



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
NOVEMBER 2009(1)
MEMORANDUM**

MARKS: 300

This memorandum consists of 21 pages.

QUESTION 1

1.1

Briefly explain why it is important that the balance of the Creditors' Control Account should agree with the total in the Creditors' List.

Good explanation = 2 marks; Poor explanation = 1 mark; Incorrect = 0 marks ✓✓

- To check that the recording and posting has been done correctly.
- To detect and correct any omissions, errors and/or fraud.

2

1.2.1

List the corrections that the bookkeeper must make to the Creditors' Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'.

Balance		R61 417
A		+ R3 400
B		No entry OR +R7 200 ✓ – R7 200 ✓
C	✓	+ R258
D	✓	+ R563
E		- R8 350 ✓ – R8350 ✓
F	✓	No entry
G	✓	- R2 100
H	✓	No entry
I	✓	+ R490
Final balance	<input checked="" type="checkbox"/>	R47 328

11

1.2.2

CREDITORS' LIST ON 31 JULY 2009

	Debit	Credit
Khan Traders (Dr 563 - 563)		✓ NIL
Thankful Stores (30 560 ✓ – [8 350 + 8 350] <input checked="" type="checkbox"/> – 160 ✓)		<input checked="" type="checkbox"/> 13 700
Connel Ltd (10 890 ✓ + 3 400 ✓ + 7 200 ✓ + 258 ✓)		<input checked="" type="checkbox"/> 21 748
Yolisa Wholesalers (18 500 ✓ – 7 200 ✓ + 90 ✓ + 490 ✓)		<input checked="" type="checkbox"/> 11 880
		<input checked="" type="checkbox"/> 47 328

16

1.3

Provide THREE points for good internal control over creditors.

Complete point provided = 2 marks; Partial point = 1 mark; Incorrect = 0 marks

Any three valid points ✓✓ ✓✓ ✓✓

- Assess the efficiency of the creditors clerk in order to prevent errors from occurring
- Ensure that creditors are paid on time to make use of discounts
- Make full use of credit terms to assist cash flow
- Divide duties amongst member of the accounting department so that one person serves as a check on another
- Reconcile the balance on the creditors control account with the total of creditors' list to ensure accuracy
- Conduct internal audits to minimise the possibility of fraud or error

6

TOTAL MARKS
35

QUESTION 2

2.1 Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision.

Good answer = 2 marks; Poor answer = 1 mark; Incorrect = 0 marks ✓✓ ✓✓

Any two valid points, e.g.

- Soccer World Cup will be in SA soon – keep the business operational until then.
- Property prices are not doing well at the moment – move into this later.
- Financial implication to the business, future prospects
- Implications for staff - retrenchment

4

2.2 Calculate the number of soccer balls stolen.

$$1\ 200\ \checkmark + 3\ 400\ \checkmark - 3\ 500\ \checkmark - 900\ \checkmark = 200\ \checkmark$$

5

2.3 Calculate the closing stock value of soccer balls using the weighted average method:

Stock at beginning of year	R144 000		1 200
Purchases during the year	R502 000		3 400
Carriage on purchases	R 30 200	-	
	R676 200 ✓✓		4 600 ✓ = R147

$$= 900\ \checkmark \times 147\ \checkmark = R132\ 300\ \checkmark$$

Calculate the closing stock value of soccer jerseys using the FIFO method:

$$100 \times R300 = R30\ 000\ \checkmark\checkmark$$

$$150 \times R255 = \underline{R38\ 250}\ \checkmark\checkmark$$

$$250 \qquad \qquad R68\ 250\ \checkmark$$

11

2.4 Calculate the following for Soccer jerseys (you may prepare a Trading Account to calculate these figures):

Calculate cost of sales:

Opening stock	✓	166 400
Purchases	✓	602 000
Less closing stock	☑	<u>(68 250)</u>
Cost of sales	☑	700 150

Calculate mark-up% on cost:

$$= \frac{(1\,108\,000 \checkmark - 700\,150 \text{ ☑})}{700\,150 \text{ ☑}} \times \frac{100}{1}$$

OR

$$\frac{407\,850}{700\,150} \times \frac{100}{1}$$

$$= 58,3 \% \checkmark \text{ ☑}$$

Calculate stock turnover rate:

Cost of sales
Average stock

$$= \frac{700\,150 \text{ ☑}}{(68\,250 \text{ ☑} + 166\,400 \checkmark) / 2}$$

$$= \frac{700\,150}{117\,325}$$

$$= 5,97 \text{ times } \checkmark \text{ ☑}$$

2.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.

Good answer = 2 marks; Satisfactory answer = 1 mark; Incorrect = 0 marks
Appropriate financial indicator/figures = 1 each

Any two valid points ✓✓✓ ✓✓✓

- Implement tighter control measures over soccer balls – 200 balls were stolen
- The business is carrying a lot of stock, particularly soccer balls – 900 on hand at end of year
- Selling price must change if cost increases
- The stock for soccer balls must be turned over quicker – 3,9 times per annum.

6

TOTAL MARKS

40

LEAVE THIS PAGE BLANK

QUESTION 3**PRODUCTION COST STATEMENT****3.1.1 BAKONA BIN MANUFACTURERS
NOTES TO THE FINANCIAL STATEMENTS**

	DIRECT/RAW MATERIAL COST		R
	Opening stock	✓	57 900
	Purchases (1 622 700 ✓ – 23 100 ✓)	✓	1 599 600
	Carriage on purchases	✓	28 800
			1 686 300
	Closing stock	✓	(34 200)
		<input checked="" type="checkbox"/>	1 652 100

7

	DIRECT LABOUR COST		R
	Factory wages (1 152 000 ✓✓ + 288 000 ✓✓)	✓	1 440 000
	UIF contribution	✓	11 520
		<input checked="" type="checkbox"/>	1 451 520

7

	FACTORY OVERHEAD COST		R
	Indirect materials (8 100 ✓ + 125 900 ✓ – 7 400 ✓)	✓	126 600
	Indirect labour (241 000 ✓ + 2 410 ✓)	✓	243 410
	Factory maintenance	✓	85 000
	Rent expense (133 000 x 50%)	✓✓✓	66 500
	Water and electricity (36 000 x 60%)	✓✓	21 600
	Depreciation	✓	52 000
	Sundry expenses	✓	25 000
		<input checked="" type="checkbox"/>	620 110

16

3.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2009

		TOTAL	
Direct/Raw materials cost	<input checked="" type="checkbox"/>	1 652 100	
Direct labour cost ✓	<input checked="" type="checkbox"/>	1 451 520	
Direct/Prime cost	<input checked="" type="checkbox"/>	3 103 620	
Factory overhead cost ✓	<input checked="" type="checkbox"/>	620 110	
Total cost of production	<input checked="" type="checkbox"/>	3 723 730	
Work-in-process on 1 March 2008	✓	169 500	
		3 893 230	
Work-in-process on 28 February 2009	✓	(120 600)	
Cost of production of finished goods	<input checked="" type="checkbox"/>	3 772 630	10

3.1.3 Calculate the unit cost of production per plastic bin completed.

$$\frac{3\,772\,630}{58\,000} = R65,05$$

3

3.2 Kool Manufacturers

3.2.1 One example of a fixed cost:

Any one valid example, e.g. ✓
Rent expense, Salary of bookkeeper, etc

One example of a variable cost:

Any one valid example, e.g. ✓
Raw materials, indirect labour, advertising, etc

2

3.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

- So that any potential problems of low production can be anticipated.
- To start corrective action promptly before losses occur.
- No profits are made until break-even is reached.

2

3.2.3 Calculate the break-even point.

SP per unit = R40
 VC per unit = R300 000 / 12 000 units = R25
 Contribution per unit = R15

✓✓ ✓✓

BEP = R210 000 / R15 = 14 000 units

Or

Let BEP = x; Then 15 x – 210 000 = 0; And x = 14 000 units

5

3.2.4 Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.

Give credit if responses are based on an incorrect calculation above.

Comment: Compare BEP to the 12 000 units produced ✓
 The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

Advice:
 Good advice = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

Look at ways of economising to reduce costs
 Increase selling price if possible

3

TOTAL MARKS
55

QUESTION 4**4.1.1 Calculate the profit or loss on disposal of the computer:**

Cost price	✓	22 000
Accumulated depreciation (5 500 ✓ + 1 650 ✓✓)	✓	7 150
Carrying value		<u>14 850</u>
Disposal/Bank	✓	<u>800</u>
Loss on sale of asset	✓ <input checked="" type="checkbox"/>	<u><u>14 050</u></u>

Asset disposal			
Equipment	22 000	Acc depreciation on Equip	7 150
		Bank	800
		Loss on sale of asset	14 050
	<u>22 000</u>		<u>22 000</u>

8

4.1.2 SIMPHIWE LTD
INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

Sales (2 720 000 ✓ - 6 200 ✓ - 9 600 ✓)	✓	2 704 200
Cost of Sales (310 000 ✓ - 6 400 ✓)	✓	(1 303 600)
Gross Profit	☑	1 400 600
Other operating income	☑	157 180
Rent Income (56 000 ✓ - 8 000 ✓)	✓	48 000
Fee income (104 750 ✓ - 750 ✓)	✓	104 000
Bad debts recovered	✓✓	580
Trading stock surplus (490 000 - [479 000 + 6 400])	✓✓✓	4 600
Gross operating income		1 557 780
Operating Expenses	☑	(1 331 350)
Salaries and wages	✓	162 000
Discount allowed	✓	905
Insurance	✓	11 000
Sundry expenses (39 250 ✓ - 3 200 ✓)	✓	36 050
585 000		
Directors fees (390 000 ✓ + 390 000 ✓ + 195 000 ✓)	✓	975 000
Audit fees	✓	53 705
Consumable stores	✓	24 000
Provision for bad debts adjustment	✓✓	390
Depreciation (1 650 ☑ + 16 800 ✓✓ + 35 800 ✓✓)	✓	54 250
Loss on sale of asset	☑	14 050
Operating profit		226 430
Interest Income	✓	2 500
Profit before interest expense/finance cost		228 930
Interest expense / Finance cost	✓✓	(18 000)
Profit before tax		210 930
Income Tax	✓	(63 280)
Net Profit after tax	☑	147 650

4.2.1

Explain why it is important for the independent auditor to be a member of a professional body.

Good explanation = 2 marks; Satisfactory answer = 1 mark;
Incorrect = 0 marks ✓✓

Reason: *Any one valid reason, e.g.*

- So that readers of financial statements can have confidence in his opinion
- Assurance that he/she is well trained
- Disciplinary actions if negligent in performing duties
- Aware of latest trends
- Act in ethical manner

2

4.2.2

Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

Any one valid reason, e.g.

- The auditor only expresses an opinion.
- The auditor cannot express an opinion on something he has not prepared.
- The auditor only checks on a test basis.
- The directors work in the company on a daily basis – they must be held liable for errors or fraud.

2

4.2.3

Refer to the underlined words in paragraph 2.

(a) Give ONE example of 'evidence' that an auditor would use.

Good answer = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

Stock counts, invoices (source documents), financial indicators, etc.

(b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle.

Excellent answer with reason = 3 marks; Good = 2 marks;
Satisfactory = 1 mark; Incorrect = 0 marks ✓✓✓

- Stock valuation method – could lead to differences in profit
- Valuation of fixed assets – could lead to differences in profit

Accept any GAAP principle:

- Historical cost / prudence – prevent that profits are overstated
- Matching principle – to ensure that income and expenses are matched to the correct accounting period

5

4.2.4 Refer to Paragraph 3. Explain why you would you be satisfied with this audit opinion.

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

This is a standard report – cannot expect better (fairly presented).

No negative comments reported – if the auditor had been dissatisfied about anything he would have stated it here.

Complies with IFRS and Companies Act.

2

4.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 4.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees.**(a) Give one opinion to support Sam**

Good answer = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks

Any one valid opinion ✓✓

- Ivor is benefiting from a very low charge on an asset that is worth a lot more to the company and hence the shareholders are losing as a result of this transaction. (A huge loss was made on sales.)
- This sets a bad precedent for the company; other employees might feel entitled to similar benefits.
- There is also tax implications – the director should be paying tax on this ‘perk’.

(b) Give one opinion to support Ivor.

Good answer = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks

Any one valid opinion ✓✓

- The computer is already more than three years old, and computers have a relatively short life span.
- The depreciation at 10% on cost price for computers is unrealistic, and should therefore have had a lower carrying value.

4

TOTAL MARKS
70

QUESTION 5

5.1.1	Reconciliation between profit before taxation and cash generated from operations	
	Net profit before tax	844 300
	Adjustments i.r.o.	
	Depreciation	33 500
	Interest on borrowed funds	164 450
	Operating profit before changes in working capital	1 042 250
	Changes in working capital	<input checked="" type="checkbox"/> (135 530)
	Increase in inventory (251 250 – 110 250)	✓✓ (141 000)
	Decrease in debtors (76 000 – 60 000)	✓✓ 16 000
	Decrease in creditors (220 475 – 209 945)	✓✓ (10 530)
	Cash generated from operations	<input checked="" type="checkbox"/> 906 720

5.1.2 MANCHESTER LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2009

CASH FLOW FROM OPERATING ACTIVITIES	<input checked="" type="checkbox"/>	337 165
Cash generated from operations	<input checked="" type="checkbox"/>	906 720
Interest paid	<input checked="" type="checkbox"/>	(164 450)
Dividends paid (52 525 ✓ + 217 480 ✓ – 133 440 ✓)	<input checked="" type="checkbox"/>	(136 565)
Taxation paid (7 750 ✓ + 253 290 ✓ + 7 500 ✓)	<input checked="" type="checkbox"/>	(268 540)
CASH FLOW FROM INVESTING ACTIVITIES	<input checked="" type="checkbox"/>	(506 885)
Purchase of fixed assets (3 490 885 ✓ – [2 967 500 ✓ – 100 000 ✓ – 33 500 ✓])	<input checked="" type="checkbox"/>	(606 885)
Proceeds from the sale of fixed assets	<input checked="" type="checkbox"/>	100 000
CASH FLOW FROM FINANCING ACTIVITIES	<input checked="" type="checkbox"/>	78 470
Proceeds of shares issued (1 034 500 ✓✓ + 268 970 ✓)	<input checked="" type="checkbox"/>	1 303 470
Repayment of long term loans	<input checked="" type="checkbox"/>	(1 225 000)
Net change in cash and cash equivalents	<input checked="" type="checkbox"/>	(91 250)
Cash and cash equivalents at the beginning of the year	<input checked="" type="checkbox"/>	45 000
Cash and cash equivalents at the end of the year	<input checked="" type="checkbox"/>	(46 250)

5.2 Calculate the following for 2009:

5.2.1	Current ratio \checkmark \checkmark <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $320\ 000 : 390\ 885 = 0,8 : 1$	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; text-align: center;">3</div>
5.2.2	Acid-test ratio \checkmark $\checkmark\checkmark$ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $68\ 750 : 390\ 885 = 0,2 : 1$ (Accept 0,18 : 1)	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; text-align: center;">4</div>
5.2.3	Net asset value per share \checkmark $\checkmark\checkmark$ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $R3\ 120\ 000 / 417\ 000$ shares = 748,2 cents or R7,48	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; text-align: center;">4</div>
5.2.4	Debt/Equity ratio (Gearing ratio) \checkmark \checkmark <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $300\ 000 : 3\ 120\ 000 = 0,1 : 1$ or 0,096 : 1	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; text-align: center;">3</div>

5.3

Explain why the directors decided to reduce the long-term loan significantly during the current financial year. In your opinion, was this a wise decision? Explain, quoting evidence (figures/financial indicators) from the question.

Excellent = 6 marks; Very good = 5; Good = 4; Satisfactory=3; Poor=1-2; Incorrect=0. ✓✓✓✓✓✓

The sale of extra shares has brought about an inflow of cash.

In 2009, the loan of R1,5m exceeded the equity of R1,4m which made the company very risky and led to high interest charges. Also the ROTCE in 2009 of 10% was lower than the interest rate of 15% which meant that a negative gearing situation existed then.

However, over the past year the company has made much higher profits. The ROTCE of 24% now exceeds the interest rate of 15% and the debt/equity ratio is now very low at 0,1:1.

Opinion: The directors may have over-reacted. It might have been better to repay only half the loan to bring the debt/equity ratio down to 0,5:1.

6

5.4 Comment on the return on shareholder's equity, earnings and dividends earned by the shareholders. Quote evidence (figures/financial indicators) from the question.

Returns on shareholder's equity ✓✓

Good comment with financial indicator = 2 marks

Satisfactory comment with financial indicator = 1 mark

Incorrect comment = 0 marks

ROSHE increased from 21% → 26% (exceeds returns on alternative investments)

Earnings ✓✓

Good comment with financial indicator = 2 marks

Satisfactory comment with financial indicator = 1 mark

Incorrect comment = 0 marks

EPS improved from 135c → 189c per share

Dividends ✓✓

Good comment with financial indicator = 2 marks

Satisfactory comment with financial indicator = 1 mark

Incorrect comment = 0 marks

Dividends have declined from 105 cents → 72 cents

Dividends payout rate has dropped from 105/135 → 72/189

6

5.5 Calculate the premium at which the new shares were issued.

$$\frac{2\,085\,000 \checkmark - 1\,050\,500 \checkmark}{R5 \checkmark}$$

$$268\,970 \checkmark / 206\,900$$

$$= R1,30 \checkmark$$

5

5.6 The existing shareholders are unhappy with the price at which the additional shares were sold? Discuss quoting ONE figure or financial indicator to support your answer.

Excellent answer with financial indicator/figures = 3 marks
Good answer with financial indicator/figures = 2 marks
Satisfactory answer with financial indicator/figures = 1 mark
Incorrect answer = 0 marks ✓✓✓

Expected responses:

- The shares were issued at a price of R6,30 which is lower than the NAV (R6,87 or R7,48) which means that the existing shareholders are being disadvantaged
- The shares were issued at a price of R6,30 which is lower than the market price (R6,60 to R7,50) which means that the existing shareholders are being disadvantaged

3

TOTAL MARKS
70

QUESTION 6**6.1 DEBTORS' COLLECTION SCHEDULE OF AFRICA CERAMICS
FOR THE PERIOD ENDING 31 DECEMBER 2009**

Month	Credit sales R	DEBTORS' COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000	✓✓97 200	
October	450 000	129 600	✓✓225 000	✓✓81 000
November	420 000		✓✓120 960	✓✓210 000
December	420 000			☑120 960
TOTALS		464 400	☑ 443 160	☑ 411 960

13

6.2 Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case:

Any two valid points in each case e.g. ✓✓ ✓✓ ✓✓

- **Advertising – candidates must compare overspent to sales**

Over-spent by R10 000

This led to an increase in sales by R72 000 – overspending was worthwhile

- **Repairs & maintenance**

Significantly under-spent by R12 700

Must consider if this is wise – fixed assets must not be neglected as they generate income for the business and neglecting repairs will lead to more expenditure in future

- **Delivery expenses - candidates must compare overspent to sales**

They spent more than double the budget (R22 000)

Does not correlate with sales which increased by 12%

Investigate possible abuse / lack of control

6

6.3 Joe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good.

	(a) Description of problem, quoting figures:	(b) Advice:
1	Describe problem ✓ Quote figure ✓ Although the total sales increased by R72 000, the cash sales were R80 000 less than expected, which creates a cash flow problem.	Good answer = 2; Satisfactory answer = 1; Incorrect = 0 ✓✓ Offer more favourable discounts to customers who buy for cash
2	Describe problem ✓ Quote figure ✓ Credit sales were R152 000 more than expected, but the debtors are taking too long to settle their accounts – collections are more than R200 000 less than budget.	Good answer = 2; Satisfactory answer = 1; Incorrect = 0 ✓✓ Screen debtors more rigorously to determine creditworthiness Follow-up on each debtor by way of statements, phone calls etc, or charge interest. Debtors need to be encouraged to pay quicker – offer discount and/or charge interest on overdue accounts.

8

6.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget would you expect the bank balance at the end of October to be favourable or unfavourable? Provide a reason for your answer.

Favourable or unfavourable balance?

Unfavourable ✓

Reason: *Good reason = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks* ✓✓

Debtors collections is poor, cash sales is well under budget & cash purchases of trading stock have gone up

Purchases is more than the cash sales and the cash from debtors

3

TOTAL MARKS
30

TOTAL: 300