



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2011

**ACCOUNTING
MEMORANDUM**

This memorandum consists of 19 pages.

GENERAL RULES:

1. Award full marks for the correct final answers. If the answer is incorrect, mark the workings provided. If a workings figure/amount is shown as a final answer, allocate the working mark.
2. "Method" marks are denoted by ☒
 - In calculations and final totals, at least one part of the workings must be correct to earn the mark.
 - In cases where answers of previous questions must be used, check the transfer.
 - Ignore brackets on statements, but check the operation before awarding marks.
3. Where penalties are applied, the marks for that section cannot be a negative. (foreign items)
4. For questions requiring explanations and comments, award part-marks. A good explanation will normally mention and explain a point. Beware of alternative wording reflecting the same points.

QUESTION 1

BANK AND CREDITORS RECONCILIATION

(45 marks, 27 minutes)

1.1 Bank Reconciliation

1.1.1 Complete the table.

NO	ENTRIES IN THE BOOKS OF THE BUSINESS			ENTRIES IN THE BANK RECONCILIATION STATEMENT		NO ENTRY (INSERT A TICK)
	JOURNAL	BANK ACCOUNT IN GENERAL LEDGER		DEBIT (decrease) amount	CREDIT (increase) amount	
		DEBIT amount	CREDIT amount			
1					4 680 ✓	
2	CRJ ✓	2 400 ✓				
3	CPJ ✓		126 ✓			
4				1 120 ✓		
5	CRJ ✓	200 ✓				
6						√ ✓
7	CPJ ✓		630 ✓✓			

(12)

1.1.2

Suggestion to prevent large outstanding deposit.

Give credit for any reasonable explanation. Part marks may be awarded ✓✓

- All amounts must be receipted immediately, and banked at the end of each day/the next day.
- A senior employee must verify the amounts deposited with the receipts issued.
- Counterchecking every morning.
- Random checking

(2)

1.1.3

Explain why reconciling the bank account with the statement is an excellent tool for internal control.

Any reasonable responses. Award part marks. Two valid points ✓✓ ✓✓

- All deposits and withdrawals are checked off against the bank statement.
- The business knows the status of every cheque paid out and anticipates future payments
- It makes fraud more difficult when an external document (bank statement) is used to check the books
- Errors are picked up both in the business books and at the bank
- Stop orders, debit orders electronic transfers are checked and payments verified.

(4)

1.2 Creditors

1.2.1 GENERAL LEDGER OF LEX OUTFITTERS
BALANCE SHEET
ACCOUNTS

CREDITORS CONTROL (B9)

2010 Sep	30	Sundry Allowances	✓ 1 000	2010 Sep	1	Balance b/d	16 884✓
		Bank and Discount Received (15 200 + 400)	✓✓ 15 600		30	Sundry Purchases (20750 + 590 + 100)	21 440 ✓✓✓
		Journal Debits	✓ 540			Journal Credits (160 + 123 + 30)	313 ✓✓✓
		Balance c/d	✓21 947			Bank (cheque cancelled)	450✓
			39 087				39 087
				Oct	1	Balance b/d	✓21 947

-1 mark on each side for incorrect/omitted details (max -2) (14)

1.2.2 RECONCILIATION OF ACCOUNTS

				CREDIT
BALANCES ON 30 SEPTEMBER 2010				
AA Traders	6 227	✓	+123	6 350
ABC Traders (250 + 250)	4 160	✓✓	-500	3 660
Rama Carriers	940	✓	+590	1 530
Repairs Services (450 ✓ + 30✓)	3 480	✓	+480	3 960
A. Dhamoo (435 – 345)	5 530	✓✓	-90	5 440
R. Vee (53 + 53)	1 113	✓✓	-106	1 007
				✓✓21 947

* Brackets or negative signs could be used to indicate the Debit amounts.

(13)

[45]

QUESTION 2

MANUFACTURING

(65 marks ; 39 minutes)

2.1 **PLASCO CC**
PRODUCTION COST STATEMENT FOR THE SIX MONTHS ENDED
31 AUGUST 2010

	NOTES	AMOUNT
Direct Material Cost	1	112 500✓
Direct Labour Cost	2	40 000✓
PRIME COST		152 500✓
Factory Overhead Cost	3	44 000✓
TOTAL MANUFACTURING COST		196 500✓
Work in Process (<i>Opening Balance</i>)		3 300✓
		199 800
<i>Work in Process (Closing Balance) ✓</i>	<i>Check operation</i>	(3 800)✓
COST OF PRODUCTION OF FINISHED GOODS		196 000✓✓

(10)

NOTES TO THE FINANCIAL STATEMENTS

1. Direct Material Cost	
Opening Stock of Raw Materials	✓ 5 660
Net Purchases of Raw Materials (48 750✓ + 62 550✓ – 3 300✓) or 3 marks for total	108 000
Railage on Purchases	✓ 2 240
	115 900
Closing stock of Raw materials	✓ (3 400)
	✓ 112 500

(7)

2. Direct Labour Costs	
Factory wages	✓36 800
Pension Fund Contribution	✓3 200
	✓40 000

(3)

3.	Factory Overhead Cost	
	Indirect Materials ($650\checkmark + 3\,280\checkmark - 430\checkmark$) <i>or 3 marks for the total</i>	3 500
	Maintenance: Factory equipment	$\checkmark 2\,600$
	Indirect labour ($8\,000 \times 75\%$)	$\checkmark\checkmark 6\,000$
	Water and Electricity ($18\,300 \times 80\%$)	$\checkmark\checkmark 14\,640$
	Depreciation: factory equipment	$\checkmark 3\,180$
	Rent Expense ($24\,640 \times 4/7$)	$\checkmark\checkmark 14\,080$
		$\checkmark\checkmark 44\,000$

* No part marks or method mark except the total.

* Foreign items (max -1 per note) -3 maximum in total

(12)

2.1.2

(a)

Calculate the number of units sold.

$$49\,000 + 2110 - 2\,570 = 48\,540$$

\checkmark \checkmark \checkmark (at least one part must be correct)

(3)

(b)

Calculate the selling price per unit sold.

$$315\,510 / 48\,540 = 6,50$$

\checkmark \checkmark \checkmark (at least one part must be correct)

(3)

(c)

Calculate the unit cost of production per completed item.

$$196\,000 / 49\,000 = 4,00$$

\checkmark \checkmark (at least on part must be correct)

(2)

[40]

2.2.1 (a)

Cost of Sales

$$280\,800 - 74\,880 = 205\,920$$

$\checkmark\checkmark$ (at least one part must be correct)

(2)

(b)

Direct Labour Cost

$$130\,350 - 57\,750 = 72\,600$$

$\checkmark\checkmark$ (at least one part must be correct)

(2)

(c)

Direct Material Cost per unit

$$57\,750 / 3300 = 17,50$$

$\checkmark\checkmark$ (at least on part must be correct)

(2)

2.2.2. Give a possible reason for the change in the direct material cost per unit.

- Cheaper suppliers
- Bulk purchases (to receive trade and cash discounts)
- Using local suppliers (reduced cartage expenditure)
- Making use of substitute materials

Any reasonable explanation ✓✓

(2)

2.2.3. (a) Calculate the breakeven number of units for the period.

Total Fixed Costs / Contribution per unit

$$85\,050 + (90\% \times 49\,500) \checkmark = 129\,600 \text{ (Fixed Costs)} \checkmark$$

$$29\,700 + (10\% \times 49\,500) + 130\,350 = 165\,000 / 3300 = 50 \text{ (VC per unit)} \checkmark$$

$$280\,800 / 3120 \checkmark = 90 \text{ (Selling price per unit)} \checkmark$$

$$129\,600 / 40 \checkmark = 3240 \text{ units} \checkmark$$

(9)

(b) Should the business be satisfied with the level of production achieved? Substantiate.

Yes/No :✓ The business has produced more than the breakeven number of units but by a very small margin. This impact on the net profit achieved.

There is a drastic need to increase the number of units produced.

Accept any reasonable response – comments must be relevant to the learners calculations above ✓✓✓
(award part marks for short , incomplete responses)

(4)

2.2.4. Provide TWO suggestions on how the business can improve profitability.

- Need to re-consider the profit mark-up (to be competitive).
- Need to look at decreasing Administration Costs and spend more on advertising..
- Need to increase production.

Any reasonable explanations (award part marks for unclear responses).

(4)

[65]

QUESTION 3

COMPANIES

(90 marks ; 54 minutes)

3.1 3.1.1 Calculate the missing figures labelled **A** to **E**.

A	Total Equity and Liabilities 5 279 000 ✓✓	(2)
B	Trade and Other Payables $2\,548\,000/4 = 637\,000$ ✓ ✓ <input checked="" type="checkbox"/>	(3)
C	Trade Creditors $637\,000 - 157\,500 = 479\,500$ <input checked="" type="checkbox"/> ✓ <input checked="" type="checkbox"/>	(3)
D	Shareholders' Equity $5\,279\,000 - 637\,000 - 1\,800\,000 = 2\,842\,000$ ✓ <input checked="" type="checkbox"/> ✓ <input checked="" type="checkbox"/>	(4)
E	Retained Income $2\,842\,000 - 2\,100\,000 - 170\,000 = 572\,000$ <input checked="" type="checkbox"/> ✓ ✓ <input checked="" type="checkbox"/>	(4)

3.1.2 Calculate the interim dividends paid during December 2009.

<p>Total Dividends: <math>(282\,000✓ + 555\,500✓ - 572\,000<input checked="" type="checkbox"/>) = 265\,500<input checked="" type="checkbox"/></math></p> <p>Interim Dividends: <math>265\,500 - 157\,500✓ = 108\,000<input checked="" type="checkbox"/></math></p> <p><i>Accept a reconstruction of the Shareholders for Dividends account or the Appropriation Account.</i></p>	(6)
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3.1.3 Calculate the total amount paid to SARS in respect to Income Tax that would appear in the Cash Flow Statement.

<p>$95\,000 + 394\,000 + 46\,000 = 535\,000$ ✓ ✓ ✓✓ <input checked="" type="checkbox"/></p> <p><i>Accept a reconstruction of the SARS Income Tax Account.</i></p>	(5)
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3.1.4 RECONCILIATION BETWEEN PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS

Net Income before Tax (555 500 ✓ + 394 000 ✓)	<input checked="" type="checkbox"/> 949 500	
Adjustments for:		
Depreciation	✓ 453 000	
Interest on Borrowed money	✓ 252 000	
	1 654 500	
Changes in Working Capital	<input checked="" type="checkbox"/> (1 017 000)	
Inventories <i>Decrease</i> (272 000 ✓ – 254 000 ✓)	<input checked="" type="checkbox"/> 18 000	
Trade and Other Receivables <i>Increase</i> (1 592 000 ✓ – 770 000 ✓)	<input checked="" type="checkbox"/> (822 000)	
Trade and Other Payables <i>Decrease</i> (692 500 ✓ – 479 500 <input checked="" type="checkbox"/>)	<input checked="" type="checkbox"/> (213 000)	
	✓ <input checked="" type="checkbox"/> 637 500	(17)

3.1.5 Proceeds on Disposal of Equipment

$ \begin{array}{ccccccc} (2 & 374 & 000 & + & 970 & 000) & - & (453 & 000 & + & 2 & 731 & 000) & = & 160 & 000 & \checkmark \\ \checkmark & & & & \checkmark \checkmark & & & \checkmark & & & \checkmark & & & & & & \end{array} $	(6)
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3.1.6 Calculate the selling price per share of the additional shares sold, on 1 January 2010.

$ \begin{array}{l} 2100\,000 - 1350\,000 = 750\,000 \text{ (Share Capital)} \quad \checkmark \checkmark \\ 750\,000 / 2 = 375\,000 \text{ (Number of shares sold)} \quad \checkmark \\ \\ 170\,000 - 20\,000 = 150\,000 \text{ (Share Premium)} \quad \checkmark \\ 150\,000 / 375\,000 = 0,4 \quad \checkmark \\ \\ \text{R2,40 per share} \quad \checkmark \end{array} $	(6)
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3.2 Ratio analysis and Interpretation

3.2.1 Calculate the profit mark-up percentage for 2010.

$ \begin{array}{ccccccc} (161 & 840 & - & 68 & 000) / 68 & 000 & = & 138\% \\ \checkmark & & & \checkmark & & \checkmark & & \checkmark \end{array} $	(4)
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- 3.2.2 Provide TWO reasons why it is possible that the business did not achieve the mark-up.
- Any acceptable answer (must be related to sales or cost of sales)*
 ✓✓ ✓✓
 - Clearance sales / Staff discounts
 - Goods incorrectly priced
 - Sales at less than normal price (Cash and Trade Discounts) (4)
- 3.2.3 Is the business solvent on 28 February 2010?
 Motivate your answer by making use of an appropriate ratio.
- Total Assets : Total Liabilities
 (240000 + 40000 + 50000) : (120000 + 30000)
 330 000 ✓✓ : 150 000 ✓
 2,2:1 ☒ (at least one part correct)
 ✓ ☒
 Yes, assets cover liabilities by more than double/twice. (6)
- 3.2.4 Calculate the **Debt: Equity** ratio on 28 February 2010.
 Comment on the degree of risk experienced by the business by making reference to the trend from one year to the next.
- Non-current liabilities : Equity
 120000 ✓ : 180000 ✓ 0,67: 1 ☒
 Although the company is relying on sizable loans, there is an attempt to reduce the debts (NCL) (One valid and complete point.)
 Gearing is acceptable / Risk is decreasing (0,8:1 in 2009) ✓✓✓
 The owners invest R1 own capital for every 67c borrowed. (6)
- 3.2.5 Calculate the **Acid-Test Ratio** on 28 February 2010. By looking at the Current Ratio and the Acid-Test Ratios, comment on the liquidity position of the business.
- (50 000 – 25 000)✓ : 30 000 ✓
 0,83:1 ☒
 The liquidity position has not improved (in fact worsened) indicating that the business is likely to experience liquidity (cash flow) problems.
 The business also carries too much stock, which accounts for the big difference between the current ratio and the acid test ratio.
 Accept any two valid and complete comments. ✓✓ ✓✓ (7)

3.2.6

How long can the business expect the **stock** on hand, on 28 February 2010, to last? Use the average stock to calculate this financial indicator.

$$\frac{1}{2} (25\,000 + 23\,000) \checkmark\checkmark \checkmark$$

$$\frac{\quad\quad\quad}{68\,000 \checkmark} \times 12 = 4,24 \text{ months } \checkmark$$

(5)

3.2.7

Refer to **3.2.5** and **3.2.6**. Comment on your findings above, taking into account that this business is in the fashion industry

One valid point: $\checkmark\checkmark$

- Half the current assets are Trading Stock resulting in an asset test ratio that is not satisfactory (unacceptable level).
- A fashion (dress) shop should not have stock that lasts more than 3 months which is the length of a season.

(2)

[90]

QUESTION 4

INVENTORY VALUATION

(40 marks ; 24 minutes)

- 4.1 4.1.1 Calculate the value of the closing stock on 28 February 2010, using the FIFO method.

$$260 - 190 = 70 \checkmark \quad (-1 - 3 - 2) - 6 \checkmark = 64 \text{ units } \checkmark$$

$$28 \times R605 = 16\,940 \checkmark \checkmark$$

$$36 \times R570 = 20\,520 \checkmark \checkmark$$

$$= 37\,460 \checkmark$$

Accept alternative workings

(8)

- 4.1.2 Calculate the value of the closing stock using the weighted average method.

64 units

Average value: $149\,750/260 = 576$ (rounded off) ✓ ✓ ✓

$$R576 \times 64 = R36\,864 \quad \checkmark \quad \checkmark \quad \text{or } 64 \times (149\,750/260) = 36\,862$$

$$\quad \quad \quad \checkmark \quad \quad \quad \text{or } 64 \times (146\,220/254) = 36\,842$$

(5)

- 4.1.3 Would it be ethical for the owner to change the stock valuation method? Give a reason for your answer.

Yes or No ✓

Any ONE valid point. ✓✓

Cannot change with the intention of manipulating the Gross Profit.
Accounting reporting must be consistent to facilitate comparisons and decision making.
Changes to policy must be discussed and properly disclosed in the notes to financial statements.

(3)

4.1.4 GENERAL LEDGER OF NOVO TRADERS
TRADING INVENTORIES ACCOUNT (B6)

2009	1	Balance	11 000	2010	28	Donation	✓ 580
Mar		b/d		Feb			
Jun	30	Creditors	52 200			Trading Stock	✓✓ 1 740
		Control				deficit	
Oct	31	Creditors	68 400			Loss/Stock Loss	✓✓ 1 210
		Control				✓	
2010	28	Creditors	18 150			Cost of Sales	✓ 108 760
Feb		Control					
						Balance c/d	✓ 37 460
			149 750				149 750
Mar	1	Balance b/d	✓ 37 460				

(9)

4.1.5 Calculate the Gross Profit for the year.

152 000	–	108 760	=	43 240
✓		✓		✓

(3)

4.2 Ethics and Internal Control

4.2.1 Identify THREE control problems highlighted by the article.

Give credit for valid and complete responses. ✓✓ ✓✓ ✓✓

- The control of stock (receipt, documentation, budgeting).
- The control of staff (employees) and the delegation of duties.
- The security factor (use of external security companies), monitoring mechanisms.
- Access to the premises, opening and closing times.

(6)

4.2.2 Suggest THREE ways in which future problems of this nature can be prevented.

Any three valid/reasonable internal control measures. ✓✓ ✓✓ ✓✓
(Explained – for full marks) Listed – part marks.

- Division of duties.
- More regular stock taking (Compare physical stock taking with records.)
- Checks on ordering, and regular recording (documentation)
- Monitor slow moving stock
- Random checks.
- Security cameras/monitoring.

(6)

[40]

QUESTION 5**TANGIBLE ASSETS/FIXED ASSETS****(25 marks ; 15 minutes)****5.1 TANGIBLE ASSETS**

	VEHICLES	EQUIPMENT
Cost (1 July 2009)	180 000	96 000
Accumulated Depreciation (1 July 2009)	(56 000)	(34 000)
CARRYING VALUE (1 July 2009)	124 000	62 000
Movements:		
Additions at cost	110 000 ✓	28 500✓ (124 500 – 96 000)
Disposals at carrying value (60 000 – 26 750)*	*(33 250) ✓✓	0
Depreciation for the year (21 500 + 13 750 + 4 750)*	*(40 000)✓✓✓	*(14 400)✓✓ (48 400 – 34 000)
CARRYING VALUE (30 June 2010)	160 750	76 100
Cost (30 June 2010)	230 000✓✓	124 500
Accumulated Depreciation (30 June 2010)	(69 250)✓	(48 400)

* Award part marks for each amount in brackets if the final answer is incorrect. (12)

5.2 VAT

5.2.1 VAT

CALCULATION:

$$\text{Output VAT: } 9779 - 175 = 9\,604$$

✓ ✓ ✓

$$\text{Input VAT: } 5768 + 1715 + 840 + 1071 - 168 - 35 = 9\,191$$

✓ ✓ ✓ ✓ ✓ ✓

$$9\,604 - 9\,191 = 413 \text{ (amount due to SARS)} \quad \checkmark$$

(10)

Accept alternative presentations/reconstruction of VAT CONTROL Account etc.

Give credit for all calculations.

EXPLANATION TO MRS NABO:

She will not be receiving any money from SARS, instead she will have to pay SARS R413 being the difference between the VAT she received (OUTPUT VAT) and the VAT she paid for goods and services (INPUT VAT)

✓✓✓

Award marks for any reasonable explanation given. Give part-marks for short, unclear responses.

(3)

[25]

QUESTION 6**CASH BUDGETS****(35 marks ; 21 minutes)**

6.1 Calculate the total sales for August.

$ \begin{array}{ccccc} 76\,000 & \times & 100/40 & = & 190\,000 \\ \checkmark & & \checkmark & & \checkmark \end{array} $	(3)
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6.2 Complete the Debtors Collection Schedule to show receipts from Debtors during the month of August.

DEBTORS COLLECTION SCHEDULE

CREDIT SALES		AUGUST
May	132 000	6 600
June	90 000	43 200
July	120 000 (x 20%)	✓✓ 24 000
August	* 114 000 ✓ (x 15% - 2%)	✓✓ 16 758
TOTAL		☑ 90 558

6.3 The owner feels that debtors are not being managed properly.

6.3.1 Any TWO valid explanations: ✓✓ ✓✓

- They are granted 30 days yet 48% is collected after 2 months (60 days).
- A very small percentage (15%) takes advantage of the discount. (pay within 30 days).
- 12% (a substantial %) is normally written off as bad debts.

6.3.2 MEASURES TO IMPROVE: Two suggestions ✓✓ ✓✓

- More lucrative discount for early payments.
- Constant follow-up (written notifications/warnings) for unpaid debts.
- Screening of prospective debtors (before opening accounts).
- Charge interest on overdue accounts.
- Restrict credit terms of defaulting debtors.
- Age Analysis to assist in highlighting defaulters.

6.4 Rent increased in August. Calculate the amount and the percentage increase.

$ \begin{array}{ccccccc} 173\,038 & - & 76\,000 & - & 90\,558 & = & 6\,480 \\ & & \checkmark & & \boxtimes & & \boxtimes \end{array} $	(5)
$ \begin{array}{ccccccc} 6\,480 & - & 6\,000 & = & 480 & / & 6\,000 \times 100 = 8\% \\ & & \checkmark & & & & \boxtimes \end{array} $	

6.5 Calculate the interest rate on the loan from ABSA.

$$\begin{aligned}
 180\,000 \times a/100 \times 1/12 &= 2\,175 \\
 180\,000a &= 2\,175 \times 1\,200 \\
 \text{Interest \%} &= 2\,610\,000/180\,000 = 14,5\%
 \end{aligned}$$

✓✓
✓
✓

(4)

6.6 Compare and comment on each of the following:

<p>ADVERTISING:</p> <ul style="list-style-type: none"> - Under spent. (over budgeted) - Not well managed (budgeted sales was not achieved). - Need to look at its impact on sales (was it adequate/is it effective). 	<p>Two points ✓✓</p>
<p>DELIVERY EXPENSES:</p> <ul style="list-style-type: none"> - Over-spent by more than 50%. Under budgeted. - Investigate possible abuse/lack of control/poor strategies. - Poor maintenance of vehicles led to added expense. 	<p>Two points ✓✓</p>

(4)

6.7 The owner feels that the vehicles are being abused. Give reasons to justify his feelings and TWO suggestions for better control.

<p><i>One valid explanation. ✓</i></p> <p>Petrol expense exceeded the budget by R4 050 (over 30% in spite of a 5% increase in the price of fuel).</p> <p>Maintenance also exceeded the budget (by R2 680)</p> <p>SUGGESTIONS: TWO suggestions ✓✓ ✓✓</p> <ul style="list-style-type: none"> - Authorisation for the use of the vehicles. - Monitoring the usage of vehicles (mileage). - Maintaining a logbook for each vehicle. - Vehicles parked at business premises when not in use. - Tracking devices.
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(5)

[35]**TOTAL: 300**