education

Department:
Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCN.1

ACCOUNTING

FEBRUARY/MARCH 2010

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and an answer book of 21 pages.

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: 35 marks; 20 minutes	
Topic of the question:	**Learning outcomes covered:**
Debtors' control and age analysis	**LO1 Financial accounting** AS4 Reconciliation and interpretation **LO2 Managerial accounting** AS3 Debtors' collection **LO3 Managing resources** AS6 Apply internal control and audit processes
QUESTION 2: 45 marks; 25 minutes	
Topic of the question:	**Learning outcomes covered:**
Inventory valuation	**LO3 Managing resources** AS4 Calculate and validate inventories AS6 Apply internal control and audit processes
QUESTION 3: 65 marks; 40 minutes	
Topic of the question:	**Learning outcomes covered:**
Balance Sheet and audit reports	**LO1 Financial accounting** AS1 Concepts AS5 Preparation and analysis of financial statements AS6 Interpret audit reports **LO3 Managing resources** AS5 Code of ethics
QUESTION 4: 30 marks; 20 minutes	
Topic of the question:	**Learning outcomes covered:**
Manufacturing	**LO2 Managerial accounting** AS2 Unit costs and break-even point **LO3 Managing resources** AS6 Apply internal control processes
QUESTION 5: 70 marks; 45 minutes	
Topic of the question:	**Learning outcomes covered:**
Cash Flow Statement and interpretation	**LO1 Financial accounting** AS5 Analysis and interpretation of financial statements
QUESTION 6: 55 marks; 30 minutes	
Topic of the question:	**Learning outcomes covered:**
Projected Income Statement	**LO2 Managerial accounting** AS3 Analyse and interpret Projected Income Statement **LO3 Managing resources** AS3 Asset disposal AS6 Apply internal control and audit processes

QUESTION 1

DEBTORS' CONTROL AND AGE ANALYSIS (35 marks; 20 minutes)

You are provided with information relating to Howie Furnishers, a business owned by Howie Harris. The financial year-end is 28 February 2010. Daisy Duncan was appointed as the new credit controller on 1 March 2009.

REQUIRED:

1.1 How can the preparation of a **Debtors' Collection Schedule** and **Debtors' Age Analysis** assist Howie and Daisy in controlling debtors? (4)

1.2 Refer to Information 2 below.
Calculate the expected monthly collection of credit sales for March 2010 for inclusion in the Debtors' Collection Schedule. Total sales for the year ended 28 February 2011 is expected to increase to R960 000. (7)

1.3 The balance on the Debtors' Control account was R42 500 on 1 March 2009, the beginning of the financial year and R83 500 on 28 February 2010, the end of the financial year.

- Calculate the average debtors' collection period (in days) for the past financial year ended 28 February 2010.
- Explain whether Howie should be satisfied with this.
- Give a reason for your opinion. (8)

1.4 Howie feels that the control of debtors has not been satisfactory since Daisy was employed. Howie wants you to report to him on what appears to have gone wrong. Refer to the Debtors' Age Analysis (Information 3) and the Debtors' Control account (Information 4) provided below.

Explain FOUR points that you would include in your report. You must quote specific information from the Age Analysis of Debtors (TWO points) and from the Debtors' Control account (TWO points) to support your answer. (12)

1.5 Refer to the newspaper article (Information 5).
How would these regulations influence Howie Furnishers in the granting of credit to clients? Explain TWO points. (4)

INFORMATION:

1. **Credit limits and credit terms:**
It is Howie's business policy to grant debtors credit limits of R15 000 each. They are expected to settle their accounts in 30 days.

2. **Sales and collections for the year ended 28 February 2010:**
- Total sales for the year, R840 000
- Sales occurred evenly throughout the year
- 25% of sales are for cash, the rest are on credit
- 30% of debtors settle their accounts in the same month as the sales transaction month subject to 2% discount
- 50% settle in the month following the sales transaction month
- 15% settle in the 2nd month following the sales transaction month
- 5% are written off as bad debt in the 3rd month following the sales transaction month

3.

DEBTORS' AGE ANALYSIS ON 28 FEBRUARY 2010

Note:
- Business policy is to set credit limits at R15 000 per account.
- The credit terms are 30 days.

Name	Total	Current	30 days	60 days	60 days+
K Khoza	15 000	15 000			
M Miller	31 000	12 000	4 000	2 000	13 000
B Bester	9 100			9 100	
P Paulse	11 600	9 200	2 400		
N Ncube	16 800	7 800	5 500	3 500	
	83 500	44 000	11 900	14 600	13 000

4.

DEBTORS' CONTROL ACCOUNT

2010 Feb 1	Balance	b/d	86 500	2010 Feb 28	Bank and discount	CRJ	61 000
Feb 28	Sales	DJ	52 500		Debtors' allowances	DAJ	3 000
	Bank	CPJ	9 700		Bad debts	GJ	2 000
	Sundry accounts (Discount - reversed)	GJ	800		Balance	c/d	83 500
			149 500				149 500
2010 March 1	Balance	b/d	83 500				

5. Newspaper article

Furniture retailers fear that National Credit Act will restrict business

In June 2007, the government introduced a new law, the National Credit Act (NCA), which stipulates strict requirements before granting credit to any customer.

Legal expert Neil Nene said, 'The NCA was designed to save consumers from themselves. Before the implementation of the NCA, many businesses could do exactly what they wanted to. They were actively encouraging customers to buy on credit in order to increase the sales volumes of their businesses. Now, they will have to apply responsible measures before allowing customers to open new accounts.'

In a survey of 20 local furniture retailers, the *Daily Views* found that 15 retailers were extremely worried about the effect of the NCA on their businesses. One of these retailers, Steve Smits, said that customers should be trusted to make their own decisions about whether they can afford to settle their debts, and that the new measures might force some retailers to close down their businesses.

[*Daily Views*, February 20 2010]

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QUESTION 2

INVENTORY VALUATION **(45 marks; 25 minutes)**

You are provided with information relating to Golf Universe, a business which sells golf clubs and golf balls. Paul Fitt owns the business. The periodic inventory system is used.

REQUIRED:

2.1 Refer to Information 1. Briefly explain why it is appropriate for Paul to use the FIFO method for golf clubs, and the weighted average method for golf balls. (4)

2.2 Calculate the value of the closing stock for the two stock items. Show ALL workings using both the number of units and the value of the units.

- Golf clubs (use FIFO method)
- Golf balls (use weighted average method) (15)

2.3 For golf clubs, calculate the following:

- Cost of sales (5)
- Gross profit (3)
- VAT charged to customers on golf clubs sold (3)
- Mark-up % (3)

NOTE: You may draft a Trading account for golf clubs to assist in identifying these figures.

2.4 Paul suspects that he is not controlling his stock well.

- He suspects that the golf clubs he is selling, are not very popular with his customers.
- He suspects that golf balls are being stolen.

Quote information from the question which will confirm his suspicions. Provide an appropriate calculation in each case to support your answer. (6)

2.5 Paul has asked you to become a partner in this business. Explain THREE strategies that you would want to implement in this business were you to become a partner (your strategies must be based on specific information from the question). (6)

INFORMATION:

1. **Inventory is valued according to the following methods:**
   - Golf clubs: First-in-first-out method (FIFO)
   - Golf balls: Weighted average method

2. **Inventory valuations** at the beginning and end of the accounting period:

	Golf clubs			Golf balls		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/2010	90	R800	R72 000	1 200	R9,60	R11 520
28/02/2011	205	?	?	550	?	?

3. **Carriage, exchange rates and import duties:**

   3.1 **Golf clubs:** These clubs are made in South Africa. Transport costs are R50 per golf club. A total of R15 000 was paid for transporting the 300 golf clubs purchased. Transport cost is included in the opening stock figure of R800.

   3.2 **Golf balls:** These are imported from the USA. Prices are quoted in US dollars ($). The exchange rate was R7,50 = $1,00 throughout the year. Import duties are levied at 20% of the rand value of the purchases. Transport costs are paid by the manufacturer. Import duties cost is included in the opening stock figure of R9,60.

4. **Purchases during the year:**

	Golf clubs			Golf balls		
	No. of units	Purchase price per unit (Excluding transport)	Total value in rands	No. of units	Purchase price per unit in US dollars (Excluding import duties)	Total value in US dollars
25/04/2010	75	R750	R56 250	3 000	$1,00	$3 000
25/07/2010	75	R800	R60 000	3 000	$1,20	$3 600
26/10/2010	75	R900	R67 500	3 000	$1,20	$3 600
25/01/2011	75	R900	R67 500	3 000	$1,60	$4 800
Total	300		R251 250	12 000		$15 000

5. **Sales during the year: (exclusive of VAT)**

   - **Golf clubs:** 185 units at R1 200 each = R222 000
   - **Golf balls:** 10 500 units at R19 each = R199 500

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QUESTION 3

BALANCE SHEET AND AUDIT REPORT (65 marks; 40 minutes)

You are provided with information relating to Kanela Limited. The financial year-end is 28 February 2010.

REQUIRED:

3.1 Use the information below to prepare the Balance Sheet on 28 February 2010. All workings must be shown in brackets – the NOTES to the financial statements are NOT required. (41)

3.2 The Managing Director, Jan Kriel, currently owns 45% of the issued shares. The board of directors has decided to issue the unissued shares to the public. Jan wants to use this opportunity to gain control of the company.

3.2.1 How many shares will he have to buy to gain control of the company? (3)

3.2.2 Jan plans to purchase the shares himself at par value without advertising them to the public. The current market price of a share is R3,10. If you were a shareholder in this company would you be satisfied with this arrangement? Explain. (5)

3.3 Kanela Limited has donated funds to build a high school in the community and they have spent considerable amounts in cleaning up a river and a forest area which have been neglected.

3.3.1 Explain why large companies like Kanela Ltd are expected to be involved in such projects. (3)

3.3.2 Explain how the directors should reflect these projects in the annual report which is published for shareholders. (3)

3.4 **AUDIT REPORT**

3.4.1 What is the purpose of an independent audit report and who is it addressed to? (3)

3.4.2 Explain the difference between a *qualified* and an *unqualified* audit report. (4)

3.4.3 The independent auditors want to qualify the report. List THREE consequences there could be for the company or its directors. (3)

WESTERN CAPE

INFORMATION:

1. The authorised share capital comprises of 1 000 000 ordinary shares of R2,00 par value each. By 28 February 2009, 600 000 ordinary shares had been issued at par value. During the current financial year a further 200 000 shares were issued at a premium of R0,70 each.

2. The following balances appeared in the books on 28 February 2010:
   - Land and buildings at cost, R1 800 000
   - Equipment at cost, R300 000
   - Creditors' control, R720 000
   - Debtors' control, R530 000
   - Creditors for salaries, R36 000
   - Income receivable, R24 000
   - Cash at bank, R66 000

3. One of the fixed deposits, R175 000, matures on 30 September 2010. The rest matures in 2012.

4. A loan of R1 500 000 from Easi Bank was originally received on 1 March 2008. This loan is to be repaid in equal monthly instalments over 5 years.

5. All the equipment was purchased on the same day, 1 October 2007. Depreciation is written off at 20% p.a. on cost price.

6. The following financial indicators apply at the end of the financial year:
   - The net asset value is R2,58 and the price on the JSE is R3,10.
   - The current ratio is 1,5 : 1.

65

WESTERN CAPE

QUESTION 4

MANUFACTURING **(30 marks; 20 minutes)**

4.1 You are provided with information relating to Pandora Manufacturers for the year ended September 2009. Phillip Pandora is the owner of this business. The business manufactures two products: suitcases and sports bags.

REQUIRED:

4.1.1 Identify ONE major item of each of the following in a manufacturing business:
- Factory overhead costs
- Selling and distribution costs (2)

4.1.2 Calculate the following in respect of suitcases for 2009:
- The unit cost of production (5)
- The variable cost per unit (3)

4.1.3 Calculate the break-even point for the suitcases in 2009. (5)

4.1.4 Identify TWO costs which have NOT been well controlled in respect of suitcases during this financial year. Quote appropriate figures to support your answer. In each case provide a possible solution to this trend. (8)

4.1.5 Phillip is considering manufacturing only one line instead of the current two. Advise Phillip about whether he should retain the manufacturing of suitcases or sports bags. Provide appropriate figures from the question to support your answer. (7)

INFORMATION:

1.

	Sports bags (2009) Total cost	Suitcases (2009) Total cost	Suitcases (2008) Total cost
Variable costs	**R520 000**	**R660 000**	**R470 000**
Direct material cost	R240 000	R330 000	200 000
Direct labour cost	R160 000	R264 000	240 000
Selling and distribution cost	R120 000	R66 000	30 000
Fixed costs	**R280 000**	**R650 000**	**R430 000**
Administration cost	R60 000	R250 000	220 000
Factory overhead cost	R220 000	400 000	210 000
Break-even point	1 867 units	?	1 623 units
Selling price per unit	R280,00	R520,00	R500
Number of units produced	4 000 units	2 500 units	2 000
Number of orders placed	4 000 units	3 000 units	2 000

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QUESTION 5

CASH FLOW STATEMENT AND INTERPRETATION (70 marks; 45 minutes)

You are provided with information relating to Zee Limited, a public company. The company issued additional shares half-way through the year on 31 August 2009.

REQUIRED:

Study the information provided and answers the questions which follow:

5.1 Prepare the Appropriation Account on 28 February 2010. (11)

5.2 Complete the Cash Flow Statement for the year ended 28 February 2010. (23)

5.3 Calculate the following for 2010:

5.3.1 Rate of stock turnover (4)
5.3.2 Debt/Equity ratio (3)
5.3.3 % return on average shareholders' equity (5)

5.4 The Cash Flow Statement reflects some important decisions that have been taken by the directors during the current financial period.

State THREE of these decisions and explain the effect on the company. Quote figures to support your answer. (9)

5.5 One of the directors is of the opinion that the company should make more use of loans. Do you agree? Quote TWO relevant financial indicators to support your answer. (5)

5.6 The directors feel that the shareholders should be satisfied with the performance of the company. Do you agree? Comment on the dividends, earnings and % return earned by the shareholders in the 2010 financial year. Quote financial indicators (actual ratios or percentages) to support your comments. (10)

The following financial indicators were calculated:

	2010	**2009**
Earnings per share	23 cents	40 cents
Dividends per share	35 cents	25 cents
Return on average capital employed	31,7%	35%
Return on average shareholders' equity	?	55%
Net asset value per share	61,43 cents	119 cents
Debt/Equity ratio	?	0,5:1

INFORMATION:

1. **EXTRACT FROM THE INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010**

Cost of sales	R1 330 000
Depreciation	56 000
Disposal of fixed assets (book value R1 047 000)	0
Interest expense	(78 750)
Net profit before tax	747 000
Income tax	224 000

2. **EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY 2010**

	2010	**2009**
	R	**R**
Ordinary shareholders' equity	1 966 000	768 000
Ordinary share capital (par value 50 cents)	1 600 000	700 000
Share premium	200 000	0
Retained income	166 000	68 000
Long-term liabilities (15% p.a.)	125 000	940 000
Investment in fixed deposit	80 000	330 000
Inventories (all trading stock)	210 000	175 000
Debtors	140 000	112 000
Creditors	142 100	82 250
Bank (favourable balance)	?	-
Bank overdraft	-	922 000
Fixed/Tangible assets	1 928 600	2 937 600
SARS – Income tax	45 000 **Dr**	17 500 **Cr**
Shareholders for dividends	320 000	175 000

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QUESTION 6

PROJECTED INCOME STATEMENT **(55 marks; 30 minutes)**

You are provided with the Projected Income Statement and additional information relating to Helen's Hair Stylists for the period April to June 2010. The business is owned by Helen Davids. Helen has also prepared a Cash Budget for the same time period. The financial year-end is 31 March.

REQUIRED:

Answer the questions which follow.

INFORMATION:

HELEN'S HAIR STYLISTS
PROJECTED INCOME STATEMENT FOR APRIL TO JUNE 2010

	APRIL	MAY	JUNE
	R	R	R
Sales of hair products	87 500	105 000	122 500
Cost of sales	50 000	60 000	70 000
Gross profit	37 500	45 000	52 500
Other operating income	122 000	122 000	162 000
Fee-income from customers	120 000	120 000	160 000
Sundry income	2 000	2 000	2 000
OPERATING EXPENSES	95 350	120 072	127 372
Salary of hair stylists	25 500	25 500	34 000
Wages of cleaner	3 400	3 672	3 672
Rent of premises	24 600	30 750	30 750
Consumable stores	14 400	14 400	19 200
Water and electricity	6 000	6 000	7 000
Telephone	2 200	2 200	2 200
Advertising	8 000	15 000	8 000
Motor vehicle expenses	1 400	5 600	5 600
Repairs and maintenance of equipment	3 500	3 500	3 500
Sundry expenses	2 300	2 300	2 300
Depreciation on vehicles	2 000	9 100	9 100
Depreciation on equipment	2 050	2 050	2 050
OPERATING PROFIT	64 150	46 928	87 128
Interest income	3 315	0	0
	67 465	46 928	87 128
Interest on loan	750	625	500
NET PROFIT	66 715	46 303	86 628

ADDITIONAL INFORMATION:

1. **Line of business:**
Helen gave up her job to start this business in 2004. She invested her life savings of R800 000 in this business. The business styles hair for its customers. They also sell hair products to the public.

2. **Employees:**
Helen employs three hair stylists. She has planned to expand the business by employing a fourth stylist from 1 June 2010. She also employs a cleaner.

3. **Business premises rented:**
The rent is calculated on a fixed amount per square metre. She currently rents 60 square metres, but will increase this floor space as from 1 May 2010 due to expansion.

4. **Fixed deposit:**
The fixed deposit of R468 000 for 12 months will mature on the 30 April 2010.

5. **Fixed assets:**

	Date of purchases	**Cost price**	**Accumulated depreciation on 31 March 2010**	**Depreciation rate**
Hairdressing equipment	1 April 2004	R164 000	R153 750	15% on cost
VW Polo	1 July 2007	R120 000	R66 000	20% on cost
BMW 5-series	1 May 2010	?	?	20% on cost

Helen plans to make the following changes to fixed assets:

- The VW Polo will be retained by the business.
- The new BMW will be purchased on 1 May 2010. Some of the funds from the fixed deposit will be used to buy the vehicle.
- She intends to replace all the hairdressing equipment on 1 July 2010. The old equipment will be traded in and the difference will be financed by way of a loan (interest rate 15%). The trade-in value is expected to be R23 000, while the cost of the new equipment will be R402 000.

QUESTIONS:

6.1 Refer to the Projected Income Statement to identify/calculate the following:

6.1.1 The monthly salary paid to each hair stylist (2)

6.1.2 The % increase in wages that the cleaner will receive during the projected period (2)

WESTERN CAPE

6.1.3 The % interest rate on the fixed deposit (4)

6.1.4 The rental per square metre and the number of additional square metres she will rent from 1 May 2010 (4)

6.2 As the internal auditor you compare the following projected figures to the actual figures at the end of April. Provide FOUR comments that you would include in your internal auditor's report in respect of scenarios A, B, C and D below.

		Projected April 2010	**Actual April 2010**
A	Telephone	2 200	4 150
B	Water and electricity	6 000	4 900
C	Fee-income	120 000	136 800
	Consumable stores	14 400	15 120
D	Sales of hair products	87 500	112 000
	Cost of sales	50 000	70 000
	Gross profit	37 500	42 000

(10)

6.3 Helen is considering changes to the fixed assets owned by the business.

6.3.1 Calculate the cost of the new vehicle which she plans to purchase on 1 May 2010. (4)

6.3.2 Prepare the expected asset disposal account for the trade-in of the old hairdressing equipment on 1 July 2010. (10)

6.3.3 State the effect that the following expenses will have on the expected profits of the business due to the purchase of the new equipment. Provide calculations/a figure to support your answer.

- Interest on loan
- Depreciation
- Maintenance (8)

6.3.4 Helen is thinking of purchasing the business premises rather than renting the premises. Explain ONE major **advantage** and ONE major **disadvantage** of this option. (2)

6.3.5 Explain whether Helen has acted responsibly in the decisions she has taken/planned regarding the equipment and vehicles. (See Additional Information 5) (4)

6.4 Helen is not sure if she has made the right decision to give up her previous job many years ago and to invest R800 000 in this business. Refer to the projected monthly profit for this period. Based on these projections, what is your opinion on the decision which Helen took? Explain. (5)

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TOTAL: 300

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