



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

**ACCOUNTING
NOVEMBER 2010**

MARKS: 300

TIME: 3 hours

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

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 in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 40 marks; 20 minutes	
Topic of the question:	Learning outcomes covered:
Analysis of Transactions Inventory Valuation and VAT	LO1 Financial accounting AS3 Accounting equation AS7 Apply VAT principles
	LO3 Managing resources AS4 Calculate and validate inventories

QUESTION 2: 30 marks; 20 minutes	
Topic of the question:	Learning outcomes covered:
Bank Reconciliation and Internal Control	LO1 Financial accounting AS4 Reconciliation and interpretation
	LO3 Managing resources AS6 Apply internal control and audit processes

QUESTION 3: 55 marks; 30 minutes	
Topic of the question:	Learning outcomes covered:
Manufacturing	LO1 Financial accounting A1 Concepts – manufacturing
	LO2 Managerial accounting AS2 Production Cost Statement AS2 Unit costs and break even

QUESTION 4: 65 marks; 40 minutes	
Topic of the question:	Learning outcomes covered:
Company Concepts, Financial Statements, Ratios and Audit Reports	LO1 Financial accounting AS1 Concepts AS5 Final accounts, financial statements and analysis and interpretation of financial statements AS6 Audit reports
	LO3 Managerial accounting AS5 Professional bodies

QUESTION 5: 80 marks; 50 minutes	
Topic of the question:	Learning outcomes covered:
Cash Flow Statement, Interpretation and Asset Disposal	LO1 Financial accounting AS5 Final accounts, financial statements and analysis and interpretation of financial statements
	LO3 Managerial accounting AS3 Asset disposal

QUESTION 6: 30 marks; 20 minutes	
Topic of the question:	Learning outcomes covered:
Cash Budgets	LO1 Financial accounting AS1 Concepts
	LO2 Managerial accounting AS3 Analyse and interpret a cash budget
	LO3 Managing resources AS6 Apply internal control and audit processes

**QUESTION 1: ANALYSIS OF TRANSACTIONS, INVENTORY VALUATION AND
VAT (40 marks; 20 minutes)**

This question consists of **THREE** independent questions.

1.1 ANALYSIS OF TRANSACTIONS

You are provided with information relating to Bhato Traders.

REQUIRED:

Show the effect of the following transactions on the accounting equation. The bank balance is favourable at all times. The first transaction has been completed as an example. Where there is no effect on A, O or L you must reflect an '0'.

TRANSACTIONS:

1. An amount owing to SARS for income tax at the end of the previous year was paid.
2. An interim dividend was paid.
3. A premium was charged and received on new shares issued.
4. A final dividend was declared.
5. Income tax for the year was brought into account (the amount exceeds the provisional tax paid).

(16)

1.2 INVENTORY (STOCK) VALUATION

The following information was extracted from the accounting records of Bags 4U. Bags 4U buys and sells one type of ladies' handbag.

The business uses the periodic method of inventory and the weighted average method of valuing inventory.

REQUIRED:

Study the information below and provide the missing figures as indicated by (A) to (D). Show workings to earn part-marks.

INFORMATION:

Transactions for the month:

INFORMATION	NUMBER OF HANDBAGS ON HAND	VALUE PER UNIT	CARRIAGE ON PURCHASES	TOTAL VALUE
Handbags on hand on 1 February 2010	250	R125		(A)
Handbags bought during the month	1 010			?
7 February 2010	500	R120	Nil	R60 000
22 February 2010	250	R120	Nil	R30 000
25 February 2010	260	R105	R4 000	(B)
Handbags returned to suppliers during the month	10			R1 050
26 February 2010	10	R105		R1 050
Handbags sold during the month	(C)	R225		?
Handbags on hand on 28 February 2010	275	(D)		?

(15)

1.3 VAT

Mango Supermarket is a registered VAT vendor. VAT is calculated at 14%. All goods are sold at 50% on cost.

REQUIRED:

- 1.3.1 Calculate the VAT payable to SARS or receivable from SARS. State whether the amount is payable or receivable. (3)
- 1.3.2 Calculate the VAT on net purchases of trading stock for February 2010. (3)
- 1.3.3 Calculate the amount of VAT that would be reflected on the invoices that were issued to the debtors during February 2010. (3)

INFORMATION:

The following Ledger Accounts were extracted from the General Ledger of Mango Supermarket.

GENERAL LEDGER OF MANGO SUPERMARKET
BALANCE SHEET ACCOUNTS SECTION

VAT CONTROL									
2010 Feb.	28	Input VAT	GJ	9 780	2010 Feb.	28	Output VAT	GJ	31 024

TRADING STOCK									
2010 Feb.	1	Balance	b/d	122 000	2010 Feb.	28	Creditors' control	CAJ	8 000
	28	Creditors' control	CJ	80 000			Cost of sales	DJ	83 000
		Cost of sales	DAJ	1 200			Cost of sales	CRJ	65 000

DEBTORS' CONTROL									
2010 Feb.	1	Balance	b/d	85 000	2010 Feb.	28	Journal Credits (Bad debts)	GJ	456
	28	Sundry accounts	DJ	141 930					

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

Top Dog Traders employs Joe Cryme to write up the books, do the bank deposits and issue cheques. You are required to assist as internal auditor.

REQUIRED:

- 2.1 Why does a business prepare a Bank Reconciliation Statement each month? (2)
- 2.2 Calculate the correct totals in the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for October 2010. (10)
- 2.3 Prepare the Bank Reconciliation Statement on 31 October 2010. (10)
- 2.4 Refer to Information numbers 4 and 8 below.
- 2.4.1 It appears that Top Dog Traders will not be able to recover all amounts, or part of the amounts, lost due to the fraudulent activities of Joe Cryme. If you were the owner of this business, what steps would you take against Joe Cryme? Provide TWO steps. (2)
- 2.4.2 Explain why the rule of prudence will be used in accounting for the fraudulent activities in the books and the financial statements. (3)
- 2.4.3 Explain what was wrong with the procedures in the accounting department which led to this type of fraudulent activity. (3)

INFORMATION:

1. At the end of the previous month, 30 September 2010, the following items appeared in the Bank Reconciliation Statement:

Balance per Bank Statement	17 000
Outstanding deposits for cash sales:	
▪ Dated 28 September 2010	30 000
▪ Dated 30 September 2010	12 400
Outstanding cheques:	
▪ 502 (dated 19 April 2010)	6 200
▪ 613 (dated 24 September 2010)	13 400
▪ 614 (dated 27 September 2010)	9 100
Balance per bank account	30 700

2. The balance on the Bank Statement is R40 092 (favourable) on 31 October 2010.
3. The provisional totals in the journals for October 2010 before reconciling to the bank statement are: CRJ – R510 000 and CPJ – R463 600

4. From the bank reconciliation for September 2010 only the outstanding deposit of R12 400 and cheque No. 614 appeared on the October Bank Statement. The R30 000 reflected on the deposit slip, dated 28 September, was never deposited into the bank account by Joe Cryme. He cannot account for the whereabouts of the cash.
5. The October Bank Statement reflected bank charges of R1 310 and interest of R102 on the favourable bank balance.
6. A dishonoured cheque was reflected on the Bank Statement, R1 700. This was originally received from a debtor in payment of his account.
7. A direct deposit of R5 500 from a tenant was reflected on the Bank Statement.
8. As internal auditor you also detected that cheque No. 642 for R18 000 appeared on the Bank Statement, but not in the CPJ. The bookkeeper, Joe Cryme, forged the signatures and used the funds for personal benefit.
9. Cheque No. 633 was reflected in the CPJ as R2 630, but on the Bank Statement it was reflected as R6 230. The amount on the Bank Statement is correct.
10. The following items appeared in the October CRJ and CPJ, but not on the Bank Statement:
 - No. 652 – R3 800 (dated 15 November 2010)
 - No. 655 – R1 300
 - A deposit of R12 700 for cash sales.

QUESTION 3: MANUFACTURING**(55 marks; 30 minutes)****3.1 MULTIPLE-CHOICE QUESTIONS**

Four options are provided as possible answers to the following questions. Choose the answer and write only the letter (A – D) next to the question number (3.1.1 – 3.1.4) in the ANSWER BOOK, for example 3.1.5 D.

3.1.1 The wages paid to a factory cleaner will be classified as ...

- A direct labour cost.
- B factory overhead cost.
- C administration cost.
- D raw materials cost.

3.1.2 Fixed costs per unit are calculated as follows:

- A Prime costs ÷ number of units produced
- B Total costs of production ÷ number of units produced
- C Total fixed costs ÷ number of units produced
- D Total fixed costs x number of units produced

3.1.3 Which ONE of the following items will NOT be regarded as an administration cost?

- A Packing material
- B Insurance
- C Telephone
- D Stationery

3.1.4 In order to calculate the break-even point, the following calculation will be used:

- A
$$\frac{\text{Fixed costs}}{\text{Number of units produced}}$$
- B
$$\frac{\text{Variable costs}}{\text{Selling price per unit} - \text{Fixed cost per unit}}$$
- C
$$\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$
- D
$$\frac{\text{Variable costs}}{\text{Fixed cost per unit}}$$

(4 x 2) (8)

3.2 You are provided with information (balances, transactions and adjustments) relating to Fatima Manufacturers owned by Fatima Fala. The business manufactures shoes.

REQUIRED:

- 3.2.1 Calculate the value of the raw materials that were issued to the factory for the year ended 28 February 2010. (You may prepare the Raw Materials Stock Account to assist with your calculation.) (7)
- 3.2.2 Prepare the following notes to the Production Cost Statement for the year ended 28 February 2010:
- Direct labour cost (5)
 - Factory overhead cost (16)
- 3.2.3 Prepare the Production Cost Statement for the year ended 28 February 2010. (10)
- 3.2.4 You are provided with unit costs and the break-even point calculated for the past two years.

	2010	2009
Raw materials cost per unit	R48,30	R54,30
Direct labour cost per unit	R37,38	R51,70
Factory overhead cost per unit	R34,32	R30,25
Break-even point	19 548 units	11 300 units
Number of units produced	20 000 units	24 000 units

- (a) Explain whether Fatima should be concerned about the break-even point for 2010. Quote figures to support your answer. (3)
- (b) Give a possible reason, other than price changes, for the change in EACH of the unit costs provided above. (6)

INFORMATION:**1. OPENING BALANCES ON 1 MARCH 2009:**

Raw materials stock	R 160 000
Work-in-process stock	158 000
Finished goods stock	120 000
Consumable stores stock: Factory	6 000
Factory plant and equipment at cost	2 225 000
Accumulated depreciation on factory plant and equipment	450 000

2. SUMMARY OF TRANSACTIONS FOR THE YEAR ENDED 28 FEBRUARY 2010:

Purchases of raw materials on credit	R1 023 475
Carriage on purchases of raw materials	22 500
Consumable stores purchased for the factory	43 000
Cleaning materials purchased for the office	12 000
Factory plant and equipment purchased on 1 September 2009	250 000
Production wages	723 800
UIF – Contribution for factory employees	?
Salaries: Factory foreman	150 000
Administration	400 000
Sales staff	250 000
Water and electricity	163 000
Sundry expenses: Factory	194 680
Administration	530 000
Sales department	340 000

3. CLOSING BALANCES ON 28 FEBRUARY 2010:

Raw materials stock	R259 125
Work-in-process stock	?
Finished goods stock	142 500
Consumable stores stock: Factory	7 000

4. ADDITIONAL INFORMATION AND ADJUSTMENTS:

- A. No entry was made for the transport of raw materials by Pops Carriers to the factory, R3 750.
- B. During the physical stocktaking of raw materials on 28 February 2010, a calculation error was made. 6 000 articles at 15c each were taken into account at 50c each on the stock lists. This must be corrected.
- C. No entry was made for the following in respect of the production wages for the last week of February 2010. The entry was omitted from the Wages Journal:

Gross wages	R6 200
Deductions: Unemployment Insurance Fund	62
PAYE	1 240
The employer contributes 1% to the UIF.	

- D. An amount of R4 200 was still outstanding on the Water and Electricity Account for February 2010. Sixty per cent (60%) of all the water and electricity was used in the factory.
- E. Depreciation on factory plant and equipment must be brought into account at 10% per annum, according to the diminishing balance method.
- F. During the year 20 000 pairs of shoes were manufactured.
- G. The shoes are sold at a mark-up of 65% on cost.
- H. The shoes are sold at R198 per pair.

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**QUESTION 4: COMPANY CONCEPTS, FINANCIAL STATEMENTS, RATIOS AND
AUDIT REPORTS**
(65 marks; 40 minutes)

4.1 MATCHING ITEMS – COMPANY CONCEPTS

The information below was extracted from the financial records of Modjaji Limited.

REQUIRED:

Concepts relating to companies are listed in COLUMN A and explanations are listed in COLUMN B. Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – E) next to the question number (4.1.1 – 4.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B
4.1.1	Historical cost	A the liability of shareholders is limited to the amount of capital invested in the company
4.1.2	Going concern	
4.1.3	International Financial Reporting Standards (IFRS)	B assets are recorded at the original purchase price unless otherwise stated
4.1.4	Good corporate governance	C the ethical and responsible manner in which a company is managed and directed by its major stakeholders, including directors and shareholders
4.1.5	Limited liability	D financial statements are prepared on the assumption that the company will continue operating for the foreseeable future
		E guidelines for the preparation of financial statements of companies to ensure a degree of consistency

(5 x 2) (10)

4.2 Prepare the Appropriation Account in the General Ledger of Modjaji Limited. (9)

4.3 Prepare the Balance Sheet on 28 February 2010. (ALL workings must be shown in brackets – **the notes are NOT required.**) (37)

INFORMATION:

1. The following balances/totals appeared in the General Ledger on 28 February 2010:

BALANCE SHEET ACCOUNTS SECTION	
Ordinary share capital	R1 750 000
Share premium	50 000
Retained income (1 March 2009)	26 000
Long-term loan: Oka Lenders	235 200
Fixed assets at carrying value (1 March 2009)	2 106 500
Trading stock	61 200
Debtors' control	52 000
Provision for bad debts (1 March 2009)	2 500
Creditors' control	81 300
Bank – debit	54 500
Cash float	12 500
Fixed deposit at Leakage Bank (matures in 2013)	80 000
Deposit: Water and electricity	1 100
SARS: Income tax – debit	95 000
ML Pension Fund	11 500
NOMINAL ACCOUNTS SECTION	
Ordinary share dividends (interim)	80 000
FINAL ACCOUNTS SECTION	
Trading account (gross profit)	459 000
Profit and Loss Account (net profit)	344 000

2. The company has an authorised share capital of 2 000 000 shares with a par value of R2 each.
3. The following adjustments must still be considered:
- 3.1 The directors declared a final dividend of 10 cents per share on 28 February 2010.
- 3.2 The assessment received from SARS reflects income tax of R103 200 for the financial year.

4. The net profit of R344 000 was arrived at after the following items were taken into account:
- Packaging material on hand on 28 February 2010, R4 600
 - Provision for bad debts at 5% of net debtors
 - Insurance prepaid, R1 000
 - Depreciation on fixed assets, R32 400
 - An adjustment to the Rent Income Account (The total on the Rent Income Account was R101 500 which included rent for March and April 2010 – rent was increased by R900 from 1 October 2009.)
5. The loan from Oka Lenders was originally received on 1 September 2008. The loan is to be repaid in equal monthly instalments over 5 years. The first instalment was paid on 30 September 2008.

4.4 EXTERNAL AUDITOR'S REPORT:

- 4.4.1 What is an *external (independent) auditors' report*? (2)
- 4.4.2 Why is it important for an external auditor to be 'independent'? (2)
- 4.4.3 Why is it important for an external auditor of a public company to be a member of a professional body, such as SAICA? (2)
- 4.4.4 You have been appointed as the external auditor of Modjaji Limited. The managing director, Tom Burke, has asked you to reflect his directors' fees of R3,6 million under Salaries and Wages in the Income Statement. Would you agree to his request? Give a reason. (3)

QUESTION 5: CASH FLOW STATEMENT, INTERPRETATION AND ASSET DISPOSAL
(80 marks; 50 minutes)

You are provided with information and a partially completed Cash Flow Statement relating to Okuhle Limited, a public company. The financial year-end is on 30 June 2010. The authorised share capital of the company is 500 000 shares. New shares were issued on 1 July 2009.

REQUIRED:

Study the information provided and answer the questions that follow.

- 5.1 Prepare the Asset Disposal Account on 31 December 2009 in the General Ledger. (9)
- 5.2 Complete the Note for Fixed (Tangible) Assets on 30 June 2010. (15)
- 5.3 Complete the Cash Flow Statement for the year ended on 30 June 2010. (Some of the amounts have already been entered in the ANSWER BOOK.) (18)
- 5.4 The directors made some **significant** decisions in the past year which affected the cash position of the company. List **THREE** of these significant decisions. Quote figures to support your answer. (6)
- 5.5 Calculate the following financial indicators for 2010:
- 5.5.1 Earnings per share (3)
- 5.5.2 Debt-equity ratio (3)
- 5.5.3 Return on average capital employed (5)
- 5.6 Comment on the debt-equity ratio and the return on average capital employed. Quote the figures of these financial indicators and comment on EACH. (4)
- 5.7 Comment on the liquidity position for 2010. Quote **THREE** relevant financial indicators (actual ratios or figures) to support your answer. (8)
- 5.8 An existing shareholder is disappointed with the price of R5,60 at which the new shares were sold. Quote a financial indicator to support this opinion and comment on it. (3)
- 5.9 A friend of yours is not interested in buying shares in this company. Quote figures for **TWO** financial indicators, other than those discussed above, to support his opinion and comment on EACH. (6)

INFORMATION:

- Equipment bought on 30 June 2007 for R40 000 was sold for cash on 31 December 2009 at carrying value. New equipment was purchased on 1 February 2010 for R160 000. Depreciation on equipment is written off at 15% p.a. on cost price.
- The following totals were extracted from the financial statements on 30 June 2010:

Balance Sheet	2010	2009
Ordinary shareholders' equity	2 753 800	2 460 000
Ordinary share capital (par value R5)	1 900 000	1 750 000
Ordinary share premium	248 000	230 000
Retained income	605 800	480 000
Land and buildings	2 764 000	4 139 000
Equipment at cost	420 000	300 000
Accumulated depreciation on equipment	?	135 000
Loan (16%)	280 000	650 000
SARS (Income tax)	(Cr) 9 000	(Dr) 6 400
Shareholders for dividends	53 200	38 500
Income Statement	2010	2009
Interest on loan	89 200	104 000
Net profit before tax	310 000	420 000
Income tax	93 000	126 000

- The following financial indicators have been calculated:

	2010	2009
Debt : Equity ratio	?	0,3 : 1
Return on average capital employed	?	19%
Return on shareholders' equity	8,3%	16%
Earnings per share	?	105 cents
Dividends per share	24 cents	60 cents
Net asset value per share	725 cents	703 cents
Current ratio	1,9 : 1	0,3 : 1
Acid test ratio	1,2 : 1	0,2 : 1
Stock turnover rate	6 times	9 times
Period of stock on hand	60 days	40 days
Debtors' collection period	15 days	32 days
Creditors' payment period	42 days	30 days

QUESTION 6: CASH BUDGETS**(30 marks; 20 minutes)**

You are provided with an extract from the Cash Budget of Parys Gymnasium. The business is owned by Piet Nkosi.

Each member pays a once-off admission fee of R1 000 and a subscription fee of R500 per month to belong to the gymnasium. Piet employs Steffi Smit to collect and control the fee income.

REQUIRED:

- 6.1 Calculate the following:
- 6.1.1 The insurance figure for November 2010 (Note that the insurance premium will increase by 6% on 1 November 2010.) (2)
 - 6.1.2 The % increase in Steffi Smit's salary in October 2010 (2)
 - 6.1.3 The mark-up % that is applied on the sale of refreshments (Note that refreshments are sold for cash only and are replaced in the month of sale.) (3)
 - 6.1.4 The amount invested in the fixed deposit on 1 September 2010 (Note that the interest rate is 8% p.a. A portion of the fixed deposit matures on 31 October 2010.) (3)
 - 6.1.5 Interest on the fixed deposit for November 2010 (3)
- 6.2 As internal auditor you are required to give Piet feedback on the marketing strategy and fee collection.
- 6.2.1 How many new customers did Piet expect to gain from the marketing strategy in September 2010? (4)
 - 6.2.2 What TWO aspects of the marketing strategy could be improved? Give figures to support your answer and make suggestions for EACH. (6)
 - 6.2.3 Has Steffi Smit been successful in the collection of fee income? Explain by quoting figures to support your opinion. (7)

INFORMATION:**1. EXTRACT FROM CASH BUDGET FOR SEPT. 2010 TO NOV. 2010**

	Sept.	Oct.	Nov.	Total
RECEIPTS:	R	R	R	R
Joining fee (Admission fee)	?	0	0	?
Monthly fee collections (Subscriptions)	285 000	285 000	285 000	855 000
Sale of refreshments	21 600	27 360	27 360	76 320
Fixed deposit matured	0	30 000	0	30 000
Interest on fixed deposit (8% p.a.)	640	640	?	?
PAYMENTS:				
Insurance	7 000	7 000	?	?
Commission paid	18 000	0	0	18 000
Transport allowance	6 000	0	0	6 000
Salary to Steffi Smit	4 200	5 250	5 250	14 700
Purchases of refreshments	12 000	15 200	15 200	42 400

2. MARKETING STRATEGY:

At the end of August Piet had 450 customers. Piet developed a new marketing strategy to increase the number of customers significantly. He planned to employ three people (Chase, Jane and Dan) at the beginning of September 2010 to market the gymnasium and get new customers to sign contracts. He would pay them commission of R150 for each new customer and a travel allowance.

Piet asked you, as the internal auditor, to analyse the work done by the marketing team. Your analysis is as follows:

Analysis of work done by the marketing team – September

	Chase	Jane	Dan	Total
Number of new contracts issued	80	35	113	228
Commission earned	R12 000	R5 250	R16 950	R34 200
Transport allowance paid	R3 000	R3 000	R3 000	R9 000
Number of contracts cancelled on 1 November 2010	2	0	38	40

3. ACTUAL FEE INCOME COLLECTED COMPARED TO BUDGET

	Budgeted	Actual
September	R285 000	R339 000
October	R285 000	R323 000
November	R285 000	R273 000
Total	R855 000	R935 000