)	120 450
Net profit before tax	1 037 400
Income tax for the year	311 220
Net profit after tax	726 180
Dividends for the year	150 000

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

	2009	**2008**
Return on average shareholders' equity	54,3%	37,3%
Return on total capital employed (after tax)	41,6%	35%
Net asset value per share	?	1 400 cents
Debt/equity ratio	?	1,3 : 1
Current ratio	2 : 1	4,1 : 1
Acid-test ratio	?	1,8 : 1
Rate of stock turnover	3,5 times p.a.	3 times p.a.
Debtors' collection period	28 days	30 days
Creditors' payment period	60 days	40 days
Earnings per share	?	590 cents
Dividends per share	125 cents	135 cents

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QUESTION 5

INVENTORY VALUATION, CONTROL AND VAT **(40 marks; 25 minutes)**

5.1 INVENTORY VALUATION

Laser Stores sell television sets to the public. The financial year ends on 28 February 2009.

They are unsure which method to use in valuing their stock. The cost price of the product has changed significantly during the current year.

The owner, Larry Laser, has decided to keep selling the same model of TV set (*Mabona* TV sets, Model XC456), despite the fact that other shops are selling newer models.

REQUIRED:

5.1.1 Calculate the value of closing stock using the FIFO (first-in-first-out) method. (6)

5.1.2 Calculate the value of closing stock using the weighted average method. (7)

5.1.3 Which method of stock valuation would you advise the owner to use? Explain a reason for your answer. (3)

5.1.4 Calculate the gross profit on TV sets for the year based on the stock valuation method you advised in QUESTION 5.1.3. (4)

INFORMATION:

The following information appeared in the records of Laser Stores for the year ended 28 February 2009. The business used a fixed selling price of R16 000 per TV set.

Information on stock of *Mabona* TV sets Model XC456	**Number of TV sets**	**Value per unit**	**Total value**
TV sets on hand on 1 March 2008	50	R11 000	R550 000
TV sets bought during the year	750		R8 090 000
May 2008	300	R12 000	R3 600 000
September 2008	250	R11 560	R2 890 000
February 2009	200	R8 000	R1 600 000
Subtotal	800		R8 640 000
TV sets sold during the year	440	R16 000	R7 040 000
TV sets on hand on 28 February 2009	360	?	?

5.2 CONTROL OF INVENTORY

Apart from TV sets, Laser Stores also sell other products. You are provided with information taken from their stock records on 28 February 2009. The owner, Larry Laser, is uncertain if he should be satisfied with the control of all of these items.

REQUIRED:

Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Larry practical advice for the future. (9)

INFORMATION:

Item	Number of units sold during the year	Number of units on hand per stock records at year-end	Number of units per physical count at year-end	Selling price per unit	Period of stock on hand
Mabona TV sets	440	360	360	R16 000	?
Khuluma Cellphones	2 250	150	100	R1 200	15 days
Lalela Radios	120	10	9	R100	27 days

5.3 VALUE-ADDED TAX

The following information was taken from the books of Laser Stores for February 2009. All goods bought and sold by Laser Stores are subject to 14% VAT.

REQUIRED:

Calculate the amount of VAT payable to/by SARS on 28 February 2009 and indicate whether the amount is payable to or receivable from SARS.

Show ALL workings. Ledger accounts for VAT are not required, but you may use this to arrive at your answer. (11)

INFORMATION:	Excluding VAT	Including VAT
Stock purchased by cheque	R1 760 000	**?**
Equipment purchased by cheque	R40 000	R45 600
Sales of goods for cash and on credit	**?**	R930 240
Goods returned by customers	R48 000	R54 720
Discount allowed to debtors on settlement of their accounts	R4 000	**?**
Drawings of stock by the owner	R24 000	R27 360
Bad debts	**?**	R18 240

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QUESTION 6

PROJECTED INCOME STATEMENT **(45 marks; 35 minutes)**

Mike Camp owns Camping Traders, which sell camping equipment. They also charge fees (cash only) for repairing the equipment. You are provided with a Projected Income Statement for September and October 2009. The actual figures are also provided.

REQUIRED:

6.1 Why is it a good idea to compare budgeted against actual figures? (2)

6.2 Mike budgeted to achieve a 60% mark-up on cost. However, due to increased competition, he found it necessary to reduce his prices during the budget period.

6.2.1 Calculate the mark-up % that Mike actually achieved in September. (3)

6.2.2 Mike feels that the business benefited from the price reductions. Quote figures from the question to support his opinion. (2)

6.3 Over the past three months Mike has needed to contribute capital in order to settle the debts of the business. Explain why the Projected Income Statement will not help him in identifying the reasons for this problem. (2)

6.4 On 1 September 2009 the business had a loan from Good Day Bank at an interest rate of 18% p.a.

6.4.1 Calculate the amount owing on the loan on 1 September 2009. (4)

6.4.2 On 1 October Mike decided to increase the loan by R1 million to purchase the shop premises instead of renting the premises. How has this decision affected the profit he is earning? Quote figures to support your answer. (6)

6.5 What is the main reason for the disappointing actual net profit in October? Provide a figure to support your answer. (3)

6.6 Mike budgeted to increase the number of shop assistants during October 2009. However, he changed his mind and decided to give the existing shop assistants an increase with effect from October and not employ any extra staff.

6.6.1 Calculate the percentage increase he granted the shop assistants in October 2009. (3)

6.6.2 In your opinion, was this a correct decision for the business as a whole? Briefly explain, quoting evidence from the question. (3)

6.7 Prepare a debtors' collection schedule for October. Use budgeted sales and the following information:

- 75% of sales are on credit
- 40% pay in the month of sale and receive a 5% settlement discount
- 50% pay in the first month after the date of sale
- 8% pay in the second month after the date of sale
- 2% is written off in the third month after the date of sale (9)

6.8 Provide TWO figures from the information below that indicate that Mike has not handled collection from debtors effectively. (4)

6.9 Apart from what has been mentioned in your previous answers, select TWO other operating expenses that Mike should investigate. Provide ONE point of practical advice in respect of each item. (4)

INFORMATION:

CAMPING TRADERS
PROJECTED INCOME STATEMENT FOR SEPTEMBER AND OCTOBER 2009 (WITH COMPARATIVE ACTUAL FIGURES)

	SEPTEMBER BUDGET	SEPTEMBER ACTUAL	OCTOBER BUDGET	OCTOBER ACTUAL
Sales	320 000	**372 000**	352 000	**387 500**
Cost of sales	(200 000)	**(240 000)**	(220 000)	**(250 000)**
Gross profit	120 000	**132 000**	132 000	**137 500**
Other income	81 200	**88 650**	97 200	**56 400**
Sundry income	1 200	**650**	1 200	**400**
Fee income	80 000	**88 000**	96 000	**56 000**
Gross operating income	201 200	**220 650**	229 200	**193 900**
Operating expenses	(127 500)	**(130 350)**	(147 680)	**(144 670)**
Salary of the store manager	22 000	**22 000**	22 000	**22 000**
Wages of shop assistants	28 000	**28 000**	39 200	**31 080**
Sundry operating expenses	8 000	**9 000**	14 000	**9 000**
Rates on property	0	**0**	0	**10 000**
Telephone	2 000	**3 000**	1 000	**5 000**
Security expenses	5 000	**3 500**	7 000	**3 500**
Trading stock deficit	0	**0**	0	**8 000**
Rent expense	24 000	**24 000**	24 000	**0**
Advertising	5 000	**1 000**	5 000	**1 000**
Discount allowed	4 800	**4 100**	5 280	**2 640**
Bad debts	4 200	**8 550**	4 200	**22 450**
Consumable stores	14 500	**17 200**	16 000	**18 000**
Depreciation	10 000	**10 000**	10 000	**12 000**
Operating profit	73 700	**90 300**	81 520	**49 230**
Interest income	10 000	**10 000**	11 000	**11 000**
Profit before interest expense	83 700	**100 300**	92 520	**60 230**
Interest expense (18% p.a.)	(2 250)	**(2 250)**	(17 250)	**(17 250)**
Net profit for the month	81 450	**98 050**	75 270	**42 980**

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TOTAL: 300