



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2012

ACCOUNTING

MARKS: 300

TIME: 3 hours

This question paper consists of 17 pages.

INSTRUCTIONS AND INFORMATION

1. This question paper consists of 6 compulsory questions.
2. Answer ALL the questions in the special answer book provided.
3. Where applicable, workings must be shown in order to achieve part-marks.
4. Non-programmable calculators may be used.
5. You may use a dark pencil or black/blue in to answer the questions.
6. A breakdown of the questions is provided. You must attempt to comply with the suggested time allocation for each question.

Use the information given in the table below as a guide when answering the questions. To exercise good time management, try NOT to deviate from it.

QUESTION 1: (45 marks ; 27 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Manufacturing Concerns	LO2 Managerial Accounting <ul style="list-style-type: none"> • Production Cost Statement and Breakeven analysis LO3 Managing Resources <ul style="list-style-type: none"> • Internal controls

QUESTION 2: (55 marks ; 33 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Budgets and Interpretation	LO2 Managerial Accounting <ul style="list-style-type: none"> • Preparing and analysing cash budget information. LO1 <ul style="list-style-type: none"> • Calculating and commenting of ratios

QUESTION 3: (65 marks ; 39 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Companies – Financial Statements	LO1 Financial Accounting <ul style="list-style-type: none"> • Basic concepts and financial statements.

QUESTION 4: (60 marks ; 36 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Companies – Cash Flow, Ratios and Interpretation.	LO1 Financial Accounting <ul style="list-style-type: none"> • Preparing Cash Flow Statement • Calculating and interpreting ratios and other financial indicators LO3 Managing Resources <ul style="list-style-type: none"> • Internal controls, ethics and corporate governance, auditing.

QUESTION 5: (40 marks ; 24 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Reconciliations and VAT	LO1 Financial Accounting <ul style="list-style-type: none"> • Interpreting Bank and Debtors Reconciliation information LO3 Managing Resources <ul style="list-style-type: none"> • Internal Controls and Ethics

QUESTION 6: (35 marks ; 21 minutes)	
<i>Topic of the question</i>	<i>Learning Outcomes covered</i>
Stock Valuation and Asset Management	LO3 Managing Resources <ul style="list-style-type: none"> • Inventory valuation systems • Disposal and management of fixed assets

QUESTION 1**MANUFACTURING CONCERNS****(45 marks ; 27 minutes)**

Web Manufacturers is a company that makes handbags. Their financial year ends on 31 December each year.

INSTRUCTIONS:

- 1.1 Calculate the missing amounts denoted by **(a)** to **(e)** on the Statement and Notes presented below. (15)
- 1.2 Using the additional information, complete the Note: **Manufacturing Costs** (Factory Overhead Costs) (8)
- 1.3 Calculate the unit cost of the finished goods produced. (3)
- 1.4 Calculate the Gross Profit for the year. (5)
- 1.5 Should the business be satisfied with:
 - a) The total number of units produced this year? Substantiate. (3)
 - b) The break-even number of units compared to that of last year? Explain. (3)
- 1.6 The internal auditor noticed that the overtime earnings represent a large percentage of total production wages. He requested that the production management investigate this matter.
 - 1.6.1 Briefly outline the role of an internal auditor. (2)
 - 1.6.2 List TWO problems that the business may be experiencing and suggest appropriate internal control measures that can be used to rectify the concern expressed by the internal auditor. (6)

INFORMATION:**1. PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011**

Direct Material Cost	Note 1	359 320
Direct Labour Cost		(a)
PRIME COST		(b)
Manufacturing Costs (Factory Overheads)	Note 2	178 544
TOTAL PRODUCTION COST		(c)
Work in process (1 January 2011)		32 500
Work in Process (31 December 2011)		(d)
COST OF PRODUCTION OF FINISHED GOODS		630 500

Note 1 : Direct Material Cost

Raw Material Stock (1 January 2011)	32 500
Purchases during the year	351 500
Raw material Stock (31 December 2011)	(e)
Material used in production	359 320

Note 2 : Manufacturing Costs (Factory Overheads)

Indirect labour	42 500
Factory Indirect Material	*
Insurance	*
Water and Electricity	*
Depreciation of factory plant and machinery	25 000
Sundry Expenses	19 084
	178 544

2. Production Wages:

Wages earned during normal time, R32 736

Overtime earnings: 156 hrs. recorded at R350 per hour

3. Stock Information:

	31 DEC 2011	31 DEC 2010
Finished Goods Stock	82 960 3318 UNITS	67 680 2706 UNITS
Indirect factory material	3 250	2 260

4. Additional information:

- Total purchases of indirect factory material – R48 190.
- Total revenue from sales – R1 069 600.
- Insurance expense amount to R19 600.
60% of this must be allocated to the factory.
- Water and Electricity amounted to R52 800. This must be allocated to the factory, sales and administration departments in the ratio **5 : 2 : 1**.

4.		2011	2010
	Number of units produced	25 220	?
	Break-even number of units	21 400	18 700

45

QUESTION 2**CASH BUDGETS AND ANALYSIS****(55 marks ; 31 minutes)**

Freedom Traders is a small grocery store. Their profit percentage mark-up on cost is 30% and their products generally have a three-month shelf-life.

The assistant to the accountant prepared a three-month cash budget for the period ended 31 March 2012. There appear to be some errors in this budget.

INSTRUCTIONS:

- 2.1 Identify THREE items (on the budget given) that do not belong in a cash budget. *List them in the space provided.* (3)
- 2.2 Complete the Creditors Payment Schedule for the three month period ending 31 March 2012. (18)
- 2.3 Advertising appears in the projected income statement as follows:

	JANUARY	FEBRUARY	MARCH
Advertising	1 200	1 200	1 200

Explain why these amounts differ from the amount/s in the Cash Budget. (3)

- 2.4 Calculate the following:
- 2.4.1 The mark-up percentage on cost achieved for the year ended 31 December 2011. (3)
- 2.4.2 The amounts represented by **(a)**, **(b)** and **(c)** on the budget. (6)
- 2.4.3 The debtors average collection period for 2011 (in months). (5)
- 2.4.4 Using the acid test ratio for 2011, calculate the Creditors balance on 31 December 2011. (5)
- 2.5 Do you think that Freedom Traders is likely to experience liquidity problems? Motivate your answer by making reference to the liquidity ratios given. (6)
- 2.6 Comment on the debtors' collection and the creditors' payment terms, and give a suggestion on how they could be managed more effectively. (4)
- 2.7 The business plans to acquire a loan of R400 000 on March 2012. Explain why you think that this is either a wise decision, or not. (2)

INFORMATION:**A Information from the financial statements on 31 December 2011:**

Sales	2 466 000
Cost of sales	1 972 800
Trading Stock	657 600
Debtors Control (1 January 2011)	70 120
Debtors Control (31 December 2011)	94 280

B Cash Budget for the period ending 31 March 2012

	JANUARY	FEBRUARY	MARCH
CASH RECEIPTS			
Cash Sales	400 000	380 000	390 000
Cash receipts from Debtors	35 000	36 000	34 000
Sundry cash income	4 000	5 000	3 000
Loan			400 000
TOTAL RECEIPTS	439 000	421 000	827 000
CASH PAYMENTS			
Cost of Sales	320 000	310 000	312 000
Cash purchases of Trading Stock	192 000	186 000	187 200
Discount Allowed	400	460	380
Depreciation on vehicle	700	700	700
Wages	18 000	18 000	(a)
Interest on loan	-	-	2 000
Interest on overdraft	650	2 560	4 500
Bad debts	1 200	1 400	1 800
Advertising		2 400	
Sundry cash expenses	16 000	16 400	(b)
TOTAL PAYMENTS	548 950	537 920	?
Surplus/Deficit	(109 950)	(116 920)	?
Bank (Opening Balance)	(40 000)	(149 950)	(c)
Bank (Closing Balance)	(149 950)	(266 870)	?

C	10% of sales are on credit.						
D	Employees are expected to receive a 6% increase in March 2012.						
E	Sundry cash expenses are allocated a fixed percentage increase each month.						
F	The following ratios were calculated for 2011:						
	<table border="1"> <tr> <td>Current ratio</td> <td>4 : 1</td> </tr> <tr> <td>Acid Test Ratio</td> <td>0,5 : 1</td> </tr> </table>	Current ratio	4 : 1	Acid Test Ratio	0,5 : 1		
Current ratio	4 : 1						
Acid Test Ratio	0,5 : 1						
G	Freedom Traders maintains a fixed trading stock base. The cost of sales for November 2011 and December 2011 were R316 000 and R360 000 respectively.						
H	40% of all stock purchases are on credit.						
I	Based on previous experience, it is expected that creditors will be paid as follows:						
	<table border="1"> <tr> <td>10%</td> <td>in the month of purchase, subject to a 5% discount.</td> </tr> <tr> <td>75%</td> <td>in the month following the purchase</td> </tr> <tr> <td>15%</td> <td>in the second month after the purchase.</td> </tr> </table>	10%	in the month of purchase, subject to a 5% discount.	75%	in the month following the purchase	15%	in the second month after the purchase.
10%	in the month of purchase, subject to a 5% discount.						
75%	in the month following the purchase						
15%	in the second month after the purchase.						

QUESTION 3**COMPANIES – FINANCIAL STATEMENTS****(65 marks ; 39 minutes)**

The following information was extracted from the records of KR Traders LTD for the financial year ended 29 February 2012.

The company is registered with an Authorised Share Capital of 150 000 ordinary shares of R5 each.

INSTRUCTIONS:

- 3.1 Prepare the Income Statement for the year ended 29 February 2012.
(Show working in brackets to achieve part-marks.) (36)
- 3.2 Complete the following notes to the financial statement:
 - 3.2.1 Retained Income (7)
 - 3.2.2 Trade and Other Receivables (11)
- 3.3 Calculate the earnings per share (EPS), and explain the usefulness of this financial indicator. (5)
- 3.4 Comment on the financial gearing of this company. Use an appropriate ratio or financial indicator in your explanation. (6)

INFORMATION:**A Pre-adjustment balances and totals on 29 February 2012: (amongst others)**

Ordinary Share Capital		350 000
Share Premium		35 750
Retained Income		22 200
SARS – Income Tax	37 000	
Equipment	60 000	
Accumulated Depreciation on Equipment		27 400
Trading Stock	26 625	
Debtors Control	17 245	
Cash and Cash Equivalents	12 455	
Creditors Control		22 188
Provision for bad Debts		833
Fixed Deposit (Protea Bank, 14% p.a. interest)	55 000	
Loan: Union Bank		47 500
Sales		454 300
Cost of Sales	222 600	
Debtors Allowances	2 700	
Telephone	2 437	
Audit fees	4 450	
Bad debts	2 142	
Bad debts recovered		840
Interest on loan	3 525	
Interest on current account		250
Insurance	6 540	
Stationery	1 777	
Rent income		45 500
Directors fees	157 500	
Bank charges	383	
Interest on fixed deposit		5 775
Ordinary share dividends	10 350	
Salaries	15 180	

B Adjustments and Additional Information:

1. The stock count on 29 February 2012 revealed the following stocks on hand:
 - Trading Inventory R25 375
 - Stationery R147
2. The account of debtor, J. Green, R353, must be written off as irrecoverable.
3. A. Apple's credit balance of R308 in the debtors' ledger must be transferred to his account in the creditors' ledger.
4. The provision for bad debts must be adjusted to 4% of the debtors balance.
5. Depreciation on equipment amounts to R4 890.
6. Rent income includes the rent up to 30 April 2012.
7. Insurance includes an annual premium of R4 500 entered into, and paid in full on 1 August 2011.
8. The company has three directors. They all receive the same monthly remuneration. One director took his February 2012 fee on 7 March 2012.
9. Take into account the outstanding interest on investment.
10. R2 500 of the loan is payable on 1 December every year. Interest at 12% p.a. was taken into account.
11. Income tax for the year amounted to R36 630.
12. On 1 December 2011, 5 000 additional shares were issued at R5,95 each. The money was received and the entry was duly recorded.
13. A final dividend of 4% of the par value (R5 shares) was declared.

QUESTION 4**CASH FLOW STATEMENT, RATIOS AND INTERPRETATION****(60 marks ; 36 minutes)**

Outback LTD sells camping equipment and other outdoor activity paraphernalia. Their profit mark-up is 25%.

On 30 November 2010, they had issued 800 000 ordinary shares.

On 1 December 2010, they issued a further 80 000 shares.

INSTRUCTIONS:**4.1 Cash Flow Statement**

- 4.1.1 Complete the Cash Flow Statement for the year ended 30 November 2011. (*Show workings in brackets to score part-marks.*) (24)
- 4.1.2 Prepare the CASH GENERATED FROM OPERATIONS note. (16)

4.2 Ratios and Interpretation

- 4.2.1 At what price were the additional shares issued? (4)
- 4.2.2 Calculate the average return on shareholder's equity for the year ended 30 November 2011. (5)
- 4.2.3 Explain whether you think the shareholders should be happy with the return on their investment.
(Return on shareholder's equity for 2010: 17%) (2)
- 4.2.4 Calculate the dividends per share (DPS) for the year ended 30 November 2011. (2)
- 4.2.5 Give a reason why you think the final dividend this year was much lower than the interim dividend. (2)
- 4.2.5 The net asset value (NAV) for 2011 is 266c. List ONE factor that causes the net asset value to increase. (2)
- 4.2.7 If the market price of the shares of Outback LTD is 252c, would it be a wise decision to purchase them now? Explain. (3)

INFORMATION:**A Information from the Income Statement for the year ended 30 November 2011.**

Depreciation	56 000
Net Profit before Income Tax	957 000
Net Profit after Income Tax	507 000

B Information from the Balance Sheet as at 30 November 2011

	NOV 2011	NOV 2010
Tangible Assets (Fixed Assets) <i>at carrying value</i>	1 841 625	1 742 625
Inventory	850 300	720 500
Trade and Other Receivables <i>(Note 1 below)</i>	480 000	562 200
Cash and Cash equivalents	88 975	-
Ordinary Share Capital	2 200 000	2 000 000
Share Premium	104 000	100 000
Retained Income	35 000	12 000
Non-Current Liabilities: Loan: BB Bank	320 000	350 000
Trade and Other Payables <i>(Note 2 below)</i>	601 900	508 325
Bank Overdraft	-	55 000

C ADDITIONAL INFORMATION:

1. Trade and Other Receivables	2011	2010
Trade Debtors	465 000	550 000
Accrued Income	15 000	10 000
SARS – Income Tax	--	2 200

2. Trade and Other Payable	2011	2010
Trade Creditors	414 700	370 700
Accrued Expenses	8 800	9 625
SARS – Income Tax	2 400	--
Shareholders for Dividends	176 000	128 000

- The loan repayment was made on 1 June 2011.
Interest on loan at 11%p.a. was paid.
- Tangible/Fixed Assets:
 - Tangible assets comprise buildings, vehicles and equipment.
 - Additions to the buildings were made during this financial year.
 - A vehicle was sold for R85 000; its carrying value.
- Interim dividends paid on 31 May 2011: **R308 000**.

QUESTION 5**RECONCILIATIONS and VAT****(40 marks ; 24 minutes)****5.1 Creditors**

The information below was extracted from the records of Siwendu Traders for August 2012:

The creditors ledger account of Kay Lee Suppliers (a creditor) and the Statement of Account received from Kay Lee Suppliers are reproduced.

Siwendu Traders receives a 5% trade discount on all purchases above R3 000.

INSTRUCTIONS:

- 5.1.1 Calculate the correct balance for Kay Lee Suppliers in the Creditors Ledger. *Show all workings.* (6)
- 5.1.2 Prepare the Creditors Reconciliation on 31 August 2012. (6)

INFORMATION:

- A The creditors' ledger account of Kay Lee Suppliers in the books of Siwendu Traders.

CREDITORS LEDGER OF SIWENDU TRADERS

KAY LEE SUPPLIERS (CL6)						
2012				DEBIT	CREDIT	BALANCE
Aug	1	Balance	b/d			32 600
	8	Invoice X12	CJ		8 664	41 264
	15	Cheque 887	CPJ	8 000		33 264
		Discount Received	CPJ	800		32 464
	20	Invoice X56	CJ		2 280	34 744
	22	Invoice 776	CJ		1 690	36 434
	27	Debit Note 90	CAJ		370	36 804

- B The following statement of account was received from Kay Lee Suppliers:

STATEMENT OF ACCOUNT				
Kay Lee Suppliers			56 City Road Spinlake	
ACCOUNT OF: SIWENDU TRADERS			25 August 2012	
2012	1	Balance		37 600
August		Payment – cheque 798 (received on 29/07/2012)		(5 000)
	8	Purchases – Invoice X12		9 120
	15	Payment received cheque 887		(8 000)
	20	Purchases – Invoice X56		2 880
	22	Credit Note 47 – goods returned		(606)
		Closing Balance		35 994
This statement includes all transactions up to and including the 25 th of the current month.				

- C When comparing the Creditors Ledger account against the statement received, the following were noted:
1. The statement did not take into account the 5% trade discount on goods purchased on 8th.
 2. The discount for early settlement of account on the 15th was also omitted on the statement.
 3. The statement reflected the correct amount for the purchases of stock on the 20th.
 4. The entry on the 22nd was for goods purchased from Khaya Stores, and not from Kay Lee Stores.
 5. Debit Note for returns to Kay Lee Stores, R370, was posted to the wrong side of the ledger account.
 6. The credit note on the 22nd is an error on the statement.

5.2 Debtors

You are provided with the Debtors Control Account, as it appeared in the books of JP Stores, together with the posting errors and omissions noted.

INSTRUCTIONS:

- 5.2.1 Draw up a corrected Debtors Ledger account.
Adjust the appropriate journal totals with the corrections, and show the changes in brackets, to receive part marks. (14)
- 5.2.2 The credit controller realised that debtors' allowance is high.
• What can the business do to reduce this balance? (*Two points*) (4)
- 5.2.3 Debtor B. Brom was charged interest on his overdue account of R3 450 at 12% p.a, for three months. He argued that this penalty was unfair because his most recent purchase of R1 250 was made in this month.
• Explain why you agree with him. (3)
- 5.2.4 The business uses the invoice method to determine its VAT liability.
• Briefly describe this method. (3)
• Due to the cash flow problems experienced by the business, the owner decided to inflate the VAT Input amount on the VAT return form by R7 500. What implications would this have on the business and the owner? (4)

INFORMATION:

a.

**GENERAL LEDGER OF JP STORES
BALANCE SHEET SECTION
DEBTORS CONTROL (B6)**

2011 May	1	Balance		21 670	2011 May	31	Bank		12 530
	31	Sundry Accounts	DJ	13 326			Discount Allowed		470
		Bank		483			Sundry Accounts	DAJ	2 736
		Sundry Debits	GJ	537			Sundry Credits	GJ	700

b. **Additional Information:**

- *Note that all amounts in the ledger includes VAT (unless otherwise indicated).*

1.	On 31 May, a cheque for R513 was received from the bank, marked "R/D-insufficient funds". This cheque was received from a debtor, V. Stik, in settlement of his account, after receiving a 10% discount. This transaction was not recorded.
2.	A credit note for R114 (inclusive of VAT) was recorded in the journal as R141.
3.	The debtors' journal was overcast by R330.
4.	Goods returned by a debtor, R250 (excluding VAT) was not recorded.
5.	A debtor, whose account was written off as a bad debt, paid R500 of what he owed.
6.	The account of V. Stik (No. 1 above), must be written off as irrecoverable.

QUESTION 6**STOCK VALUATION AND ASSET MANAGEMENT****(35 marks ; 21 minutes)****6.1 INVENTORY VALUATION**

Perkin Stores sells LCD flat screen television sets to the public. Their financial year ends on 29 February 2012. The cost price of the product they sell has changed significantly due to newer, later models being introduced into the market. Barry Perkin, the owner, feels comfortable selling the same old model.

INSTRUCTIONS:

- 6.1.1 Perkin Stores uses the weighted average method to value their stock. Calculate the closing stock balance, using the above method. (4)
- 6.1.2 Calculate the gross profit on TV sets sold for the year based on the weighted average method. (3)
- 6.1.3 Perkin is considering a change to the FIFO method to value his stock. Calculate the gross profit using this method. (4)
- 6.1.4 In your opinion, which is the more appropriate method to use? Explain a reason for your answer. (3)
- 6.1.5 Although Perkin is contended to sell the same brand TV sets, he did notice the significant difference between the number of units he had at the beginning of the year, and his closing balance. Explain why he should be concerned about this trend, and provide TWO suggestions on how he can remedy this situation. (6)

INFORMATION:

The following information appeared in the records of Perkin Stores for the year ended 29 February 2012: The selling price per TV is fixed at R9 500.

STOCK RECORDS	NUMBER OF UNITS	UNIT PRICE	TOTAL VALUE
Opening balance (1 March 2011)	80	5 950	476 000
Purchases during the year	850		4 265 400
May 2011	300	5 550	1 665 000
August 2011	320	4 820	1 542 400
January 2012	230	4 600	1 058 000
Total available for sale	930		4 741 400
Sales of TV sets	510	9 500	4 845 000
Closing balance (29 February 2012)	418	?	?

*Two TV sets from the most recent purchases, were damaged in the process of setting up a display unit.

6.2 ASSET MANAGEMENT

The information given below was taken from the books of Sam's Stationers.
The financial year ends on 30 June 2012.

INSTRUCTIONS:

- 6.2.1 Calculate the cost of the vehicle disposed.
Denoted by (a) in the Asset Disposal Account presented below. (4)
- 6.2.2 Provide suitable details for (b) and (c) in the Asset Disposal Account below. (2)
- 6.2.3 Calculate the profit on disposal of the vehicle above. (4)
- 6.2.4 The business uses the diminishing balance (carrying value) method to calculate depreciation. Calculate the depreciation rate (percentage). (5)

INFORMATION:

- A An old vehicle was traded-in for a later model mini-van. The accumulated depreciation on this vehicle was R52 000 on 1 July 2011 (beginning of the financial year).
- B The following Asset Disposal Account is presented:

GENERAL LEDGER OF SAM'S STATIONERS
ASSET DISPOSAL ACCOUNT (N12)

2011 Oct	1	Vehicle	(a)	2011 Oct	1	Accumulated Depreciation on vehicles	54 150
		(b)	(d)			(c)	45 000

C TANGIBLE ASSET NOTE

	VEHICLES
Cost (1 July 2011)	175 000
Accumulated Depreciation (1 July 2011)	*
CARRYING VALUE (1 July 2011)	86 500
Movements:	
Additions	120 000
Disposals	*
Depreciation	(43 275)
CARRYING VALUE (30 June 2012)	*
Cost (30 June 2012)	200 000
Accumulated Depreciation (30 June 2012)	*

35

TOTAL: 300