



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2014

ACCOUNTING

MARKS: 300

TIME: 3 hours



This question paper consists of 15 pages and a 17 page answer book.

INSTRUCTIONS AND INFORMATION

1. This question paper comprises SIX 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 ink 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.

Question	Topic	Category	Marks	Minutes
1	Stock valuation and internal controls	Managing resources	35	20
2	VAT and Reconciliations	Financial management	50	30
3	Manufacturing concerns	Cost and managerial accounting	40	25
4	Companies – Financial statements and auditing	Financial accounting and audit processes	70	40
5	Cash flow and interpretation	Financial accounting	55	35
6	Budgeting and fixed asset management	Managerial accounting and managing resources	50	30
TOTAL			300 marks	180 minutes

QUESTION 1: STOCK VALUATION AND INTERNAL CONTROLS**(35 marks; 20 minutes)**

You are provided with information from the books of Reggies Music Den. The business is owned by Reg Mfeku. It sells one type of DVD. The financial year ended on 28 February 2014.

REQUIRED:

- 1.1 Calculate the:
 - closing stock balance on 28 February 2014, using the first-in-first-out (FIFO) method of stock valuation. (7)
 - cost of sales of DVDs sold. (8)
 - total number of units sold. (4)
 - total sales amount. (5)
 - gross profit. (2)
- 1.2 Is the FIFO method appropriate for this product? Explain. (3)
- 1.3 With regards to the fixed selling price, what advice would you offer Reg about his pricing policy? (2)
- 1.4 Reg buys his stock from registered suppliers based in Durban. He is frustrated about the "unfair competition" that he faces in this industry.
 - Provide a reasonable explanation for the "unfair competition" that concerns Reg. (2)
 - Give a practical suggestion that Reg can use to overcome this competition and improve the performance of the business. (2)

INFORMATION:

1.

	NUMBER OF UNITS	UNIT PRICE	TOTAL
Stock balance on 1 March 2013	830	R65	53 950
Total purchases for the year:	3 470		223 760
May 2013	1 350	R72	97 200
August 2013	980	R62	60 760
November 2013	520	R55	28 600
January 2014	620	R60	37 200
Stock balance on 28 February 2014	940	?	?
2. Transport cost from Durban amounts to R5 per unit. (The opening balance includes the transport cost.)
3. 80 units from the May 2013 purchases were damaged and had to be disposed. This transaction was not recorded. Note that these goods were not covered by insurance.
4. The normal selling price of DVDs is fixed at R100 per unit.
5. 300 units from the opening balance were sold at 25% below the normal selling price because they were out-dated music videos.

35

QUESTION 2: VAT AND RECONCILIATIONS**(50 marks; 30 minutes)****2.1 VAT**

- 2.1.1 Choose a word/phrase from the alternatives provided to complete the sentences listed below. Write only the word/term next to the question number (a to d), in the answer book. (8)

**EVASION ; VAT ZERO-RATED ; INPUT VAT ; AVOIDANCE ;
OUTPUT VAT ; VAT EXEMPTED**

- (a) ... is VAT collected from customers.
- (b) Fees payable for education is an example of a ... goods or service.
- (c) Tax ... is illegal and punishable by law.
- (d) ... is VAT paid when goods are purchased by the business.
- 2.1.2 Billy's Canteen is a busy take-away situated in an industrial area. Although the annual income from sales is less than R1 million, Billy, the owner has registered the business for VAT.

REQUIRED:

- (a) Calculate the amount of VAT that Billy will either pay to or receive from SARS. (11)
- (b) Explain why Billy benefits from being registered for VAT. Quote figures to support your answer. (2)
- (c) Dodgey Dealers, one of Billy's suppliers, offered Billy goods valued at R5 850 for R2 500. He stated that Billy must pay cash and he will not issue an invoice. (2)
- What advice would you offer Billy?

INFORMATION:**1. TRANSACTIONS FOR MARCH AND APRIL 2014:**

Cash and credit sales for the period (including VAT)	87 210
Total purchases of goods (excluding VAT)	52 000
Wages paid to staff	15 600
Telephone, water and electricity	10 032
VAT on old warming ovens sold	336
Discounts allowed to debtors for early settlements	1 425
VAT on goods taken for personal use	105

2.2 CREDITORS RECONCILIATION

REQUIRED:

- 2.2.1 Calculate the correct amount that 24/7 Traders owes Bugsy Suppliers. Show the effect of each transaction to the balance of Bugsy Suppliers account from the Creditors Ledger. (Use the table provided.) (8)
- 2.2.2 What advice would you offer to the owner regarding **point (d)** below? (2)
- 2.2.3 Provide TWO internal control measures that can be implemented to prevent such incidences like the above in the future. (4)

INFORMATION:

Bugsy Suppliers' account showed a balance of R35 260 in the Creditors' Ledger of 24/7 Traders.

24/7 Traders received the following statement from Bugsy Suppliers:

BUGSY SUPPLIERS STATEMENT OF ACCOUNT				
21 Cape Road Kimberley, 0034			Tel: (053) 332 3345 Fax : (053) 332 5567	
DEBTOR: 24/7 Traders			STATEMENT DATE: 28 April 2014	
DATE		DETAILS	AMOUNT	BALANCE
2014 April	1	Balance		52 300
	5	Invoice No. 772	4 760	57 060
	6	Receipt No. 388	(22 000)	35 060
	15	Invoice No. 773	8 730	43 790
	18	Credit Note No. 122	(920)	42 870
	24	Invoice No. 774	2 400	45 270
E&OE	28	Invoice No. 775	7 560	52 830
Includes all transactions up to 28 April 2014				

Additional information: (All entries on the statement are correct.)

- (a) Invoice No. 773 was recorded incorrectly as R8 370 in the Creditors Journal and posted as such to the Creditors Ledger.
- (b) The accountant deducted a 7,5% discount for the payment of R22 000 on the 6th. Bugsy Suppliers stated that the business was not entitled to the discount, because the payment was late.
- (c) The credit note no. 122 was posted to the wrong side of the creditor's ledger account of Bugsy Suppliers.
- (d) It was discovered that Invoice No. 774 was goods purchased by the warehouse manager for his personal use, using the business order book. This invoice did not appear in the creditors ledger account.
- (e) An electronic payment of R15 000 made on 30 April 2014 to Bugsy Suppliers did not appear on the statement.

2.3 DEBTORS

The owner of Petronela Traders, Gladys, approached you for assistance with managing her outstanding debtors.

REQUIRED:

- 2.3.1 Name the debtor/s whose account/s is/are not overdue. (2)
- 2.3.2 Calculate the percentage of the amount owed by debtors that is above the credit period allowed. (5)
- 2.3.3 Suggest THREE control measures that Gladys can implement to improve the collection from debtors. (6)

INFORMATION:

A.

DEBTORS	BALANCE	CURRENT	61 – 90 DAYS	91 – 120 DAYS
K. Pillai	3 270	3 270		
S. Meinjies	4 420	2 900	1 520	
P. De Beer	2 160	430	980	750
T. Harry	2 150			2 150
	?			

- B. Debtors are required to pay within 60 days.

QUESTION 3: MANUFACTURING CONCERNS**(40 marks; 25 minutes)**

You are provided with information relating to Fab Fabrics, a textile manufacturer. The business produces uniforms for schools. The financial year ended on 30 June 2014.

REQUIRED:

- 3.1 Prepare the following for the year ended 30 June 2014:
- 3.1.1 Factory Overhead note (11)
 - 3.1.2 Production Cost Statement (Show workings in brackets.) (13)
- 3.2 **Break-even analysis:**
- 3.2.1 Calculate the number of units the business needed to produce in order to break-even. (5)
 - 3.2.2 Making reference to the previous year's figures, as well as the amount calculated in QUESTION 3.2.1, comment on whether the owner should be satisfied or not. (4)
- 3.3 The owner is concerned about the amount of clothing that is being imported from China and other Eastern Countries.
- 3.3.1 Do you think that the government should limit the flow of textiles into the country? Explain. (3)
 - 3.3.2 What can Fab Fabrics do to stay in business? Provide TWO suggestions. (4)

INFORMATION:1. **Stock balances:**

	30 JUNE 2014	1 JULY 2013
Raw materials	36 800	42 440

The business does not carry any work-in-process into the next financial year.

2. **Transactions for the financial year ended 30 June 2014:**

A.	Raw materials purchased	R480 000
	Cost of transporting the raw materials	R28 200

B. Indirect materials used in the factory amounted to R49 606.

C. Factory rent is R7 500 per month. The rent for June 2014 must still be paid.

D. Water and electricity paid, R97 000. 80% of this must be allocated to the factory.

E. The insurance expense was R42 000. This must be split between the factory and office in the ratio 5 : 2.

F. Factory sundry expenses amounted to R44 694.

G. The factory has four workers involved in production. They each worked an average of 150 hours per month at R45 per hour (normal time). The overtime records for the year reflected that the four workers worked a total of 500 hours overtime for this financial year. The overtime rate is R70 per hour. Total employer's contribution to the pension fund amounted to 9% of the normal time wage.

H. Indirect labour in the factory comprises the factory foreman who earns R114 600 per year, and a cleaner who earns R39 000 per year (inclusive of employers' contributions). The cleaner spends half of her time in the factory.

I.	Total selling and distribution cost	R177 000
	Total administration cost	R226 500

These totals take into account all the adjustments listed above.

J. Selling price per unit, R110. Variable cost per unit, R65.

K.		30 JUNE 2014	1 JULY 2013
	Total number of units produced and sold	16 600	15 700
	Break-even point (number of units)	?	10 220

QUESTION 4: COMPANIES – FINANCIAL STATEMENTS AND AUDITING**(70 marks; 40 minutes)**

Thevarani Ltd is a public company with an authorised share capital of 750 000 ordinary shares. The information relates to the financial year ended 28 February 2014.

REQUIRED:

- 4.1 Fill in the missing amounts on the **Income Statement** provided.
Note that **Point F** has been taken into account in calculating the Net Profit after income tax, of **R380 000**. (13)
- 4.2 Complete the following notes to the Balance Sheet:
(Show the workings in brackets.)
- 4.2.1 Trade and other receivables (7)
- 4.2.2 Ordinary share capital (9)
- 4.2.3 Retained income (8)
- 4.3 Complete the **Balance Sheet** on 28 February 2014.
(Where notes are not required, show workings in brackets to earn part marks.) (23)
- 4.4 The internal auditor warned the Chief Executive Officer (CEO) that including his private entertainment expenditure under sundry expenses could cause problems for the business.
- 4.4.1 What GAAP/IFRS principle is the internal auditor referring to when this concern is expressed? (2)
- 4.4.2 Give TWO consequences for the business if the CEO does not take the advice of the internal auditor. (Give TWO points.) (4)
- 4.5 At the annual general meeting, the directors proposed that R250 000 be spent in uplifting the sporting facilities at three local schools. Explain why such projects are considered by big companies. (Give TWO reasons.) (4)

INFORMATION:**1. Extract of the Pre-Adjustment Trial Balance on 28 February 2014**

	DEBITS	CREDITS
Ordinary share capital		2 100 000
Retained income (1 March 2013)		234 000
Loan: Sentry Bank		160 000
Fixed assets (carrying value)	2 258 000	
Trading Stock	162 220	
Debtors Control	63 000	
Fixed deposit: Oxford Bank (7,5% pa)	125 750	
Bank	190 650	
SARS: Income tax (provisional payments)	170 000	
Creditors control		26 000
Insurance	11 760	
Rent income		17 300
Interest on fixed deposit		15 800
Total other/operating income		55 000
Ordinary share dividends (paid: 31 August 2013)	120 000	

2. Additional information:

A. Share capital:

400 000	Shares were in issue on 1 May 2013. (Beginning of the financial year).
100 000	Additional shares were issued on 31 October 2013 at R5 each. This has been correctly recorded.

- B. On 31 January 2014, the business bought back 25 000 ordinary shares from disgruntled shareholders for R118 750. This transaction was not taken into account. These shareholders do not qualify for final dividends.

- C. The loan statement received from Sentry Bank showed the following:

Opening balance	256 600
Repayment during the year including interest	96 600
Closing balance	193 000

- Provide for the interest on loan.
- R40 000 of the loan will be paid in the next financial year.

- D. Income tax for the year was calculated to be R162 800. This must be taken into account.

- E. A final dividend of 22 cents per share was declared on 28 February 2014. This must be taken into account.

- F. **The following adjustments must be considered for the Balance Sheet only:**

- The rent for February 2014 was not yet received. The vacant storage space was rented out since 1 December 2013.
- An additional insurance policy on plant and equipment was taken out on 1 October 2013. The annual premium of R6 720 was paid.
- The provision for bad debts was adjusted to 3% of the debtors' control.
- Audit fees of R4 500 were still outstanding on 28 February 2014.

- G. **The following financial indicators were calculated at the end of this year:**

Operating profit as a percentage of sales	8%
Gross profit percentage	40%

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION**(55 marks; 35 minutes)****REQUIRED:**

- 5.1 Match the terms/concepts in COLUMN A with an appropriate statement from COLUMN B. Write the letter of your choice next to each number.

COLUMN A		COLUMN B	
5.1.1	Solvency	(a)	The operating efficiency of the business
5.1.2	Gearing	(b)	The ability of the business to meet its short term obligations (debts)
5.1.3	Liquidity	(c)	The extent to which the business is making use of loans (borrowed capital)
5.1.4	Profitability	(d)	Total assets: Total liabilities
		(e)	The rate of return earned by shareholders

(8)

- 5.2 The information presented is from the records of Braelyn Traders Ltd, a retail business that buys and sells women's fashion clothes and accessories. The financial year end on 28 February 2014.

- 5.2.1 Fill in the missing amounts on the partially completed Cash Flow Statement. Show all workings in brackets. (15)
- 5.2.2 Calculate the following financial indicators/ratios:
- (a) Debt/equity ratio (3)
 - (b) Return on average shareholders' equity (ROSHE) (5)
 - (c) Net asset value per share (NAV) (4)
- 5.2.3 Comment on the liquidity position of the business. Make reference to the current ratio and the acid test ratio in your answer. (4)
- 5.2.4 The CEO wants to increase the loan by an additional R300 000 to finance extensions and renovations to the building. What advice would you offer to her? Quote appropriate figures and/or financial indicators to support your opinion. (4)
- 5.2.5 The directors plan to issue additional shares at R6,00 per share in the new year. Will prospective investors be eager to buy shares in this business? Explain, making use of relevant financial indicators. (5)
- 5.2.6 The existing shareholders are pleased with the performance of their investment. Are they justified? Comment on the returns (ROSHE), earnings (EPS) and dividends (DPS). (7)

INFORMATION:**1. Information extracted from the Income Statement on 30 April 2014:**

Depreciation	83 720
Interest on loan	85 500
Income tax	135 000
Net income after tax	450 000

2. Information from the Balance Sheet on 30 April:

	30 April 2014	30 April 2013
Fixed assets (carrying value)	2 776 020	2 304 500
Fixed Deposit	150 000	280 000
Inventory	249 860	154 000
Accounts receivable	107 420	82 400
SARS: Income tax	6 800 (Dr)	-
Cash and cash equivalents	10 000	42 600
Shareholders' equity	2 055 100	1 633 500
Ordinary share capital	1 932 000	1 596 000
Retained income	123 100	37 500
Loan: Lands Bank	950 000	1 050 000
Accounts payable	37 200	56 600
Bank overdraft	27 800	-
SARS: Income tax	-	22 600 (Cr)
Shareholders for dividends	230 000	100 800

3. Share capital information:

Authorised share capital of 750 000 ordinary shares.

Issued share capital:

420 000 Ordinary shares in issue on 1 May 2013	1 596 000
80 000 Additional shares issued on 1 January 2014	336 000

- New equipment was purchased during this financial year, but no fixed assets were sold.
- An interim dividend of 32 cents per share was paid on 1 October 2013. The new shareholders were not entitled to interim dividends. A final dividend of 46 cents per share was declared on 30 April 2014.
- The following financial indicators were calculated:

	30 APRIL 2014	1 MAY 2013
Current ratio	1,3 : 1	1,6 : 1
Acid test ratio	0,4 : 1	0,7 : 1
Debt equity ratio	?	0,64 : 1
Return on shareholders' equity (ROSHE)	?	17,5%
Return on average capital employed (ROTCE)	23,5%	25,2%
Net asset value per share (NAV)	?	389 cents
Earnings per share (EPS)	101 cents	85 cents
Dividends per share (DPS)	78 cents	65 cents
Market price of shares (on stock exchange)	545 cents	532 cents
Current interest rate on loans	9,5%	9%

QUESTION 6: BUDGETING AND FIXED ASSET MANAGEMENT**(50 marks; 30 minutes)****6.1 BUDGETING**

The following information was taken from the books of Sunshine Dealers. The business sells stationery, books and magazines. The business is owned by Sunny Buchaya.

REQUIRED:

- 6.1.1 Calculate the missing amounts on the budget, denoted by **(a)** to **(e)**. Show workings to earn part marks. (16)
- 6.1.2 Sunny (the owner) wants to purchase a larger percentage of goods on credit. What advice would you offer him? (TWO points) (4)

INFORMATION:**1. CASH BUDGET FOR THE PERIOD ENDING 31 DECEMBER 2014**

Cash Receipts	OCT 2014	NOV 2014	DEC 2014
Cash sales	76 000	82 000	90 000
Cash from debtors	292 160	317 120	(a)
Loan: Big Bank	-	-	300 000
Rent Income	12 400	12 400	(b)
Total Cash Receipts	380 560	411 520	
Cash Payments			
Cash purchases of stock	142 500	153 750	168 750
Payment to creditors	87 500	(c)	95 000
Repayment of loan	20 000	-	-
Interest on loan	-	-	(d)
Drawings	5 000	5 000	5 000
Wages and salaries	36 000	(e)	36 000
Other sundry cash payments	22 000	22 000	22 000
Renovations to shop	-	-	100 000
Total Cash Payments	313 000		
Cash surplus/deficit	67 560		
Bank (opening balance)	54 550		
Bank (closing balance)	122 110		

2. Additional information:

- A. 20% of total sales are cash.
- B. The following sales figures were obtained:

AUGUST 2014	SEPTEMBER 2014	OCTOBER 2014
350 000	340 000	380 000

- C. Records show that 80% of debtors pay in the month of sale, and 18% pay within 60 days. 2% of debtors are usually written off.
- D. The business maintains a fixed base stock level. Stock sold in a month is replaced in the same month. The profit mark-up is 60% on cost.
- E. 40% of stock is purchased on credit. Creditors allow 60 days credit terms. The business ensures that this arrangement is maintained.
- F. The tenant is given a 15% reduction in rent for December 2014 due to the renovations causing some inconvenience.
- G. All employees are entitled to an annual bonus in November 2014, equivalent to 75% of their normal time pay.
- H. The loan is expected to be received on 1 December 2014 at an interest rate of 9,5% p.a.

6.2 FIXED ASSETS

You are presented with the Fixed Assets note of Mapele Traders for the financial year ended 30 June 2014.

REQUIRED:

- 6.2.1 Calculate the amounts denoted by **A** to **F** on the note. Show all workings to earn part-marks. (17)
- 6.2.2 Calculate the total accumulated depreciation on the equipment sold. (4)
- 6.2.3 When was the new vehicle purchased? (Show workings.) (7)
- 6.2.4 Provide a suitable reason why the business would sell a portion of their fixed property. (2)

INFORMATION:

1. Fixed Asset Note

	PROPERTY	VEHICLES	EQUIPMENT
Cost (1 July 2013)	1 980 000	B	176 000
Accumulated Depreciation (1 July 2013)	(0)	(132 000)	E
CARRYING VALUE (1 July 2013)	1 980 000	C	96 200
Movements:			
Additions		250 000	
Disposals	A		F
Depreciation		D	(20 050)
CARRYING VALUE (30 June 2014)	1 550 000	481 500	54 150
Cost (30 June 2014)	1 550 000	720 000	131 000
Accumulated Depreciation (30 June 2014)	(0)	(238 500)	(76 850)

2. Vehicles are depreciated at 20% p.a. on cost.

50

TOTAL: 300

