



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING  
COMMON TEST  
JUNE 2014**

**MARKS: 300**

**TIME : 3 hours**

**This question paper consists of 16 pages and an  
answer booklet of 20 pages.**



**INSTRUCTIONS TO CANDIDATES**

Read the following instructions carefully and follow them precisely.

1. You are provided with a question paper and an ANSWER BOOK in which to answer ALL the questions.
2. This question paper comprises of SIX compulsory questions.  
Answer ALL the questions.
3. Use the format provided in the answer book in order to reflect your answers.
4. Where applicable-workings must be shown in order to achieve part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Use the information in the table in the next page as a guide when answering the question paper. Try NOT to deviate from it.

<b>TOPICS</b>	<b>CONTENT</b>
<b>QUESTION 1</b>	<b>(29 marks; 18 minutes)</b>
<b>Bank Reconciliation and Interpretation</b>	<ul style="list-style-type: none"><li>• Interpretation</li><li>• Bank reconciliation statement</li></ul>
<b>QUESTION 2</b>	<b>(74 marks; 44 minutes)</b>
<b>Financial Statement</b>	<ul style="list-style-type: none"><li>• Tangible assets</li><li>• Ordinary share capital</li><li>• Retained income</li><li>• Balance sheet</li></ul>
<b>QUESTION 3</b>	<b>(28 marks; 17 minutes)</b>
<b>Stock Valuation</b>	<ul style="list-style-type: none"><li>• Calculation of weighted average method and specific identification method</li></ul>
<b>QUESTION 4</b>	<b>(63 marks; 38 minutes)</b>
<b>Ledger Account, Income Statement and Notes</b>	<ul style="list-style-type: none"><li>• Asset disposal</li><li>• Income statement</li><li>• Trade and other receivables</li></ul>
<b>QUESTION 5</b>	<b>(34 marks; 20 minutes)</b>
<b>Debtors Control and Age Analysis and Creditors Reconciliation</b>	<ul style="list-style-type: none"><li>• Debtors control</li><li>• Age analysis</li><li>• Creditors reconciliation</li></ul>
<b>QUESTION 6</b>	<b>(72 marks; 43 minutes)</b>
<b>Cash Flow and Interpretation</b>	<ul style="list-style-type: none"><li>• Interpretation of ratios</li><li>• Calculations of ratios</li><li>• Cash flow statement</li></ul>

**QUESTION 1**

You are provided with information relating to Belino Traders.

**REQUIRED**

- 1.1 Why is it important for a business to prepare a monthly Bank Reconciliation Statement? Provide TWO points. (4)
- 1.2 One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it and explain your choice? Indicate the correct action that must be taken in February. (3)
- 1.3 Calculate the correct totals in the CRJ and CPJ for February 2014. (6)
- 1.4 Prepare the Bank Reconciliation Statement on 28 February 2014. (7)
- 1.5 Explain how cheque No. 908 should be treated when preparing the financial statements as at 28 February 2014, and explain the reason for this treatment. (4)
- 1.6 Explain why a post-dated cheque received by Belino Traders on 10 February 2014 but dated 25 March 2014 does not appear in the Bank Reconciliation Statement. (2)
- 1.7 Refer to **information G**. The bookkeeper has decided to write off the amount of R50 000.
  - Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle
  - The bookkeeper wants to prevent a problem such as this in future. Give TWO solutions to improve internal control in this regard. (3)

**INFORMATION:**

- A. At the end of the previous month 31 January 2014, the following items appeared in the Bank Reconciliation Statement:

	DEBIT	CREDIT
Debit balance as per Bank statement	19 310	
Outstanding deposit (10 December 2013)		50 000
Outstanding cheques		
No.892 (1 July 2013)	12 340	
No.897 (10 January 2014)	8 700	
Debit balance as per Bank Account	9 650	
	50 000	50 000

- B. Provisional totals in: CRJ R146 970 and CPJ R68 900
- C. The Bank Statement for February reflected the following:
- Bank charges R2 100
  - Interest on an overdraft R920
  - Debit order for insurance R600
  - Direct deposit R1 800
- D. The bank overcharged on the bank charges for February by R800. The bank has agreed to correct the error during March 2014.
- E. Cheque no. 892 was not cancelled in February 2014. Correct this.
- F. Cheque no. 897 did not appeared in the February Bank Statement
- G. A deposit of R50 000 cannot be traced and the cashier has disappeared
- H. A cheque received from Zulu Traders dated 25 March 2014 of R15 000 was not recorded and deposited by Belino Traders.
- I. The following items appear in the February Cash Journals but not on the Bank Statement:
- A deposit of R18 000, dated 27 February 2014.
  - Cheque No. 905, R1 200, dated 28 February 2014.
  - Cheque No. 908, R3 100, dated 15 March 2014.
- J. The Bank Statement on 28 February 2014 reflects a favourable bank balance of R42 440.

**QUESTION 2****(74 marks; 44 minutes)**

You are provided with information related to Durban Limited for the year ended 28 February 2014. The company authorised 2 000 000 shares.

**REQUIRED:**

- 2.1 Complete the tangible asset/fixed asset note. (17)
- 2.2 Ordinary share capital note. (4)
- 2.3 Retained income note. (15)
- 2.4 Prepare the Balance Sheet on 28 February 2014. (38)

1. The following figures were identified from the accounting records at the end of the financial year 28 February 2014.

Ordinary share capital (1 March 2013)	3 000 000
Retained income (1 March 2013)	44 700
Long-term loan: Zululand Bank (1 March 2013)	120 000
Land and buildings	1 900 000
Vehicles	1 050 000
Equipment	650 000
Accumulated depreciation on vehicles (1 March 2013)	120 000
Accumulated depreciation on equipment (1 March 2013)	310 000
Trading stock	527 450
Debtors control	290 000
Provision for bad debts	2 750
Creditors	62 000
Creditors for salaries	30 000
SARS (income tax-provisional tax payments)	DR 340 000
SARS (PAYE)	7 000
Fixed deposit at Dlangezwa Bank	120 000
Expenses payables	10 000
Income receivable	1 000
Bank-debit	122 000
Cash float	500
Consumable stores on hand	9 000

2. Two third of the fixed deposit matures on the 1 May 2014.
3. The loan from Zululand bank was originally received on 1 March 2011. The loan is to be repaid in equal monthly installment over 5 years. The first installment was paid on 28 February 2012.

4. The following items were not taken into account when the net profit of 1 300 000 was calculated:
- A. A vehicle was sold on credit for R95 000 on 31 December 2013, with the cost price, R180 000 and accumulated depreciation at the beginning of the year was R72 000. This sale has not been recorded.
  - B. The new vehicle was purchased for R450 000 on 1 February 2014. This purchase has been recorded.
  - C. New equipment was purchased on credit for R70 000 on 1 September 2013. This purchase has not been recorded.
  - D. Depreciation is calculated as follows:
    - On vehicles at 20% p.a. on the diminishing balance method.
    - On equipment at 15% p.a. on cost.
  - E. Provision for bad debts must decrease to R2 100.
  - F. Income tax is calculated at 30% of the net profit.
5. Shares
- Shares issued at the beginning 600 000.
  - An unhappy shareholder who owns 10 000 shares decided to sell his shares to the company. The directors have arranged for the company to buy back his 10 000 shares for R7 per share, an electronic transfer was made to him on 30 June 2013.
  - A further 40 000 shares were issued on 1 September 2013 at R8.
6. Dividends were as follows:
- Interim dividends of 206 500 cents were paid on 31 August 2013.
  - Final dividends of 40 cents per share were declared on 28 February 2014.

**QUESTION 3****(28 marks; 17 minutes)**

You are provided with the information related to Vish Traders on 28 February 2014.

The business is selling Grocery and Bicycles. In Grocery they are using FIFO method while in Bicycles they are using Specific Identification method. The business use 50% mark-up on both products.

**INFORMATION:**

A. Opening stock on 1 March 2013.

GROCERY		BICYCLES		
Number of Units	Cost Per Unit	Number of Units	Model	Cost Per Unit
12	R940	9	Bmx140	R400

B. Purchases during the year.

GROCERY			BICYCLES		
Dates	Number of Units	Cost Per Unit	Number of Units	Model	Cost Per Unit
21/04/2013	20	R800	15	Bmx400	R600
27/06/2013	40	R700	24	Bmx305	R510
15/08/2013	60	R890	19	Bmx200	R300
14/11/2013	100	R900	41	Bmx205	R380
16/01/2014	15	R910	07	Bmx300	R500

C. Returns during the year:

GROCERY		BICYCLES	
Returns of Faulty Items	Number of Units	Number of Units	Model
June	4	7	Bmx305
November	5	11	Bmx205

D. Sales during the year:

GROCERY		BICYCLES	
Number of Units		Number of Units	Model
171		7	Bmx140
		14	Bmx400
		16	Bmx305
		17	Bmx200
		28	BMX205

**REQUIRED:**

- 3.1 Calculate the value of the closing stock for the following stock items.  
Show all workings.
- 3.1.1 Grocery (use the FIFO method) (3)
- 3.1.2 Bicycles (use the Specific Identification method) (7)
- 3.2 Calculate cost of sales for:
- 3.2.1 Grocery. (11)
- 3.3 The owner and accountant disagree on the method of stock valuation of Bicycles. The owner wants to continue using the Specific Identification method, because he says it is easier to calculate. The accountant wants to use the weighted average method, because she says the profit will be lower and therefore the income tax will be lower.
- As internal auditor, what would you say to the owner and accountant?  
State TWO points. (4)
- 3.4 The accountant discovered that the new supplier of bicycles is a family member of the buyer of the business.
- What advice would you offer to the owner in this regard? (3)



**QUESTION 4****(63 Marks; 38 Minutes)**

You are provided with the Pre-adjustment Trial Balance of Zola Limited for the year ended 30 April 2014.

**REQUIRED:**

- 4.1 Prepare Asset Disposal Account. (10)
- 4.2 Prepare the Income Statement for the year ended 30 April 2014. (42)
- 4.3 Prepare the following note:
- 4.3.1 Trade and other receivables (11)

**INFORMATION:**

1.

**ZOLA LTD**  
**PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 APRIL 2014**

	DEBIT	CREDIT
<b>Balance Sheet Accounts Section</b>		
Ordinary share capital		1 404 030
Retained income		342 230
Mortgage loan: Zip Bank		402 250
Land and buildings	1 048 500	
Vehicles	407 000	
Equipment	308 000	
Accumulated depreciation on vehicles		147 400
Accumulated depreciation on equipment		170 500
Trading stock	477 500	
Consumable stores on hand	7 500	
Bank	156 550	
Petty cash	1 650	
Debtors control	198 000	
Creditors control		268 610
SARS (Income tax)	150 900	
Provision for bad debts		10 050
Fixed deposit: Lobola Bank (9% p.a.)	247 500	
<b>Nominal Account Section</b>		
Sales		5 250 000
Debtors allowances	72 600	
Cost of sales	3 743 500	
Rent income		88 400
Interest income (on fixed deposit)		13 315
Bad debts recovered		1 150
Directors fees	420 000	
Audit fees	36 900	
Packing material	11 550	
Salaries and wages	330 000	
Marketing expenses	240 000	
Bad debts	6 000	
Sundry expenses	31 885	
Ordinary share dividends	202 400	
	<b>8 097 935</b>	<b>8 097 935</b>

**2. ADJUSTMENTS:**

- A. The company has two directors. They all received the same monthly remuneration. One director took his May 2014 fee on 15 April 2014. This has been recorded.
- B. The account of debtor, G. Zondi, R1 000 must be written off as irrecoverable.
- C. N. Ngubo credit balance of R2 000 in the debtors ledger must be transferred to his account in the creditors ledger.
- D. The provision for bad debts must be adjusted to 5% of the good book debtors.
- E. A physical stock-taking on 30 April 2014 revealed the following inventories on hand:
- Trading stock R470 000
  - Packing material R450
- F. A vehicle was sold for cash for R120 000 on 28 February 2014. The fixed asset register revealed the following regarding this vehicle:
- Cost price R210 000
  - Accumulated depreciation on 1 May 2013 R106 000
- This transaction has not yet been recorded by the bookkeeper.
- G. Make provision for depreciation as follows:
- Vehicles at 10% p.a. on cost price
  - Equipment at 15% p.a. on the diminishing balance method.
- NOTE:** New equipment costing R80 000 was purchased on 1 November 2013. This has been correctly recorded.
- H. Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- I. The rent decreased by R1 300 on 1 April 2014. The tenant has paid rent until the end of May 2014.
- J. The loan statement received from Stanley Bank on 30 April 2014 reflected the following:
- |                          |           |
|--------------------------|-----------|
| Balance at the beginning | R 402 250 |
| Interest capitalised     | R ?       |
| Repayment                | R 417 250 |
| Balance at the end       | R 0.00    |
- K. A final dividend of 50 cents was declared.
- L. Income tax for the year amounted to R140 000.

**QUESTION 5****(34 marks: 20 minutes)****5.1 DEBTORS CONTROL AND AGE ANALYSIS**

You are provided with information relating to Five Ways Pharmacy.

Mandla Mbambo was employed on 1 March 2014 to take over and resolve the problem that Five Ways Pharmacy is having with their debtors.

**REQUIRED:**

- 5.1.1 Explain ONE method that Mandla Mbambo could have used to collect audit evidence. (2)
- 5.1.2 Calculate the new outstanding balance of Khethiwe Mdluli after taking into account errors and omissions. Use **information 5**. (7)
- 5.1.3 Calculate the amount of discount that Mduduzi Hlatshwayo received when he settled his account. (3)
- 5.1.4 Prepare the Debtors Age Analysis for Nonjabulo Mgabhi after taking into account the change in the Debtors collection Policy. (3)
- 5.1.5 A business can take legal action if debtors are not paying their accounts, but this would cost them money. What THREE strategies should Mandla Mbambo consider before deciding whether to take legal action or write off the debts? (3)
- 5.1.6 Five Ways Pharmacy is obviously having a problem controlling its debtors, Mandla Mbambo has been brought in to try and rectify the situation which he claimed he did very well. Do you agree with his statement? Give TWO opinions to support your answer. (5)

**INFORMATION:****Before the appointment of Mandla Mbambo**

1. Currently the pharmacy's debtors collection policy states:
  - All debtors who settle accounts in the month following the transaction month will receive a 4% discount.
  - Debtors have 60 days to settle their accounts.
2. The following is actually what is taking place with regard to managing and collecting accounts.
  - The debtors collection period is 82 days.
  - Statements are not being sent out on a regular basis to debtors especially if the amount outstanding is insignificant.
3. The following information with regards to debtors has been extracted from the financial records of the business as at 1 March 2014.

**Extract from the Debtors Age Analysis (excluding interest)**

DEBTORS	90 DAYS +	60 DAYS	30 DAYS	CURRENT
Nonjabulo Mgabhi	-	2 550	1 780	450
Mduduzi Hlatshwayo	-	-	1 600	850
Khethiwe Mdluli	5 400	1 200	800	-

The balance of the debtors control account on 1 March 2014 was R419 270.

**After the appointment of Mandla Mbambo**

4. Mandla Mbambo conducted an internal audit to check on the internal controls with regards to debtors as a result of his findings he made a request to the owner of the pharmacy to introduce an interest rate of 16% p.a. on account balances that are 60 days. The owner has approved this change to the debtor's collection policy and this will be implemented as from 1 March 2014.
5. The following errors and omissions were noted from the account of Khethiwe Mdluli only.
  - Khethiwe Mdluli had made a payment of R6 000 in February 2014, but this had been recorded as R60 in the Cash Receipts Journal and posted as such.
  - A credit sale for R4 000 made to her was not entered in the Debtors Journal.
  - Khethiwe Mdluli had been issued a credit note for cosmetics that he returned for R340. No entry had been made.
  - Khethiwe Mdluli had purchased medicine for R530 but this had been incorrectly charged to another debtors account.
6. Mduduzi Hlatshwayo settles his accounts on 16 March 2014.
7. Nonjabulo Mgabhi makes no payment on 28 February 2014.

**5.2 CREDITORS RECONCILIATION**

A statement received from a creditor, Zulu Suppliers, on 28 February 2014, reflects that Zwane Traders owes them R11 000. According to Zwane Traders, the amount outstanding is only R7 750.

**REQUIRED:**

Use the table in the ANSWER BOOK to indicate the differences that were discovered when comparing the account in the Creditors Ledger with the statement received from Zulu Suppliers.

Write only the amount 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.

(11)

**INFORMATION:**

1. A cheque for R2 000 issued by Zwane Traders has not yet been recorded in the statement received from Zulu Suppliers.
2. The cheque in settlement of the January account was not received by Zulu Suppliers within 7 days; therefore the discount of R400 recorded by Zwane Traders in the Creditors Ledger must be cancelled.
3. A return recorded as R750 in the Creditors Ledger of Zwane Traders was recorded as R800 in the statement received from Zulu Suppliers. Zwane Traders had miscalculated the cost of goods returned.
4. An invoice received from Zulu Suppliers was correctly recorded as R9000 by Zwane Traders. However, in the statement received from Zulu Suppliers it was incorrectly recorded as R900.
5. An invoice for R4 500 received from Zulu Suppliers was incorrectly recorded as a credit note by Zwane Traders.

**QUESTION 6****(72 marks; 43 minutes)****COMPANIES**

- 6.1 State whether each of the following items is TRUE or FALSE.  
Write only the answer next to the question number, e.g. 4.1.6 False.
- 6.1.1 The Current portion of a loan is a non-current liability.
- 6.1.2 A debit balance of SARS (income tax) form part of trade and other payables.
- 6.1.3 The Balance Sheet reflects the Net Worth of the company.
- 6.1.4 The Directors' report reflects whether the shareholders can rely on the financial statements or not.
- 6.1.5 Total assets: Total liabilities is the correct formula to calculate current ratio. (5)

**6.2 ALWANDE LIMITED**

You are provided with information relating to Alwande Limited, a public company. The financial year end on 28 February 2014.

**REQUIRED:**

- 6.2.1 Complete the note for the reconciliation of net profit before tax and cash generated from operations for the year ended on 28 February 2014. (8)
- 6.2.2 Complete the Cash Flow Statement for the year ended 28 February 2014. Some of the figures have been entered in the answer book. (Calculations must be shown in brackets.) (20)
- 6.2.3 Calculate the following for 2014.
- |         |  |     |
|---------|--|-----|
| 6.2.3.1 | Debt/equity ratio                                    | (3) |
| 6.2.3.2 | % return on average shareholders' equity (after tax) | (5) |
| 6.2.3.3 | % return on total capital employed                   | (6) |

**INFORMATION RELATING TO ALWANDE LTD**

	<b>2014</b>	<b>2013</b>
Sales	1 862 000	1 120 000
Interest expenses	19 500	28 000
Depreciation	56 000	41 000
Net profit after tax	522 900	310 000
Ordinary share capital	2 400 000	1 600 000
Retained income	200 000	168 000
Non-current liabilities	130 000	940 000
Fixed/tangible assets	1 928 600	2 937 600
Creditors	145 000	85 500
Debtors	141 000	113 000
Inventory	220 000	185 000
SARS-income tax	DR 47 000	CR 18 000
Shareholders for dividends	320 000	175 000
Cash and cash equivalent	1 033 000	-
Fixed deposit	715 900	753 000
Bank overdraft	-	87 500

- Certain assets were sold at book value for R1 100 000 cash.
- Income tax is calculated at 30% of the profit.
- 320 000 shares have been issued, at the beginning of the year, at R5.
- On the 1 April 2013, the company's board of directors authorised the buy-back of 20 000 of the company's shares from existing shareholders. A repurchased price was set at R8,50 each. An electronic transfer of funds was made to shareholders for shares repurchased.
- 100 000 shares were issued at R9 on 1 September 2013.

**6.3 FINANCIAL INDICATORS OF TWO COMPANIES**

Your friend, Mr Mathebula, wants to buy shares in a company which sells stationery. He asks you for advice and presents you with the following financial indicators of two companies he is considering. Both companies have the same number of shares.

	<b>Mkhabela LTD</b>	<b>Nyembe LTD</b>
Market price per share on the JSE	710 cents	920 cents
Net asset value per share	535 cents	1120 cents
Earnings per share	350 cents	285 cents
Dividends per share	230 cents	160 cents
% return on shareholder's equity	25,4%	14,5%
% return on total capital employed	33,4%	16,8%
% on interest rate on loans	17%	17%
Debt / Equity ratio	0,2 : 1	3,1 : 1
Current ratio	5,1 : 1	2 : 1
Acid-test ratio	0,8 : 1	1 : 1
Stock turnover rate	6 times	10 times
Average debtors collection period	30 days	35 days
Average creditors payment period	41 days	45 days

- 189 000 ordinary shares for both companies were issued at the end of the accounting period, Mkhabela LTD issued same shares at 450 cents while Nyembe LTD issued same shares at 1 200 cents.

**REQUIRED:**

Answer the following questions. In each case, you must support your answer by:

- Quoting the relevant financial indicators (actual figures, ratios or percentages).
- Indicating the trends from one year to the next.
- Provide an additional relevant comment.

6.3.1 Comment on the price at which the new shares were issued for both companies. Will the directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question in each company. (5 x 2) (10)

6.3.2 Consider the use of loans by the two companies:

- Which company is making more use of loans? Quote a financial indicator for each company to indicate this.
- Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator to indicate this. (6)

6.3.3 Mr Mathebula is of the opinion that the directors of Nyembe are generally happy with the handling of its working capital more effectively and are in a better liquidity situation than Mkhabela LTD. Explain and quote THREE financial indicators to support his opinion. (9)

**TOTAL: 300**