basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCN.1

ACCOUNTING

FEBRUARY/MARCH 2011

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and an answer book of 16 pages.

MORNING SESSION

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. You may use a non-programmable calculator.
5. You may use dark pencil or blue/black ink to answer the questions.

6. Use the information 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:	**Learning outcomes covered:**		
Cash Budgets	**LO2**	**Managerial accounting**	
		AS3	Analyse and interpret a Cash Budget
	LO3	**Managing resources**	
		AS6	Apply internal control and audit processes

QUESTION 2: 30 marks; 20 minutes			
The topic of the question:	**Learning outcomes covered:**		
Debtors' Reconciliation and Internal Control	**LO1**	**Financial accounting**	
		AS4	Reconciliation and interpretation
	LO3	**Managing resources**	
		AS5	Code of ethics
		AS6	Apply internal control and audit processes

QUESTION 3: 50 marks; 30 minutes			
The topic of the question:	**Learning outcomes covered:**		
Manufacturing	**LO2**	**Managerial accounting**	
		AS2	Production Cost Statement
		AS2	Income Statement
		AS2	Unit costs and break even
	LO3	**Managing resources**	
		AS6	Apply internal control and audit processes

QUESTION 4: 75 marks; 45 minutes			
The topic of the question:	**Learning outcomes covered:**		
Concepts and Interpretation of Financial Statements	**LO1**	**Financial accounting**	
		AS1	Concepts
		AS5	Financial statements
		AS6	Analyse audit report
	LO3	**Managing resources**	
		AS3	Interpret and report on asset disposal
		AS5	Code of ethics

QUESTION 5: 70 marks; 40 minutes			
The topic of the question:	**Learning outcomes covered:**		
Financial Statements of a Company	**LO1**	**Financial accounting**	
		AS2	Ledger Account
		AS5	Financial statements

QUESTION 6: 40 marks; 25 minutes			
The topic of the question:	**Learning outcomes covered:**		
Inventory Valuation and Internal Control	**LO1**	**Financial accounting**	
		AS5	Financial statements
	LO2	**Managerial accounting**	
		AS3	Calculate and validate inventories
	LO3	**Managing resources**	
		AS5	Code of ethics
		AS6	Apply internal control and audit processes

QUESTION 1: CASH BUDGETS (35 marks; 20 minutes)

You are provided with the Cash Budget of Bosman Traders for the three months ended 28 February 2011. The business is owned by Alfred Bosman.

REQUIRED:

1.1 Explain why a business needs to prepare a Cash Budget every year. (2)

1.2 Calculate the figures indicated by A – E in the Cash Budget. (5)

1.3 The rent income was increased by 8% from 1 January 2011. Calculate the rent income figure for January 2011. (3)

1.4 Refer to the salaries and wages in the Cash Budget.

- Calculate the percentage increase granted to the employees from 1 January 2011. (3)
- In your opinion, will the employees be satisfied with this increase? Briefly explain. (3)

1.5 As the internal auditor you discover that the actual motor vehicle expenses for December 2010 were R5 420. Provide TWO points that you would include in your internal auditors' report to Alfred. (4)

1.6 A new vehicle will be purchased for R139 500 on 31 January 2011. The business will pay a deposit of 20% and the balance will be financed by Eastbank. Alfred will repay Eastbank in equal monthly instalments over three years from 28 February 2011. Interest will be paid to Eastbank monthly on the balance outstanding at a rate of 11% p.a.

- Calculate the interest payable to Eastbank in February 2011. (5)
- Calculate the **monthly** repayments of the capital portion of the loan to Eastbank. (3)

1.7 Calculate the expected receipts from debtors for January 2010. (7)

INFORMATION:

NOTE: Not all figures are shown below.

1. EXTRACT FROM CASH BUDGET			
	2010 December	**2011 January**	**2011 February**
EXPECTED RECEIPTS			
Cash sales (75% of total sales)	225 000	112 500	112 500
Debtors (30 days less 5%)	47 500	?	35 625
Rent income	9 000	?	?
Interest on fixed deposit		400	400
Capital		150 000	
	291 000	**355 000**	**140 000**
EXPECTED PAYMENTS			
Drawings	17 500	12 500	12 500
Motor vehicle expenses	4 000	4 000	4 000
Fixed deposit		60 000	
Deposit on vehicle purchased		?	
Monthly repayments to Eastbank			?
Interest paid to Eastbank			?
Salaries and wages	105 000	109 200	109 200
	240 000	**310 000**	**390 000**
Cash surplus/shortage	51 000	45 000	**C**
Cash at the beginning of the month	72 000	**A**	**D**
Cash at the end of the month	**123 000**	**B**	**E**

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QUESTION 2: DEBTORS' RECONCILIATION AND INTERNAL CONTROL
(30 marks; 20 minutes)

You are provided with information relating to SA Traders. The bookkeeper has made a few errors when reconciling the Debtors' Control Account to the Debtors' List.

REQUIRED:

2.1 SA Traders requires their new customers to provide personal details, including proof of residence, before opening accounts. Briefly explain why this is necessary. Name TWO points. (4)

2.2 Prepare the correct Debtors' List on 31 August 2010 and show how you would adjust the Debtors' Control Account using the format provided. (26)

INFORMATION:

1. The bookkeeper discovered that he had made a number of errors when preparing the Debtors' Ledger Accounts.

2. The Debtors' Control Account and the Debtors' List did not reconcile. The difference is R6 470.

   The following summary was prepared on 31 August 2010:

Balance of the Debtors' Control Account	R70 663
Total of the Debtors' List	77 133
Sunnyside Traders	17 600
Thembisa Traders	55 473
Tildai Suppliers	3 400
Mondo Stores	660
Difference	R6 470

3. **Errors on the account of Sunnyside Traders**

- Interest on the account was calculated incorrectly. Adjust for an additional R165 interest.
- VAT at 14% was omitted on Invoice 868 dated 31 July 2010. Total sales, excluding VAT, amounted to R16 500.

4. **Errors on the account of Thembisa Traders**

- A credit note of R3 080 was incorrectly reflected in the Debtors' Ledger Account as a debit entry. The General Ledger is correct.
- Thembisa Traders claim that they paid R13 200 last month, but that this is not reflected on their statement. Investigations revealed that Thembisa Traders' payment was incorrectly posted to the account of another debtor, Sunnyside Traders.
- Thembisa Traders had issued a dishonoured cheque for R2 750 in settlement of an amount of R3 100. The CRJ and CPJ entries were correctly recorded. The cancellation of the discount was not reflected in the Debtors' Ledger Account. The control account is correct.

5. **Additional errors reflected on the Debtors' Reconciliation Statement**

- Mondo Stores', a debtor, debt of R660 has been written off as irrecoverable. The amount was posted to the Debtors' Control account but not to the debtor's personal account.
- Tildai Suppliers are reflected in the Debtors' Ledger and the Creditors' Ledger. Their credit balance of R2 124 in the Creditors' Ledger is to be offset against their account in the Debtors' Ledger.

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QUESTION 3: MANUFACTURING **(50 marks; 30 minutes)**

The information below was extracted from the financial records of Valley Manufacturers which is owned by Java. The business manufactures one style of raincoat. The financial year ends on 28 February 2010.

REQUIRED:

3.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question numbers (3.1.1 – 3.1.5) in the ANSWER BOOK.

3.1.1 Fixed costs remain unchanged in relation to the number of units produced within a period of time. (2)

3.1.2 The salary of the factory foreman will be regarded as a direct-labour cost. (2)

3.1.3 Factory rent will be regarded as a variable cost. (2)

3.1.4 Prime cost is calculated by adding direct-material cost and direct-labour cost. (2)

3.1.5 Advertising will be classified as an administration cost. (2)

3.2 Refer to Information B.

Calculate the following:

3.2.1 The value of raw materials on hand on 28 February 2010 using the FIFO method (5)

3.2.2 The value of raw material cost that would appear in the Production Cost Statement (4)

3.3 Refer to Information C.

Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010. (7)

3.4 The business produced 4 000 raincoats during the year. There was no work-in-process at the beginning or at the end of the year. Factory overhead costs amounted to R67,55 per unit. Calculate the following:

3.4.1 The total production cost of finished goods (5)

3.4.2 The unit cost of production (per raincoat) (3)

3.5 Java asks you to further investigate the control over raw materials.

3.5.1 Identify the number of metres of raw material fabric that appear to be missing. (5)

3.5.2 Apart from theft, give ONE most likely reason for this shortage. What advice could you offer Java in this regard? Name ONE point. (4)

3.6 Break-even point:

3.6.1 Calculate the break-even point for the current financial year. (4)

3.6.2 The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 3.6.1? Briefly explain. (3)

INFORMATION:

A. **Production:**

Number of raincoats produced last year	4 500 units
Number of raincoats produced this year	4 000 units

B. **Raw materials:**

1. **Usage**
Java has done a study of the manufacturing process and has found that it should take 1,8 metres of fabric to make one raincoat.

2. **Stocks of raw material on hand were:**

	Number of metres of fabric	Cost per metre
Opening stock	700 metres	R30
Raw materials issued to the factory for the production of raincoats	9 100 metres	?
Closing stock	4 300 metres	?

3. **Purchases of raw materials during the year were as follows:**

	Number of metres of fabric	Cost per metre	Total cost
Purchases	12 700 metres		R490 600
April 2009	7 000 metres	R34	R238 000
November 2009	3 500 metres	R42	R147 000
February 2010	2 200 metres	R48	R105 600

C. **Employees:**

1. **Java employs the following individuals:**

Details	Number of employees	Basic monthly salary/wage per employee	Total cost of employment including benefits	Overtime	
				Hours	Rate
Employees in the production process	5	R5 000	?	180 hours (each worker)	R70
Factory foreman	1	R8 000	R112 000	-	-
Salesman	1	R4 000	?	-	-

2. **Employment benefits and overtime**
   - Employment benefits are allocated to the cost account applicable to the salaries/wages of the specific employees.
   - All employees are registered with the business' pension fund and the UIF. Deductions are made from the basic salary for the pension fund (8%) and the UIF (1%). The employer contributes 10% towards the pension fund and 1% to the UIF.
   - Overtime and commissions are not subject to pension fund and UIF deductions or contributions.
   - The five workers who make the raincoats each worked 180 hours of overtime during the year at a rate of R70 per hour.

D. **Stocks of finished goods on hand were:**

	Number of raincoats	Value per unit
Opening stock	110	R284
Closing stock	420	R246

E. **Analysis of total costs and unit costs:**

	2010	2010	2009
	Total	**Per unit**	**Per unit**
Selling price	R1 400 000	R350	R350
Variable costs:	R863 800	R215,95	R184,60
Direct-material cost	?	?	R63,30
Direct-labour cost	?	?	R82,20
Selling and distribution cost	R150 000	R37,50	R39,10
Fixed costs:	R350 200	R87,55	R83,54
Factory overhead cost	?	R67,55	R58,04
Administration cost	R80 000	R20,00	R25,50

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QUESTION 4: CONCEPTS AND INTERPRETATION OF FINANCIAL STATEMENTS (75 marks; 45 minutes)

You are provided with information relating to Manic Limited for the year ended 30 June 2010.

REQUIRED:

4.1 Concepts relating to companies are given in COLUMN A and descriptions in COLUMN B. Choose a description from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – D) next to the question number (4.1.1 – 4.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Liquidity	A indicates the benefit that the owners receive from their investment in the business
4.1.2 Solvency	B indicates the extent to which a business is financed by borrowed capital
4.1.3 Gearing	C indicates whether the business can pay off immediate debts
4.1.4 Return on equity	D indicates whether the business will be able to pay off all its debts

(4 x 2) (8)

4.2 Refer to the Note for Fixed Assets (Information D) and the Cash Flow Statement (Information C) for the year ended 30 June 2010 and prepare the Asset Disposal Account (General Ledger). (9)

4.3 Refer to the Cash Flow Statement (Information C).

- List the THREE most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case. (6)
- Comment on any TWO interesting points indicated in the Cash Flow Statement. Name TWO points and quote figures to support your answer. (4)

4.4 Refer to Information B. Calculate the following financial indicators on 30 June 2010:

- Operating profit on turnover (3)
- Acid-test ratio (4)
- Earnings per share (4)

4.5 Comment on the operating efficiency of the company for the year ended 30 June 2010. Quote TWO financial indicators or figures to support your comments. (6)

4.6 Comment on the liquidity of the company for the year ended 30 June 2010. Quote THREE financial indicators or figures to support your comments. (9)

4.7 Comment on the returns, earnings and dividends earned by the shareholders for the year ended 30 June 2010. Quote THREE financial indicators or figures to support your comments. (9)

4.8 Refer to the newspaper article (Information E) and answer the following questions:

4.8.1 Refer to paragraph 1.

Explain your opinion on the attendance of shareholders at the AGM. (3)

4.8.2 Refer to paragraphs 2 and 3.

Answer the following:

- What is meant by a *qualified audit report*? Explain.
- How does this type of report affect the company and the shareholders? Explain.
- Why did the independent auditors issue a qualified report in respect of this asset? Explain.

(6)

4.8.3 Explain why several of the shareholders would think that the long-term prospects of the company are being threatened. Mention corporate governance in your answer. (4)

INFORMATION:

A. Figures extracted from the financial statements on 30 June 2010:

	R
Sales	2 730 000
Depreciation	560 000
Operating profit	650 000
Interest on borrowed funds	210 000
Net profit before tax	440 000
Net profit after tax	308 000
Ordinary share dividends	390 000
Ordinary share capital (par value R2,00)	3 000 000
Loan from Hard Bank (14% p.a.)	2 800 000
Current assets	610 000
Trading stock	410 000
Trade and other receivables	180 000
Cash and cash equivalents	20 000
Current liabilities	360 000
Trade and other payables	150 000
Shareholders for dividends	210 000

B. The following calculations were done in respect of the past two financial years:

	2010	2009
Operating expenses on turnover	28,6%	33,1%
Operating profit on turnover	?	17,5%
Net profit after tax on turnover	11,3%	8,2%
Return on average shareholders' equity	8,6%	7,2%
Earnings per share	?	18 cents
Dividends per share	26 cents	12 cents
Return on capital employed	12,8%	22,1%
Debt-equity ratio	0,7 : 1	0,4 : 1
Current ratio	1,7 : 1	1,9 : 1
Acid-test ratio	?	0,7 : 1
Period of stock on hand	136 days	85 days
Debtors' collection period	23 days	30 days
Creditors' payment period	38 days	42 days

C.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010	
CASH EFFECTS OF OPERATING ACTIVITIES	738 000
Cash generated from operations	1 370 000
Interest paid	(210 000)
Income tax paid	(132 000)
Dividends paid	(290 000)
CASH EFFECTS OF INVESTING ACTIVITIES	(4 348 000)
Fixed assets purchased	(4 858 000)
Fixed assets sold for cash	370 000
Investments redeemed	140 000
CASH EFFECTS OF FINANCING ACTIVITIES	3 580 000
Proceeds of issued shares	980 000
Loans raised	2 600 000
Cash surplus/deficit for the year	(30 000)
Cash and cash resources at the beginning of the year	50 000
Cash and cash resources at the end of the year	20 000

D.

FIXED ASSETS	**Total**	**Land and buildings**	**Equipment**
Carrying value – beginning of year	2 360 000	792 000	1 568 000
Cost price	3 592 000	792 000	2 800 000
Accumulated depreciation	(1 232 000)		(1 232 000)
Movements			
Additions	4 858 000	4 100 000	758 000
Disposals (1 March 2010)	(370 000)		(370 000)
Depreciation	(560 000)		560 000
Carrying value – end of year	6 288 000	4 892 000	1 396 000
Cost price	7 058 000	4 892 000	3 066 000
Accumulated depreciation	(1 670 000)		(1 670 000)

E. As a shareholder of Manic Ltd, you did not attend the annual general meeting (AGM). You notice the following article in a newspaper, *The Daily Views*.

Paragraph 1	Several shareholders of Manic Ltd accused the directors of unwise decisions that in their opinion would threaten the long-term continuation of the company. Only 50 of the 6 000 shareholders of the company attended the AGM.
Paragraph 2	The company received a qualified audit report from the auditors based on an amount of R3 million that had apparently been spent on a residence in an elite area along the KwaZulu-Natal coast.
Paragraph 3	The directors' report stated that this asset was reflected in the company's Balance Sheet and was being used for business purposes to accommodate business partners from overseas countries. *The Daily Views* has found that this property was in fact being used for holiday purposes by the CEO and senior directors.
Paragraph 4	The CEO, Ben Crooke, was also criticised for accepting a 60% increase in his remuneration. Crooke defended the decision, saying that all remuneration in the company is reviewed by the board of directors which is appointed at the AGM each year.

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QUESTION 5: FINANCIAL STATEMENTS OF A COMPANY

(70 marks; 40 minutes)

You are provided with information relating to Headwork Limited for the year ended 30 September 2010.

REQUIRED:

5.1 Prepare the SARS (income tax) Account in the General Ledger. (12)

5.2 Prepare the following on 30 September 2010:

5.2.1 Notes to the Balance Sheet for:
Retained Income (10)
Trade and other payables (8)

5.2.2 Equity and Liabilities section of the Balance Sheet (21)

5.3 Calculate the following on 30 September 2010:

5.3.1 Net asset value per share (3)

5.3.2 Debt-equity ratio (3)

5.4 You were one of the original shareholders who bought shares at the par value of R3,00 when the company was established many years ago. You are also aware that the price of the shares on the JSE is currently R5,75.

Refer to Information 2B below.

Would you be happy with the issue of the new shares on 1 April at a premium of R2,80? Explain TWO points, quoting figures or financial indicators to support your answer. (7)

5.5 Comment on risk and gearing of the company. Explain TWO points, quoting figures or financial indicators to support your answer.

Apart from the financial indicators calculated above, you are also informed of the following:

Return on total capital employed	23%
Interest rate on loans	13% to 15%

(6)

INFORMATION:

1. **Extract from the financial records of Headwork Ltd on 30 September 2010:**

Balance Sheet accounts section	**R**
Retained income (1 October 2009)	960 000
Creditors' control	87 500
Expenses payable (accrued)	50 400
Bank overdraft	?
Nominal accounts section	
Interest on loan	103 600
Rent income	105 980
Ordinary share dividends	112 000

2. **Adjustments and additional information:**

A. The income tax details are as follows:

- The amount owed to SARS on 1 October 2009 — R11 000
- The amount owed to SARS in respect of the previous financial year was paid on 30 October 2009.
- The total tax assessment for the 2010 financial year — R243 600
- First provisional tax payment made on 31 March 2010 — R115 000
- Second provisional tax payment made on 28 September 2010 — ?
- Amount owing to SARS on 30 September 2010 — R19 400

B. 800 000 shares have been issued before 1 October 2009 (all of these shares were issued at the par value of R3,00). On 1 April 2010, 100 000 new shares were issued at a premium of R2,80 per share.

C. Net profit after tax for the year is R626 400.

D. The loan statement received from City Bank reflected the following:

Balance at the beginning of the year	R880 000
Interest capitalised	R103 600 for the year
Monthly payments to City Bank	R 15 800 per month
Balance at the end of the year	?

In terms of the loan agreement, fixed monthly repayments of capital plus interest is to be paid until the loan is settled.

E. Rent income for October 2010 was received in September 2010. The rent was increased by R820 per month on 1 July 2010.

F. A final dividend of 20 cents per share was declared at the end of the year.

G. The total current assets amounted to R846 900.

H. The current ratio for 2010 is 1,8 : 1.

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QUESTION 6: INVENTORY VALUATION AND INTERNAL CONTROL
(40 marks; 25 minutes)

You are provided with information relating to Energy World for the year ended 28 February 2010. The business is owned by Frik Fitt. They sell energy drinks, energy bars and caps to retailers. Frik employs Dirk to manage the energy drinks, Barry to manage the energy bars and Cathy to manage the caps.

6.1 **Energy Drinks**

REQUIRED:

Refer to the information relating to the energy drinks and calculate the following:

6.1.1 Value of the closing stock using the weighted-average method (6)

6.1.2 Cost of sales and gross profit. You may draft a Trading Account to calculate these figures. (8)

6.1.3 Mark-up percentage (3)

6.1.4 Average stock turnover rate (5)

INFORMATION:

Manager: Dirk	**Product: Energy drinks**		
	Units	**Rand**	**Amount**
Sales	2 700	R21,20	R57 240
Opening stock	320	R9,00	R2 880
Purchases	4 800		R58 560
April 2008	1 100	R10,50	R11 550
October 2009	2 500	R12,42	R31 050
January 2010	1 200	R13,30	R15 960
Units written off	20	R10,50	R210
Closing stock	2 400	?	?

6.2 Problem-solving

You are provided with the information below relating to all three products for the year ended 28 February 2010. Frik is concerned that his business could have been operating a lot more efficiently. He approaches you for advice.

REQUIRED:

Identify a problem in respect of the manner in which Dirk, Barry and Cathy have been managing their products. Quote figures or financial indicators to support your answer. Give Frik ONE suggestion in respect of each product in order to address the problem identified in order to improve the overall financial results.

Manager	**Dirk**			**Barry**			**Cathy**	
Product	**Energy drinks**			**Energy bars**			**Caps**	
Working days per year	240 days			240 days			240 days	
Days worked by manager	240 days			330 days			180 days	
Orders received	2 700 units			28 000 units			7 000 units	
	Units	**Amount**		**Units**	**Amount**		**Units**	**Amount**
Sales	2 700	R52 650		28 000	R224 000		3 500	R73 500
Opening stock	320	R2 880		400	R2 400		300	R4 500
Purchases	4 800	R58 560		31 800	R201 000		3 200	R48 000
Closing stock	2 400	?		200	R1 263		0	R 0
Units written off	20	R210		?	?		0	R 0
Gross profit		?			R45 863			R21 000
Mark-up %		?			25,7%			40,0%
Turnover rate of stock		?			97 times			23 times
Period of stock on hand		177 days			4 days			16 days

(18)

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TOTAL: 300