



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING  
NOVEMBER 2011  
MEMORANDUM

**MARKS: 300**

### MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
3. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
4. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
5. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
6. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
7. Codes: f=foreign item; p=placement/presentation.

**This memorandum consists of 19 pages.**

**QUESTION 1**

1.1 For each item below, indicate the appropriate category. Choose your answers from the options provided in the question paper.

No part-marks

1.1.1	Direct material	✓✓
1.1.2	Indirect labour	✓✓
1.1.3	Indirect material	✓✓

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1.2 **SLEEPWELL MANUFACTURERS  
PRODUCTION COST STATEMENT FOR THE YEAR ENDED  
30 SEPTEMBER 2011**

	TOTAL	
<b>Direct/Raw materials cost</b>	<b>1 250 000</b>	
Direct labour cost ✓	640 500	✓
Prime / Direct costs ✓ <b>must = DMC + DLC</b>	1 890 500	✓
Factory / Manufacturing overhead cost ✓	728 000	✓
Total cost of production / TMC ✓ <b>operation adding</b>	2 618 500	☑
<b>Work-in-process stock on 1 October 2010</b>	<b>45 000</b>	
	2 663 500	
Work-in-process on 30 September 2011 / end of year ✓	(38 500)	☑
<b>Cost of production of finished goods</b>	<b>2 625 000</b>	

Check operation – work back from COP of FG  
This figure must work out to be a negative figure - check

- 1 foreign entries to a maximum of -2 in the case of additional entries added in to the PCS e.g. S&D Cost, Admin cost, Finished goods stock in addition to items that should be there

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**1.3.1 Calculate the direct material cost per unit for 2011.**

$$\frac{79\,050}{15\,500} = R5,10 \text{ or } 510 \text{ cents}$$

operation if one part correct  
do not accept 5,1 cents or R510 or 5,1%

3

**1.3.2 Calculate the break-even point for the year ended 30 June 2011.**

$$= \frac{89\,900}{14,50 - 8,50}$$

$$= \frac{89\,900}{6}$$

if 6 not provided look above, no part-marks

$$= 14\,984 \text{ units}$$

(accept 14 984 or 14 983 or 14 983,33) operation if one part correct  
Do not accept R, cents or % signs

5

**1.3.3 Should the business be satisfied with the number of units that are currently produced? Briefly explain.**

Yes/No/Satisfied/Dissatisfied

*Explanation for yes:* Figures not required; Must refer to a comparison to BEP for 2 marks

They are producing 516 or 517 units more than what is required to break even (14 984 units). Full marks if explanation is consistent with 1.3.2

*Explanation for no:*

They are only producing 516 or 517 units (3%) more than the break even point.

*Examples of responses for one mark:*

- They are producing enough units
- They are making a profit / almost making a loss
- They are covering costs

3

**1.3.4 Should she carry on with her plan? Give ONE valid reason for your decision.**

No

Any one valid reason part-marks for partial answers

- It is unethical
- They must not mislead the customers
- The customers will notice the difference and stop buying from her – loss of goodwill
- Quality will be compromised
- Better training of workers for less wastage

*Examples of responses for one mark:*

- Sales will drop
- Profit will drop
- She must increase the selling price (i.e. keep existing filling)

3

**TOTAL  
MARKS**

30

**QUESTION 2**

**2.1.1 State whether the statements are TRUE or FALSE.**

No part-marks

(a)	True ✓✓
(b)	True ✓✓
(c)	False ✓✓
(d)	False ✓✓

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**2.1.2 Calculate the correct bank balance of Ace Traders on 30 September 2011.**

Accept brackets instead of – sign Foreign item -1 max -2  
Could do a T-account; Could do horizontal calculation

<b>Balance prior to doing the bank reconciliation</b>	<b>R60 000</b>	<b>R60 000</b>	
Stale cheque cancelled	✓ 2 000	✓ 2 000	
Bank charges	✓ - 1 200	✓ - 1 200	
Dishonoured cheque	✓ -9 500	✓ -9 500	
Deposit reversed (rule of prudence)		✓ - *43 000	
<b>Correct balance on 30 September 2011</b> operation if one part correct	✓ <input checked="" type="checkbox"/> 51 300	✓ <input checked="" type="checkbox"/> 8 300	

5
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**2.1.3**

<b>BANK RECONCILIATION STATEMENT ON 30 SEPTEMBER 2011</b>		
- 1 for poor presentation / incorrect details (max -2)	Debit	Credit
Balance as per Bank Statement		✓ 17 600
Outstanding cheques:		
No. 931	✓ 4 800	
No. 936	✓✓ 10 200	or 48 700
Outstanding deposit *must be omitted if in 2.1.2		✓ *43 000
- 1 if outstanding deposits combined without figures in brackets		✓ 5 700
Balance as per bank account see 2.1.2 or check operation	<input checked="" type="checkbox"/> 51 300 or 8 300	
- 1 foreign entries to a maximum of -2 e.g. 43 000 in both 2.1.2 and 2.1.3	66 300 or 23 300	66 300 or 23 300
- 1 for poor presentation / incorrect details (max -2)		
<b>If 2-column method used without Debit / Credit headings assume left=Debit and right=Credit</b>		
<b>OR single column method OR could start with ledger balance</b>		
Balance as per Bank Statement		✓ 17 600
Less outstanding cheques: or brackets or – may be used		
No. 931	Inspect treatment of figures to award marks if	✓ 4 800
No. 936		✓✓ 10 200
Add outstanding deposit *must be omitted if in 2.1.2	Add/Less not reflected	✓ *43 000
- 1 if outstanding deposits combined without figures in brackets		✓ 5 700 or 48 700
Balance as per bank account see 2.1.2 or check operation		<input checked="" type="checkbox"/> 51 300 or 8 300
- 1 foreign entries to a maximum of -2 e.g. 43 000 in both 2.1.2 and 2.1.3		

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**2.1.4 Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points.**

Two valid points ✓✓ ✓✓ **part-marks for partial answers**

Possible answers for 2 marks:

- This deposit should have been reflected on the bank statement within a day.
- R43 000 outstanding for some time could indicate that regular depositing is not happening (possible rolling of cash and fraud).
- R43 000 appears to be missing and will affect the cash flow and liquidity.
- Possible error (e.g. wrong account number) or fraud by the bank which must be resolved as soon as possible.
- Rule of prudence would dictate that the amount should be reversed if there is a possibility of fraud.
- Lack of internal control.
- Possibility of fraud / error.

Examples of responses for one mark:

- This is a large amount of money
- Division of duties

<b>4</b>

**2.2 Use the table to indicate the differences that were discovered when comparing the account in the Creditors' Ledger with the statement received from Kairo Suppliers.**

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

**If extra entries are shown, award marks but -1 for the foreign item on each line; sign must be correct to earn marks; if no + sign assume positive, accept brackets for a negative**

	Creditors' Ledger of Ace Traders	Statement from Kairo Suppliers
<b>Balance</b>	<b>R7 910</b>	<b>R11 390</b>
<b>1</b>		✓✓ - 3 000
<b>2</b>	✓✓ +500	
<b>3</b>	✓✓ - 90	
<b>4</b>		✓✓ + 6 930
<b>5</b>	+3 500 ✓ +3 500 ✓ OR +7 000	
<b>Balance/Total</b>	15 320	✓ operation, both totals 15 320

<b>11</b>

<b>TOTAL MARKS</b>
<b>35</b>

**QUESTION 3**

3.1 Choose an example from COLUMN B that matches the concept relating to companies in COLUMN A.

3.1.1	C✓✓
3.1.2	E or D✓✓
3.1.3	A✓✓
3.1.4	B✓✓
3.1.5	D✓✓

10
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3.2.1

**ASSET DISPOSAL**

2010 Dec.	31	Vehicles	✓ 235 000	2010 Dec.	31	Accumulated depreciation on vehicles (105 750 ✓ + 17 625 ✓✓)	<input checked="" type="checkbox"/> 123 375  Operation any one part correct, two items must be added
						Debtors' control ✓	✓ 90 000
						Loss on sale of asset / Profit & loss ✓	✓ 21 625
			235 000				235 000

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**3.2.2 ANEESA LTD : INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011**

	<b>Sales</b> ( 10 500 000 ✓ – 145 200 ✓)	✓	10 354 800
	<b>Cost of sales</b>	✓	(7 487 000)
<b>5</b>	<b>Gross profit</b> <small>Check operation, COS must be deducted</small>	✓	2 867 800
	<b>Other operating income</b> <small>Check operation</small>	✓	164 660
	Rent income (176 880 ✓ – 14 520 ✓✓) <small>operation if one part correct and adj exists</small>	✓	162 360
	Bad debt recovered	✓	2 300
<b>6</b>	<b>Gross operating income</b>		3 032 460
	<b>Operating expenses</b> <small>Check operation</small>	✓	(2 396 600)
	<b>Directors fees</b> (840 000✓ + 22 500✓)	✓	862 500
	<b>Audit fees</b>	✓	73 800
	<b>Salaries and wages</b>	✓	660 000
	<b>Packing material</b> (23 100 ✓ – 4 260 ✓)	✓	18 840
	<b>Marketing expenses</b>	✓	480 000
	<b>Sundry expenses</b>	✓	63 770
	<b>Bad debts</b> (12 000 ✓ +19 200✓✓) <small>operation if one part correct &amp; adj exists</small>	✓	31 200
	<b>Provision for bad debts adjustment</b> (18 840 – 18 000) <small>or (23 340 – 18 000) NB: no part marks</small>	✓✓	840 or 5 340
	<b>Depreciation</b> <small>operation if one part correct</small> (17 625 ✓ <small>must see 3.2.1</small> + 86 850 ✓ + 4 000 ✓ + 22 700 ✓✓) <small>61 050 + 43 425 for 1mark each 104 475 for 2 marks</small>	✓	131 175
	<b>Loss on sale of asset</b> <small>must see 3.2.1</small>	✓	21 625
<b>26</b>	<b>Trading stock deficit</b> <small>2 marks or Nil</small>	✓✓	52 850
	<b>Operating profit</b> <small>operation if exp deducted</small>	✓	635 860
	<b>Interest income</b> (26 630 + 12 970) <small>If one part correct</small>	✓✓	39 600
	<b>Profit before interest expenses/Finance cost</b>		675 460
	<b>Interest expenses/Finance cost</b> (458 000 + 804 500 – 1 125 000) <small>Must mark one line only</small> <small>or (1 125 000✓ – 458 000✓ – 804 500✓)</small>	✓	(137 500)
	<b>Profit before tax</b> <small>operation if interest deducted</small>	✓	537 960
	<b>Income tax</b> <small>accept figure without bracket</small>	✓	(150 285)
<b>10</b>	<b>Net profit after tax</b> <small>check operation, tax must be deducted</small>	✓	387 675

Foreign items –1 each (max –2);

If interest income / interest expense in two places, treat as foreign item

If interest income / interest expense misplaced, mark it but (–1 each time (–2 max))

**3.2.3 Explain what you would say to the CEO.**

Good = 3 marks; satisfactory = 2 marks; poor = 1 mark; incorrect = 0 marks ✓✓✓

Expected responses for 3 marks **accept any one valid explanation**

- This is unethical and should not be allowed as this does not appear to be a legitimate business expense.
- This is unethical as he is using his argument to evade tax which is a criminal offence.
- It is fine if the cost of the holiday is deducted from the amount owed to him for directors fees, but he must pay tax on the full directors fees.

Expected responses for 2 marks:

- It is fine if the cost of the holiday is deducted from the amount owed to him for directors fees.

Expected responses for 1 mark:

- Unethical
- Tax evasion
- Illegal
- Fraud

3



**3.3.1 Briefly explain the role of an independent auditor.**

Expected responses for 2 marks: ✓✓

- The independent auditor expresses an opinion on the fair presentation of the financial statements
- Watchdog role – look after the interests of the shareholders / public

Expected responses for max of 1 mark:

- Checks the books
- Checks the internal control
- Detects fraud

2

**3.3.2 Did Aneesa Limited receive a qualified or an unqualified audit report? Briefly explain your choice.**

Qualified report ✓

Valid explanation for 2 marks: ✓✓

**Must mention the shortcoming to earn 2 marks. Part marks for partial answer**

The audit opinion expressed an exception whereby it qualified the report regarding the shortcoming / exception (regarding marketing expenses which could not be verified and needed to be investigated).

3

**3.3.3 The independent auditor feels that he will not be doing his job properly if he agrees to the CEO's request. Briefly explain why he feels this way.***Explanation on the professionalism of an auditor* ✓✓**any one valid explanation; part marks for partial answers**

- The independent auditor belongs to a professional body and needs to comply with its standards by doing his job properly
- Inspection of documents is an important aspect.
- He expresses an opinion on fair presentation and these expenses are not being fairly presented.
- His integrity is questioned as the treatment of the expense is unethical.
- Transparency / accountability are two important principles in his professional role.

2

**State TWO possible consequences for the auditor if he agrees to this request.**

*Consequences* ✓✓ ✓✓**any two separate and different consequences; could be in one sentence (check); part marks for partial answers**

- They could be disciplined / fined / suspended
- He could be arrested (for fraud)
- They could be deregistered / struck off the roll
- They could be sued by the shareholders (held liable), if they are found to be negligent in performing their duties
- He could lose clients because his integrity is questioned

4

**TOTAL  
MARKS****80**

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**QUESTION 4**

4.1 Indicate where each of the following items would be placed in the Balance Sheet by choosing the answer from the list in the question paper.

4.1.1	Current liabilities ✓✓
4.1.2	Non-current assets ✓✓
4.1.3	Current assets ✓✓
4.1.4	Current liabilities ✓✓

8

4.2 **RETAINED INCOME NOTE ON 28 FEBRUARY 2011**

-1 foreign entries (max -2)

<b>Retained income at the beginning of the year</b>		<b>423 000</b>
Net profit after tax ✓	Do not accept NP before tax	✓ 714 245
Dividends ✓		(588 000)
Interim dividends paid		✓✓ 396 000
Final dividends declared		✓✓ 192 000
<b>Retained income at the end of the year</b>		<input checked="" type="checkbox"/> 549 245

Operation, if any one figure correct, dividends deducted

8

4.3 **RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS FOR THE YEAR ENDED 28 FEBRUARY 2011**

Foreign items – 1 max -2

<b>Net profit before tax</b>		<b>1 020 350</b>
Adjustments in respect of:		
Depreciation ✓		✓ 203 000
Interest expense ✓		✓ 86 400
<b>Operating profit before changes in working capital</b>		<b>1 309 750</b>
<b>Cash effects of changes in working capital</b>		<b>40 655</b>
<b>Change in inventory</b>		<b>27 000</b>
Change in trade and other receivables /debtors ✓		✓✓ * (490 000)
Change in trade and other payables /creditors ✓		✓✓ * 503 655
* If figure correct but brackets incorrect, allocate 1 mark to figure		
<b>Cash generated from operations</b>		<input checked="" type="checkbox"/> 1 350 405 operation if any one figure above is correct

11



**4.5.1 Calculate the earnings per share for 2011.**

$$\frac{714\,245}{600\,000} \checkmark \times \frac{100}{1}$$

$$= 119,04 \text{ cents or R1,19} \checkmark \text{ operation one part correct}$$

Do not accept R119 or 1,19 cents or a % figure

Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)

3

**4.5.2 Calculate the net asset value per share for 2011.**

$$\frac{1\,800\,000 + 1\,313\,400 \text{ for 1 mark see 4.2} + 549\,245 \checkmark}{600\,000 \checkmark} \checkmark \times \frac{100}{1}$$

$$= \frac{3\,662\,645}{600\,000} \times \frac{100}{1}$$

$$= 610,4 \text{ cents or 610 cents or R6,10} \checkmark \text{ operation one part correct}$$

Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)

4

**4.5.3 Calculate the debt-equity ratio for 2011.**

$$500\,000 \checkmark : 3\,662\,645 \checkmark \text{ see 4.5.2}$$

$$= 0,1 : 1 \checkmark \text{ operation one part correct must be in form of x:1 with debt first}$$

Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)

3

**4.6 The directors are generally happy with the improvement in the liquidity from 2010 to 2011. Quote THREE relevant financial indicators for both years (actual ratios or figures) to support their opinion.****Financial indicators (actual ratios or figures):**

Quoting of three relevant indicators ✓ ✓ ✓

Any three valid ratios or figures for both years ✓ ✓ ✓

Current ratio: This changed from 0,8:1 → 1,8:1 (improved by 1:1)

Acid-test ratio: This changed from 0,6:1 → 1,5:1 (improved by 0,9:1)

Debtors' period: This decreased from 32 days → 28 days (improved by 4 days)

If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly.

For those who provide more than three options, penalty of -2 for any irrelevant indicators (max -2).

Do NOT accept stock-turnover rate or creditors' payment period

6

4.7

**Comment on the price at which the new shares were issued on 1 March 2010. Will the directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question.**

Opinion: No ✓

Any two valid ratios or figures ✓ ✓  
Quoting of relevant indicators ✓ ✓

Expected responses:

- They sold the shares at 160 cents under the market value (510c compared to 670c)
- They sold the shares at 93 cents under the NAV at beginning of year (510c compared to 603c)
- The existing shareholders are being disadvantaged (dilution of NAV). They could have raised a lot more if they had sold at the going market rate (i.e. at least a further R302 400; 160 cents x 189 000 shares).

**Not relevant to compare to par value of R3,00**

5

4.8

**The directors have taken significant decisions during the year which have obviously affected the cash balances. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each decision will have an important effect on the future results of the company.**

**Specific decisions must be mentioned, not overall cash flow issues**

<b>Decision taken (quote figures)</b> Decision ✓ ✓ ✓ Figures ✓ ✓ ✓	<b>Effect on the company in future</b> Effect ✓ ✓ ✓
Land and buildings / fixed assets sold, R1 250 000	decreases capital growth or income earning potential / losing out on appreciation of fixed assets in future / less maintenance on buildings / higher rent expense / lower rent income / replace at higher cost in future / cash more useful than an unused building
The bank overdraft of R915 100 at the beginning of the year was repaid	resulted in a positive bank balance at the end of the year of R1 155 000 / significant improvement in liquidity / improvement in interest expense
Loans were repaid, R350 000	not taking advantage of positive gearing (compare ROTCE to interest rate) / reduces risk / improves debt-equity ratio / less interest to pay
Equipment of R418 500 (see 4.4) was purchased	new equipment might be more efficient / more productive
Additional shares were issued for R963 900 / 189 000 shares issued	improves cash flow but dilutes earnings / only 150 000 shares to be sold according to existing authorised share capital
Dividends paid R453 700	this should keep shareholders happy – positive effect on share price and can raise more capital in future

9

<b>TOTAL MARKS</b>
80

**QUESTION 5**

5.1

**Prepare a Debtors' Collection Schedule for November 2011.**

	<b>Credit sales</b>	<b>November collections</b>
<b>September</b>	<b>R 63 000</b>	✓✓ 18 900
<b>October</b>	✓ 60 750	<b>If 40% of credit sales</b> ✓✓ 24 300
<b>November</b>	<b>58 500</b>	✓✓ 14 625
<b>TOTAL</b>	<b>operation</b>	✓ 57 825

8

5.2

**Calculate the figures indicated by A–E in the Cash Budget.**

<b>A</b>	39 190 ✓
<b>B</b>	15 970 ✓✓ <b>no part-marks</b>
<b>C</b>	20 250 ✓✓ <b>no part-marks</b>
<b>D</b>	$\frac{81\,000}{1} \times \frac{100}{150} \times \frac{1}{2}$ ✓      ✓      ✓ 27 000 ✓ <b>if one part correct</b>
<b>E</b>	25 650 ✓✓ <b>if 95% of D</b>

11

**5.3 Calculate the debtors' average collection period (in days) for the financial year ended 31 October 2011.**

(79 500 + 83 500) / 2    **no part marks for each figure**

$$\frac{81\,500}{720\,000} \checkmark\checkmark \times \frac{365}{1} = 41,3 \checkmark \quad \text{operation one part correct}$$

**Explain whether Alfred should be satisfied with this collection period. Give ONE reason for your opinion.**

Yes/No ✓

Valid reason depending on calculation ✓✓

**Part-mark for partial answer; must refer credit term**

Possible reason:

- Debtors are not complying with the (30 day) credit term. The collection period is therefore not good.
- Although they are not complying with the (30 day) credit term, most of them are expected to settle their accounts within 60 days.

8

**5.4 Refer to the Debtors' Age Analysis. Alfred feels that he has problems in controlling debtors. Give TWO different reasons why he feels this way. Briefly explain. In each case, identify the problem debtor(s).**

Reason    ✓✓            ✓✓  
Name(s)   ✓            ✓

*Any two valid different points*

- Two debtors are exceeding the credit limit or R15 000 (D Scott or C Ntuli)
- Three debtors are taking longer than the credit term or 30 days (D Scott or P Raj or N Mpo)
- One debtor appears to have absconded (P Raj).

**Figures are not required, but figures may be used to refer to the credit limit or the credit term. Any ONE relevant debtor may be mentioned.**

6



**5.5 Calculate the percentage increase in salaries and wages in December 2011.**

8% ✓✓ no part-marks

**One of the employees, Mona Lott, is not happy with this increase. State TWO points in response to her complaint.**

Response to Mona Lott: ✓ ✓ any two valid responses: 1 mark each

- Compare to inflation rate
- Sales are decreasing per month
- Economy is declining, she is lucky to have a job
- Expenses exceed the income for the past two months
- There is not much money in the bank
- Consider amount of drawings taken by owner (can only work out Nov drawings)

4

**5.6 Explain what you would say to Alfred about each of the following items at the end of October, and give ONE point of advice in each case:**

Comment ✓ ✓ ✓ ✓ Advice ✓ ✓ ✓ ✓

Do not accept single words e.g. good / bad for an explanation / Do not accept increase / decrease

	COMMENT TO ALFRED	ADVICE
<b>Advertising</b>	The expense is the same as the budget / well planned.	They should consider increasing the advertising budget (as the sales figures are declining) / maintain control over this item in future.
<b>Sundry expenses</b>	Favourable variance (actual less than budget). Efficient and well controlled.	Maintain control over sundry expenses / allocate individual expenses to separate accounts for even better control / check that sundry expenses are correctly recorded / budget for a lesser amount in future.
<b>Telephone</b>	Significantly overspent (actual more than budget).	Extra control needed / unnecessary (private) calls not related to business should be avoided / phone codes / inspect if budget is realistic.
<b>Rent income</b>	Significantly under budget (actual less than budget) / Budget was unrealistically high.	Investigate shortfall e.g. poor collection, tenant has left, etc. to rectify this problem / tenants to sign debit orders / appoint a rent collector / charge interest on slow payers.

8

<b>TOTAL MARKS</b>
45

**QUESTION 6**

6.1.1

**What do the letters *FIFO* stand for?**

First In First Out ✓✓ no part marks, accept a valid explanation e.g. stock bought first is sold before the later stock purchased

2

6.1.2

**Calculate the value per bicycle on hand on 1 July 2010.**

R4 000 ✓✓ no part marks

2

6.1.3

**Calculate the value of the closing stock on 30 June 2011 according to the FIFO method.**

R756 000 ✓ + R247 500 ✓✓ = R1 003 500 ✓ operation one part correct

4

6.1.4

**Calculate the gross profit on 30 June 2011.**

Accept a Trading account for workings

Opening stock	✓	R240 000
Purchases (2 606 000✓ – 22 500✓)		R2 583 500
Closing stock	see 6.1.3	✓ (1 003 500)
Cost of sales		(R1 820 000)
Sales	✓	R3 037 500
Gross profit	operation	✓ R1 217 500

OR

COS = 240 000 ✓ + 2 606 000✓ – 22 500 ✓ - 1 003 500 ✓ = 1 820 000

Sales = ✓3 037 500

Gross profit = ✓1 217 500

OR 240 000 950 000 630 000

COS = (60 x 4 000) ✓ + (250 x 3 800) ✓ + (140 x 4 500) ✓✓ = R1 820 000

Sales = = R3 037 500✓

Gross profit = = R1 217 500✓

6

6.1.5

**As internal auditor, what would you say to Steve and Bongji? State TWO points.**

Any two valid comments: ✓✓ ✓✓ Part mark for partial answers

Expected responses:

- Bicycles are discrete / expensive units and models change – it is more appropriate to attach specific cost prices to specific items of stock, which makes FIFO more appropriate.
- FIFO value is more precise / accurate.
- Decision should not be made on the basis of what is easier or what will result in less tax. They must choose the most appropriate method / must not manipulate the profit (unethical).
- The business should keep to the existing method to ensure comparability across years unless very valid reason for change which is not the case here.
- Both Steve and Bongji are incorrect w.r.t. their reasons. FIFO involves more recording because individual cost prices are attached to specific bicycles. Bongji is incorrect because the situation regarding profit/losses will change depending on stock values each year.
- In the long run it does not make much difference which method you are using (profit will eventually be the same)
- Get clearance from SARS to make the change (affects profit and tax)

4

6.2

**Identify ONE problem in relation to each branch, quoting figures to support the problem. In each case, offer Doctor Zulu advice on how to solve the problem.**

Each comment: one mark; quoting figures: one mark; advice: two marks.  
Figures must be based on information in the question.

BRANCH	COMMENT	ADVICE
Riverside Figures ✓ Comment ✓ Advice ✓✓	Negligence of management / theft occurring. There are 18 scooters missing (90-72) / Loss in profit of R72 000 / Value of shortage of R135 000. <b>Do not accept Advertising as sales are higher than the other branches.</b>	Improve internal control / do regular physical stock checks / Vusi must be accountable (pay in) / Install security camera.
Valley View Figures ✓ Comment ✓ Advice ✓✓	The scooters are not selling well. / Situated in a low economic area / Vusi is too lazy / Vusi has too much stock on hand. Only 75 out of 300 have been sold. OR Even though Vusi has advertised a lot, R40 000 / R25 000 more than Riverside, it has not been effective. OR Stock will become obsolete / out of date, 225 left over. OR He made a net loss of R100 000 on figures available due to low sales.	Doctor Zulu should get Vusi to advertise effectively to increase sales. OR Instead of paying managers a set monthly income he should pay them commission based on sales. OR Restrict amount of stock on hand as this could lead to theft or out of date stock (stock piling). OR Close down the branch. OR Transfer stock to Mountain Rise branch.
Mountain Rise Figures ✓ Comment ✓ Advice ✓✓	Even though Melanie has spent the most on advertising, R60 000, this has not led to good sales. Advertised four times more but has half of Vusi's sales. OR Her advertising has been very effective that it has led to all 190 units of stock being sold out. OR Poor management / She is not ordering enough stock and has no stock (Nil) left over. The customers might be going to other branches to get their scooters.	The manager's advertising strategy should be revisited. OR Instead of paying managers a set monthly income he should pay them commission based on sales. OR Order more stock to satisfy demand to prevent customers from going to other branches or competitors. OR Obtain stock from other branches to address the demand.

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<b>TOTAL MARKS</b>
<b>30</b>

**TOTAL: 300**