



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2010

**ACCOUNTING
MEMORANDUM**

MARKS: 300

TIME: 3 hours

This memorandum consists of 18 pages.

QUESTION 1

1.1 What is the purpose of a Bank reconciliation?

Complete point provided = 2 marks; Partial point = 1 mark; Incorrect = 0 mark

Any valid point ✓✓

To confirm the accuracy of all transactions in the cash journals recorded and the balance in the bank account.

2

1.2 State the double entry to record the stale cheque.

Account Debit	Account Credit
Bank ✓	Donations ✓

2

1.3 The financial year of All Access ends on 30 June each year. How would cheque no. 1040 (in favour of Aggie Traders, a creditor) be dealt with in the financial statements? Give a reason for your answer.

Financial statements

Add to bank if bank is favourable, or subtract from bank if bank is unfavourable ✓✓

Add to Creditors' control ✓✓

Reason

- The amount is still owed on 30 June as the PDC will not be honoured until a future date.
- The amount has not yet been taken off the current account All Access, therefore it has to be reversed ✓✓

6

1.4

Name ONE error by the bank that could have resulted in them wrongly debiting All Access' bank statement with R1 550.

Any valid point ✓✓

- Entered another customer's cheque in their bank statement
- Recorded a debit order twice
- Wrongly debited bank charges to their statement

2

1.5

Calculate the balance as per bank account. Indicate whether the balance is favourable or unfavourable.

$12\,300 ✓ + (1365 + 2355) ✓ - (4650 + 1550) ✓ = R9820 \checkmark \text{ unfavourable} ✓$

5

1.6

State the double entry in the general ledger to record the dishonoured cheque.

Account Debit	Account Credit
Debtors' control ✓	Bank ✓

2

1.7

Cheques are mainly dishonoured because of insufficient funds. Give TWO more reasons, excluding insufficient funds, for cheques to be dishonoured.

Any TWO valid points ✓✓ ✓✓

- Cheque has not been signed
- The amount in words and figures is different
- The cheque is post dated
- The cheque is stale
- Signature on cheque does not match that on bank records

4

1.8.1

"White collar crime" may be defined as sophisticated crimes committed by members of management, whereas "blue collar crime" may be defined as obvious crimes which do not require access to the books of a business. Give an example of each of these crimes that could occur in a business.

White collar crime: Fraudulent activities by management in books etc. ✓✓

Blue collar crime: less sophisticated, theft, vandalism etc. ✓✓

4

1.8.2 What is meant by the term 'internal control'?

- *Internal checks and balances to prevent fraud. ✓✓*

Any valid answer

2

1.8.3 What is the role of an internal auditor?

- *Performing an objective assessment of the adequacy and effectiveness of risk management and internal controls.*
- *Control and check all aspects of the business.*

Any valid answer ✓✓

2

1.8.4 What is the role of an external auditor?

- *An independent person who expresses an unbiased opinion on the reliability of financial statements. ✓✓*

2

1.8.5 Why should an external auditor also be concerned over the quality of internal control in a business?

- *Proper internal control allows the set of financial statements to be fair and reliable. ✓✓*

2

TOTAL MARKS
35

QUESTION 2

2.1.1 Calculate the value of stock on hand at the end of the year according to the weighted average method.

$$\begin{aligned} & \checkmark \quad \checkmark \quad \checkmark \quad \checkmark \\ & \bullet \quad (R175\,000 + R1\,150\,000) / (2\,500 + 15\,000 \text{ units}) \\ & \quad = R1\,325\,000 / 17\,500 \text{ units (or 2 marks each here)} \\ & \quad = R75.71 \checkmark \end{aligned}$$

$$\begin{aligned} \text{Stock value} &= 3020 \text{ units} \checkmark \times R75.71 \checkmark \text{ transfer from above.} \\ &= R228\,644,20 \checkmark \end{aligned}$$

OR
$$\frac{3\,020}{1} \times \frac{1\,325\,000}{17\,500} = R228\,657,14 \checkmark$$

8

2.1.2 Calculate the number of CDs that have been shoplifted.

$$\bullet \quad \checkmark \quad \checkmark \quad \checkmark \quad \checkmark \quad \checkmark \quad 2\,500 + 15\,000 - 14\,400 - 3\,020 = 80 \text{ units}$$

5

2.1.3 Calculate the value of CDs that have been shoplifted.

$$80 \checkmark \times R75.71 \checkmark = R6\,057 \checkmark \text{ OR } \underline{R6\,056,80} \text{ OR } \underline{R6\,057,14}$$

3

2.1.4 Provide THREE points of practical advice to Tiger Music on how to improve internal control over their stock.

Any three valid and separate points $\checkmark\checkmark \quad \checkmark\checkmark \quad \checkmark\checkmark$

Expected responses for 2 marks:

- Security measures at the door to improve, e.g. alarm at door with tags on CDs.
- Consider till points-possible collusion or error by employees when CDs are sold.
- Consider purchase procedures-proper authorization and checking of CDs received.
- Division of duties amongst members of the accounting department so that one person serves as a check on another.
- Conduct internal audits to minimise the possibility of fraud or error / theft of CDs by employees.

6

QUESTION 2.2

2.2.1 How would you respond to the Manager that feels that not all VAT must be paid over to SARS? List ONE response.

Any valid points, e.g. ✓✓

- This is dishonest.
- Failure to pay over VAT is an offence.

2

2.2.2 Calculate the total amount of VAT that was charged on Zero-rated items if the amount including the VAT on the cash slip of Cashier 5 was R29,10.

$29,10 \checkmark \times 14/114 \checkmark = R3,57 \checkmark$

3

2.2.3 In the scenario described above the management acted unethically. Provide TWO reasons to support this statement.

Any two valid points, e.g. ✓✓✓✓

- Fraud was committed
- Steal/take money from customers
- Steal/take money from government and SARS
- Transgression of VAT law/act

4

2.2.4 What will the consequences be for management, in the above scenario if their actions were discovered? Provide TWO consequences.

Any two valid points, e.g. ✓✓✓✓

- Must pay fine to SARS
- Customers will stop buying – some items will be over priced
- Employees can also start stealing or commit fraud due to management that are not trustworthy.

4

TOTAL MARKS
35

QUESTION 3

PRODUCTION COST STATEMENT

3.1.1 BALLY TOY MANUFACTURERS
NOTES TO THE FINANCIAL STATEMENTS

	FACTORY OVERHEAD COST		R
	Consumable stores (4700 ✓ + 9900 ✓ – 1900 ✓) x 75%✓	<input checked="" type="checkbox"/>	9 525
	Salary:Factory manager (48 120 ✓ + 2 500 ✓+ 200 ✓) part-marks	<input checked="" type="checkbox"/> at least one aspect correct	50 820
	Indirect labour	✓	19 800
	Factory maintenance	✓	6 077
	Rent expense (10 400 ✓- 500 ✓ + 900 ✓) part-marks	<input checked="" type="checkbox"/>	10 800
	Depreciation	✓	20 000
	Insurance (6 240✓ – 2 000✓)	<input checked="" type="checkbox"/>	4 240
	*Check operation, at least one aspect correct	<input checked="" type="checkbox"/> *	121 262
	(Max -3 for foreign items)		

20

3.1.2 PRODUCTION COST STATEMENT OF BALLY TOY MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2010

		TOTAL	
Direct/Raw materials cost	✓	231 575	
Direct labour cost	✓	174 000	
Direct/Prime cost	Check operation	405 575	
Factory overhead cost	#See 3.1.1	121 262	
Total cost of production		526 837	
Work-in-process on 1 March 2009	✓	35 000	
		561 837	
Work-in-process on 28 February 2010	✓	(62 337)	
Cost of production of finished goods	Check operation	499 500	7

3.1.3 Calculate the unit cost of production.

$$499\,500 \checkmark \div 11\,100 \checkmark = R45 \checkmark$$

3

3.2 SHARKS CRICKET MANUFACTURERS

3.2.1 Calculate the number of cricket bats that must be produced and sold to break even.

Fixed costs/selling price per unit-variable cost per unit
 $= (3\,780\,000 \checkmark / 1\,180 \checkmark)$ or part-marks $(1\,800 - 620)$
 $= 3\,204$ units ✓
 also accept 3 203

3

3.2.2 Should Shark Cricket Manufacturers be satisfied with the break-even-point? Give a reason for your answer.

Yes. ✓
 They produce 6 000 units which is almost double the BEP. ✓

2

**TOTAL
MARKS**

35

QUESTION 4

4.1.1	RETAINED INCOME/DISTRIBUTABLE RESERVES	
	Balance on the last day of the previous year ✓	450 000
	Net profit after tax for the year (988 000✓-276 640✓) ☑	711 360
	Dividends on ordinary share	(275 500)
	Paid ✓	88 000
	Recommended (125 000 x 1,50) ✓✓	187 500
	Balance on the last day of the current year ☑	885 860

8

4.1.2	TRADE AND OTHER PAYABLES	
	Trade creditors(87 000 + 20 000 + 5 000 + 80 000 – 1 500@) ✓ ✓ ✓ ✓ ✓✓✓	☑ 190 500
	SARS.(PAYE) (9 000 ✓ - 5 400 ✓)	☑ 3 600
	SARS Income Tax (276 640 – 248 976)	✓✓ 27 664
	UIF(590✓ -180✓-180✓)	☑ 230
	Star medical aid (4 200 ✓ - 1 500 ✓ - 1 500 ✓)	☑ 1 200
	Creditors for salaries (22 120 ✓ - 10 920✓) [18 000 - (5 400 + 1 500 + 180)]	☑ 11 200
	Shareholders for dividends	☑ 187 500
	Deferred income/income received in advance * * allocate part marks	✓✓✓✓☑ 25 200
		☑ 447 094

31

@	ASSET DISPOSAL
✓ 27 000	Acc dep (23 250 +750) ✓ 24 000 Loss of Sale on Asset ✓ 1 500 Cred Control 1 500

*	Deferred income
6 X100 =	600
8 x 90 =	720
	1 320 ✓ =184 800 ✓
	140=x
	140 ✓x (2 x 90✓) = 25 200 ☑
	184 800 x 180 ÷ 1 320 = 25 200

4.1.3 STONES LIMITED
BALANCE SHEET AT 30 JUNE 2010

EQUITY AND LIABILITIES	
SHARE CAPITAL AND RESERVES	<input checked="" type="checkbox"/> 2 323 360
Ordinary share capital ✓	<input checked="" type="checkbox"/> 1 250 000
Ordinary share premium ✓	<input checked="" type="checkbox"/> 187 500
Retained Income ✓	<input checked="" type="checkbox"/> 885 860
NON CURRENT LIABILITIES	240 000
Loan: Shaid's Bank ✓ (300 000✓-60 000✓)	<input checked="" type="checkbox"/> 240 000
CURRENT LIABILITIES	<input checked="" type="checkbox"/> 616 994
Trade and other payables ✓	<input checked="" type="checkbox"/> 447 094
Bank overdraft ✓ (109 000✓-20 000✓ +7 000✓+18 900✓-5 000✓)	<input checked="" type="checkbox"/> 109 900
Short-term loan ✓	<input checked="" type="checkbox"/> 60 000
TOTAL EQUITY AND LIABILITIES	<input checked="" type="checkbox"/> 3 180 354

4.2.1 Give ONE reason why it is important that financial statements should be prepared according to GAAP and IFRS principles.

Any acceptable answer ✓✓

So that comparisons can be made

To maintain International standards

2

4.2.2 Explain what is meant by the Historical Cost and Going-Concern principles.

Historical: Assets are valued at the price at which they were bought ✓✓

Going-Concern: It is assumed that this business is continuing with operations in the foreseeable future ✓✓

4

4.2.3 Apart from the Income statement and Balance Sheet, list another TWO parts of a company's published annual report and explain what the purpose of these two parts would be.

Any two ✓✓ ✓✓

- Cash flow statement-communicate the quality of cash flows across the activities of the business
- Directors' report-To assess other relevant information to the company that may not be evident from figures
- Audit report-To assess whether the financial statements are reliable or not

4

4.2.4 Audit reports are categorized into FOUR categories. Disclaimer of opinion and withheld are two of these. Name and explain the other two reports.

Unqualified ✓

Good report issued when auditors determine that the financial statements are free of material misstatements and in accordance with GAAP ✓

Qualified ✓

Unfavourable report is issued when the auditors determine that the financial statement are materially misstated and do not confirm with GAAP ✓

4

4.2.5 Why is important that all directors of companies in South Africa adopt an approach of good corporate governance at all times?

Marks: Excellent = 3 Satisfactory = 2 Poor = 1 Wrong = 0

Directors are entrusted with using other people's money-separation of ownership (by shareholders) from control (by directors) Shareholders want their money secure and the enterprise to be sustainable. If the directors are unethical in conducting the affairs of the business, the company will not be in favour with customers, lenders.

3

TOTAL MARKS
80

QUESTION 5

5.1	5.1.1	A	B	C	D	
	5.1.2	A	B	C	D	
	5.1.3	A	B	C	D	
	5.1.4	A	B	C	D	8

(2 x 4)

5.2

GENERAL LEDGER OF MEADOWS LTD.									
APPROPRIATION ACCOUNT									
Feb	28	Income tax✓	✓	270 000	Feb	28	Profit and loss✓	✓	900 000
		Ordinary share dividend ✓	✓	589 200			Retained income	✓	560 000
		Retained income	✓	600 800					
				1 460 000					1 460 000

* Mark the details separate to the amounts.

10

5.3.1 MEADOWS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<input checked="" type="checkbox"/> 247 068
Cash generated from operations	1 093 968
Interest paid	✓ * (76 500)
Dividends paid (240 000✓ + 589 200☒ - 360 800✓) (See 5.2)	<input checked="" type="checkbox"/> * (468 400)
Tax paid (17 600✓ + 270 000☒ + 14 400✓) (See 5.2)	<input checked="" type="checkbox"/> * (302 000)
	Must show * brackets
CASH FLOWS FROM INVESTING ACTIVITIES	(420 880)
Purchase of non-current assets (640 000✓✓ + 36 000✓)	<input checked="" type="checkbox"/> (676 000)
Proceeds of sale of non-current assets (240 000 ✓ + 15 120✓✓)	<input checked="" type="checkbox"/> 255 120
CASH FLOWS FROM FINANCING ACTIVITIES	<input checked="" type="checkbox"/> 782 400
Proceeds from issue of share capital (2 199 200✓ - 1 500 800✓)	<input checked="" type="checkbox"/> 698 400
Proceeds from long-term loans	✓ 84 000
Net change in cash equivalents	<input checked="" type="checkbox"/> 608 588
Cash and cash equivalents – beginning of the year	(28 000)
Cash and cash equivalents – end of the year	<input checked="" type="checkbox"/> 580 588

5.4 Calculate the following for 2010: (Correct to 2 decimal places)

5.4.1	Debt/Equity (Gearing ratio) $552\,000 \checkmark : 2\,800\,000 \checkmark$ $0,2 : 1 \checkmark$ or $0,19 : 1$	<div></div> <div>3</div>
5.4.2	Dividends per share (See 5.2) $\frac{589\,200 \checkmark}{40\,000 \checkmark} \times \frac{100}{1}$ $= 1473 \text{ cents } \checkmark$	<div></div> <div>3</div>
5.4.3	Net asset value per share $\frac{2\,800\,000 \checkmark}{40\,000 \checkmark} \times \frac{100}{1}$ $= 7000 \text{ cents } \checkmark$	<div></div> <div>3</div>
5.4.4	Acid-test ratio $(2\,218\,688 - 920\,000) : 968\,100$ $1\,298\,688 \checkmark \checkmark : 968\,100 \checkmark$ $1,34 : 1 \checkmark$	<div></div> <div>4</div>

5.5 The shareholders are concerned about the increase in borrowed capital. They think the increase in interest expense will impact negatively on the profit. Do you agree with them? Discuss by quoting TWO financial indicator and comment briefly to support your answer.

No ✓

Indicator ✓ ✓; Quoting financial indicator ✓ ✓; explanation ✓ ✓

Debt/Equity

- Increased from 0,18 : 1 to 0,2 : 1
- Still very low geared
- No problems to pay debt

ROCE

- Increased from 23,2% to 27,4%
- Compare to interest rate of 15%
- Profit increased

Any other relevant answer

7

5.6 Your friend owns 2 000 shares in Meadows Ltd.

5.6.1 According to the books of the company, how much was his investment worth on 28 February 2009?

$$2\,000 \checkmark \times R70 \checkmark = R140\,000 \checkmark$$

3

5.6.2 Why is the price of shares on the J.S.E. different to the figures quoted above? (Provide one reason)
Any valid answer: ✓✓

- *Determined by the demand for the shares*
- *Historical cost*
- *Market price does not reflect book value because future prospects affects price as well*

2

5.6.3 Your friend is tempted to buy a further 1 000 shares at market price in Meadows Ltd.

(a)

How much will he pay for the shares on 28 February 2010?

$$1\,000 \checkmark \times 4\,743 \checkmark = R47\,430 \checkmark$$

3

(b) Provide one point in support of his decision to buy more shares. (Quote figures/ratios)

Any valid answer ✓✓

- *Market value is low in relation to NAV and par value*
- *DPS increased from 1060 cents to 1 473 cents*

2

(c) Provide one point against his decision to buy more shares. (Quote figures/ratios)

Any valid answer ✓✓

- *The market price decreased from 6681 cents to 4743 cents*
- *Market must be concerned about future prospects*

2

TOTAL MARKS
75

QUESTION 6

6.1

Calculate the missing figures, labelled A to H on the Projected Income Statement.

A $100/200 \checkmark \times 200\,000 \checkmark = R100\,000 \checkmark$

3

B $200\,000 \checkmark - 100\,000 \checkmark = R100\,000 \checkmark$

3

C $30\,000/6 = 5\,000 \checkmark \times 9\% \checkmark = 5\,450 \checkmark \times 3 = R16\,350 \checkmark$

4

D $600\,000 \checkmark \times 20/100 \times 2/12 \checkmark = 20\,000.00 \checkmark$
 $500\,000 \checkmark \times 20/100 \times 1/12 \checkmark = 8\,333.33 \checkmark$
 $R\,28\,333.33 \checkmark$

7

E 3 months = 11 500 ✓
 Increase = 1 150 ✓
 Increase = 12 650 ✓

3

F Loss on sale of asset $100\,000 - 80\,000 = 20\,000 \checkmark \checkmark$

2

G Provision for bad debt adjustment ✓ R2 500 ✓

2

H $300\,000 \times \cancel{x}/100 \times 6/12 = R24\,000 \checkmark$
 $\quad \quad \quad \times = 16\% \checkmark$
 $300\,000 \checkmark \times 16\% \times 2/12 \checkmark = 8\,000$
 $480\,000 \checkmark \times 16\% \times 1/12 \checkmark = \underline{6\,400}$
 $= R14\,400 \checkmark$

7

6.2

List ONE item that you would find in the cash budget but not in the Projected Income Statement.

Fixed deposit/maturing loans /purchase of assets/ any acceptable answer ✓

1

6.3

State TWO reasons why Florence Traders might not achieve their intended mark-up on cost of goods sold.

Any two ✓✓ ✓✓

- Trade discount granted too liberally
- Poorly controlled seasonal sales at excessively low prices
- Mistakes in marking price on stock or mistakes in the books
- Theft of cash sales and stock (periodic).

4

6.4

To minimize the risk of bad debts there are certain steps that should be taken before allowing a customer to open an account. Name ONE step.

Any one ✓✓

Ask to prove income earned.

Residential address-owned or rented

Employer's name and address and duration of employment

Names of other businesses where the prospective customer has accounts

Customer's banking details

2

6.5

Will discount allowed be shown in the Projected Income Statement or in the Cash Budget or in both? Explain your answer in full.

Good answer=2 marks, satisfactory answer 1 mark, wrong answer=0 mark

It would only appear in the projected Income Statement because it is an expense. However, since no cash has been paid out it will not be shown in the cash budget.

Any acceptable answer

2

**TOTAL
MARKS**

40