Basic Education

KwaZulu-Natal Department of Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

PREPARATORY EXAMINATION

SEPTEMBER 2015

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 300

TIME: 3 HOURS

N.B. This question paper consists of 21 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. ALL the questions.

2. A special ANSWER BOOK is provided in which to answer ALL the questions.

3. Show workings in order to achieve part-marks.

4. You may use a non-programmable calculator.

5. You may use a dark pencil or blue/black ink to answer the questions.

QUESTION 1: 36 Marks; 22 Minutes	
Topic of the question	**This question integrates:**
Bank reconciliation	**Financial accounting** ➢ CRJ,CPJ, Bank Reconciliation Statement **Managing resources** ➢ Internal control

QUESTION 2: 85 Marks; 51 Minutes	
Topic of the question	**This question integrates:**
Concepts, Income statement, Asset Disposal and Balance Sheet notes	**Financial accounting** ➢ Concepts, Income Statement, Asset Disposal and Balance Sheet notes

QUESTION 3: 67 Marks; 40 Minutes	
Topic of the question	**This question integrates:**
Manufacturing	**Managerial accounting** ➢ Direct material cost ➢ Factory overheads ➢ Production cost statement ➢ Analysis and interpretation of unit costs and break-even point **Managing resources** ➢ Internal control

QUESTION 4: 55 Marks; 33 Minutes	
Topic of the question	**This question integrates:**
Cash Flow and interpretation of information	**Financial accounting** ➢ Cash Flow Statement ➢ Calculations and financial indicators ➢ Analysis and interpretation

QUESTION 5: 23 Marks; 14 Minutes	
Topic of the question	**This question integrates:**
Stock valuation and internal control	**Managing resources** • Inventory valuation: specific identification and internal control: problem-solving

QUESTION 6: 34 Marks; 20 Minutes	
Topic of the question	**This question integrates:**
Cash Budget and internal control	**Managerial accounting** • Analyse and interpret a cash budget **Managing resources** • Internal control and internal audit

QUESTION 1 **(36 Marks; 22 Minutes)**

BANK RECONCILIATION

You are provided with information related to Quick Traders on 31 July 2015.

REQUIRED:

1.1 Indicate whether the following statements are TRUE or FASLE. Write only 'true' or 'false' next to the question number (i) – (iv) in the answer book.

(i) A post dated cheque issued by Quick Traders on 24 July 2015 but dated 24 August 2015, will only be entered in the Cash Payments Journal of Quick Traders on 24 August 2015. (1)

(ii) A debit balance on the bank statement reflects an unfavourable balance. (1)

(iii) Service fees and interest on an overdraft will be recorded as bank charges in the Cash Payment Journal. (1)

(iv) An internal auditor should inspect the bank reconciliation statement at the end of each month. (1)

1.2 Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for July 2015. (14)

1.3 Prepare the Bank Reconciliation Statement on 31 July 2015. (11)

1.4 Explain how cheque No. 908 should be treated when preparing the financial statements as at 31 July 2015 the end of the financial year. (2)

1.5 Refer to information G. The bookkeeper has decided to write off the amount of R50 000.

- Which GAAP/IFRS principle will the bookkeeper be applying? (1)
- The bookkeeper wants to prevent a similar problem in future. Give **TWO** suggestions to improve internal control in this regard. (4)

INFORMATION:

A. The following items appeared in the Bank Reconciliation Statement on 30 June 2015

	DEBIT	CREDIT
Debit balance as per Bank statement	19 310	
Outstanding deposit (10 May 2015)		50 000
Outstanding cheques:		
No.892 (1 January 2015)	12 340	
No.897 (10 June 2015)	8 700	
Debit balance as per Bank Account	9 650	
	50 000	50 000

B. Before receiving the July 2015 Bank Statement, the following provisional totals appeared in the Cash Journals on 31 July 2015:

- CRJ R146 970
- CPJ R 68 900

C. The Bank Statement for July reflected the following:

- Bank charges R1 300.
- Interest on an overdraft R920.
- Debit order for insurance R600.
- Direct deposit of R1 800 for rent received from tenant.

D. Cheque no. 892 must be cancelled.

E. Cheque no. 897 did not appear in the July 2015 Bank Statement.

F. The outstanding deposit (10 May 2015) cannot be traced and the cashier at that time has since disappeared. It was decided to write off this amount.

G. A cheque received from Zulu Traders dated 25 November 2015 for R15 000 was not recorded in the July 2015 Cash Receipts Journal. It was also not deposited in July.

H. The following items appear in the July 2015 Cash Journals but not on the Bank Statement:

- A deposit of R18 000, dated 27 July 2015.
- Cheque No. 905, R1 200, dated 31 July 2015.
- Cheque No. 908, R3 100, dated 15 December 2015 was issued to a creditor ZZ Nongoma for supplying goods.

I. The Bank Statement on 31 July 2015 reflects a favourable bank balance of R44 040.

36

QUESTION 2 (85 Marks; 51 Minutes)

INCOME STATEMENT, NOTES TO BALANCE SHEET

You are provided with information relating to Grey Limited. The company sells TV game stations and repairs TV game stations for their customers.

REQUIRED:

2.1 Choose the correct word/s from those given below to complete the sentences:

working capital	financial asset	operating expense
cash and cash equivalents	operating profit	borrowed capital
qualified	finance cost	unqualified

2.1.1 The difference between current assets and current liabilities is referred to as …

2.1.2 The audit report states: "the financial statements fairly present, in all material respect." This will be regarded as a/an ... report.

2.1.3 Interest on the bank overdraft in the Income Statement is classified as a/an …

2.1.4 A fixed deposit which will mature within the next financial year will be regarded as part of … in the Balance sheet. (4)

2.2 Prepare the Asset Disposal Account to record the sale of vehicles. **See information B, numbers 7 and 8.** (10)

2.3 Prepare the Income Statement (Statement of Comprehensive Income) for the year ended 30 June 2015. (51)

2.4 Prepare the following notes to the Balance Sheet:

2.4.1 Ordinary share capital (8)

2.4.2 Retained income (12)

INFORMATION:

A. Figures extracted from the Pre-adjustment Trial Balance on 30 June 2015:

Ordinary share capital (1 July 2014)	R5 225 000
Retained income (1 July 2014)	770 000
Trading stock	197 000
Debtors control	85 000
Creditors control	78 800
Land and buildings	8 100 000
Vehicles	1 900 000
Equipment	600 000
Accumulated depreciation on vehicles	815 000
Accumulated depreciation on equipment	180 000
Mortgage loan from: Pinetown Bank	80 000
Medical aid fund	41 000
Pension fund	32 000
Provision for bad debts	4 200
SARS: PAYE	67 000
SARS: Income tax (provisional tax payment) DR	140 000
Sales	7 200 000
Debtors allowances	30 000
Cost of sales	4 780 000
Rent income	93 800
Interest income	12 000
Interest expense	7 000
Salaries and wages	270 000
Bad debts recovered	600
Employers contribution to Pension Fund and Medical aid	72 000
Audit fees	68 000
Directors fees	470 000
Consumable stores	12 000
Insurance	148 000
Sundry expenses	?
Dividends on ordinary shares (interim)	R100 000

INFORMATION:

B **Adjustments and additional information:**

1. A credit note issued to a debtor, Mpisane dated 27 June 2015 was not recorded in the books. The credit note was for:

   - Goods returned by Mpisane, R 7 200. The mark-up on goods sold was 50% on cost.

2. No entries have been made for stock stolen on 7 June 2015. The insurance company has informed Grey Limited that they have transferred R42 000 into the business bank account in respect of the insurance claim. Grey Limited bears 20% of any stock loss.

3. The physical stock count on 30 June 2015 revealed the following on hand:

   - Trading stock, R144 000
   - Consumable stores R3 000

4. An employee was left out of the Salaries Journal for June 2015. The details from his pay-slip were:

Gross salary	R10 000
PAYE deduction (18%)	R1 800
Pension deduction (7,5%)	R 750
Medical aid	R1 200
Net salary	R6 250

   The business contributions were:

   - Pension fund 10,5% of gross salary
   - Medical aid : Rand-For-Rand basis

5. The provision for bad debts must be decreased by R340.

6. The tenant has paid his rent for July 2015 in advance. **NOTE:** The rent was increased by R700 on 1 April 2015 and that the premises were rented since the beginning of the financial year.

7. An old vehicle was sold for R70 000 cash on 31 December 2014. The fixed asset register revealed the following regarding this vehicle:

Cost price	R 800 000
Accumulated depreciation on 1 July 2014	R 750 000

This transaction has not yet been recorded by the bookkeeper.

8. Make provision for depreciation as follows:

- Vehicles at 15% p.a. on cost price
- Equipment at R39 500

9. The authorised share capital comprises 3 000 000 ordinary shares.

- There were 2 000 000 ordinary shares issued at the beginning of the financial year.
- A further 250 000 new ordinary shares were issued on 1 May 2015 at R2,50 each. These shares qualify for final dividends.
- The directors decided to buy back 10 000 shares from Z. Zondi at R3,10 per share. An electronic transfer was made for the full amount. Zondi is still entitled to final dividends.

10. Final dividends were declared at 12 cents per share.

11. After taking into account all adjustments the **Net profit** for the financial year amounted to: **Before tax** R1 200 000.
After tax R840 000.

85

QUESTION 3 (67 Marks; 40 Minutes)

MANUFACTURING

3.1 ZWIDE PAMPERS MANUFACTURING

Robert Zwide owns Pampers Manufacturers. The business produces nappies for babies. The financial year ended on 28 February 2015. They have been negatively affected by electricity load shedding.

REQUIRED:

Prepare the following for the Financial year ended 28 February 2015:

3.1.1 Note for Direct labour cost (13)

3.1.2 Note for Factory overhead cost (21)

3.1.3 Production Cost Statement on 28 February 2015 (11)

INFORMATION:

1. BALANCES ON 1 MARCH 2014

Raw material stock	R600 000
Work-in-process stock	R80 900
Consumable stores stock: Factory	R11 000

2. The following stock were purchased on credit:

- Raw material R2 000 000
- Consumable stores: Factory R50 000

3. No entry was made for the carriage of the following stock:

- Raw material R18 000
- Consumable stores : Factory R2 000

4. Depreciation on factory plant and equipment amounted to R76 500.

5. Factory maintenance for the year amounted to R8 000. A further amount of R3 000 is owed to Williams Works for repairs done to a factory machine on 26 February 2015.

6. An amount of R80 000 was paid for water and electricity (this cost must be shared in the ratio 7:3 between the factory and the office respectively).

7. Rent is allocated between the factory and the administration office on the basis of floor area. The factory comprises 560 square meters, while the office comprises 280 square meters. The annual rent for the entire premises was R33 600.

8. Factory insurance amounted to R72 000.

9. Salaries and wages:

   - The 30 factory workers who make nappies are each required to be on duty for 8 hours per day.
   - Per month, there are 4 weeks of 5 working days each. The normal rate is R25 per hour per person.
   - Although load shedding is a problem, workers are paid for the full hours on duty, according to union agreements.
   - In order to make up for the lost time, 15 factory workers each worked 20 hours overtime per month from 1 October 2014 to 28 February 2015. The overtime rate is double the normal rate.
   - The factory foreman is paid a salary of R8 000 per month. Due to problems caused by the load shedding, he was required to work longer hours and did not take holidays. His salary was increased by R1 500 per month from 1 October 2014.
   - The factory cleaner worked for 48 weeks in the year and was paid a wage of R800 per week.

10. BALANCES ON 28 FEBRUARY 2015

Raw material stock	R418 000
Work-in-process stock	R850 700
Consumable stores stock: Factory	R8 000

3.2 ZWIDE PAMPERS MANUFACTURING: ELETRICITY LOAD-SHEDDING PROBLEM

INFORMATION:

1. Although the business aims at producing 900 000 nappies per year, during the current financial year they produced only 848 000. Robert Zwide blames this on the load-shedding.

2. They sell the nappies at a mark-up of 40% on cost.

3. Load-shedding by Eskom occurred from 1 October 2014 to 28 February 2015 on 3 days per week for 3 hours per day.

4. Refer to information 9 in question 3.1 above for further information on salaries and wages.

REQUIRED:

3.2.1 Calculate:

- The number of unproductive hours, for all worker, that were caused due to load-shedding. (5)

- The Rand amount lost on direct wages as a result of the load shedding. (3)

3.2.2 Apart from these unproductive hours, explain **TWO** other ways in which load shedding have negatively affected the business. (4)

3.2.3 What advice would you provide to Robert to counteract the effect of load shedding? Provide TWO points. (4)

3.3 DIEGO COSTA MANUFACTURING

Diego Costa Manufacturing manufactures watches. The financial year ended on 28 February 2015.

3.3.1 Calculate the number of units that Diego Costa Manufacturing needed to produce in order to break even in 2015. (4)

3.3.2 Comment on the number of watches they are producing. Quote figures or financial indicators to support your answer. (Refer to 3.3.1) (2)

INFORMATION

A Total cost and cost per unit for 2015.

	Total cost	Cost per unit
Variable costs	892 000	111,50
Direct material cost	480 000	
Direct labour cost	264 000	
Sales and distribution cost	148 000	
Fixed costs	452 000	56,50
Factory overheads	344 000	
Administration costs	108 000	
Total cost	1 344 000	

B. Total number of watches produced during this financial year was 5 000.

C. Selling price is R311, 50 per watch.

67

QUESTION 4 (55 Marks; 33 Minutes)

CASH FLOW STATEMENT AND INTERPRETATION OF INFORMATION

You are provided with information, taken from the books of Sharks Limited, for the financial year ended 30 June 2015.

REQUIRED:

4.1 Calculate the following for the financial year ended 30 June 2015:

4.1.1 Stock turnover rate (4)

4.1.2 % return on total capital employed (use the average in your calculation) (7)

4.2 The shareholders are pleased with the return, earnings and dividends:

- Quote **THREE** financial indicators that indicate this.
- Quote figures and trends to support the shareholders' opinion. (6)

4.3 Calculate the missing figures in the Cash Flow Statement represented by letters **(a)** to **(d)**. (17)

4.4 The directors decided to increase the loan during the current financial year:

Quote **TWO** financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not. (8)

4.5 The existing shareholders are happy with the price at which the new shares were issued:

Comment on the price at which the 100 000 new shares were issued. Quote **TWO** financial indicators/figures to support your comment. (4)

4.6 The Cash Flow Statement highlights some important decisions taken by the directors **during** the past year:

- Explain **THREE** of these important decisions. Quote figures to support your answer. (6)
- Explain how these decisions would benefit the company. (3)

INFORMATION

A. Extract from Income Statement for the financial year ended 30 June 2015:

Sales	9 000 000
Cost of sales	5 625 000
Depreciation	380 000
Interest on loan	185 000
Net profit before tax	1 330 000
Net profit after tax	931 000

B. Extract from Balance Sheet as at 30 June:

	2015	**2014**
Fixed assets	4 326 000	1 489 000
Ordinary shareholders equity	7 850 000	6 450 000
Ordinary share capital	5 950 000	5 200 000
Retained income	1 900 000	1 250 000
Mortgage loan (Nongoma bank 13% p.a.)	1 800 000	950 000
SARS (income tax)	CR 32 000	DR 18 000
Shareholders for dividends	105 000	71 500
Trading stock	670 000	580 000

C. Additional information:

(i) Ordinary share capital:

- 1 500 000 shares have been authorised.
- 650 000 shares were in issue at the end of the previous financial year, 30 June 2014.
- 100 000 ordinary shares were issued on 1 May 2015.
- 50 000 ordinary shares were repurchased from unhappy shareholders. They repurchased at R 11 per share. The average issue price was R8, 50 per share.

(ii) Fixed assets:

- Equipment was bought during the year.
- Assets were sold at book value for R140 000.

(iii) Good Day Bank is offering a 9 % interest rate on all investments.

D. Financial indicators for the past two years:

The following financial indicators were calculated for the past two years:

	2015	2014
Current ratio	1,5 :1	1 :1
Stock turnover rate	?	7 times
Debt-equity ratio	0,23 : 1	0,15 :1
% return on average shareholders' equity	13%	12%
% return on total capital employed	?	15%
Dividends per share	34 cents	20 cents
Earnings per share	133 cents	120 cents
Net asset value per share	1 121 cents	992 cents
Market price on JSE	1 050 cents	980 cents

E. Cash Flow Statement for the year ended 30 June 2015.

Cash flow from operating activities	
Cash generated by operations	1 800 000
Interest paid	(185 000)
Dividends paid	(201 500)
Tax paid	**(a)**
Cash flow from investing activities	
Purchases of fixed asset	**(b)**
Proceeds on sale of fixed asset	140 000
Increase in fixed deposit	(60 000)
Cash flow from financing activities	
Proceeds on shares issued	**(c)**
Buy-back of shares	**(d)**
Increase in mortgage loan	850 000
Net change in cash and cash equivalent	
Cash and cash equivalent at the beginning	190 000
Cash and cash equivalent at the end	(547 500)

55

QUESTION 5 **(23 Marks; 14 Minutes)**

STOCK VALUATION AND INTERNAL CONTROL

5.1 **STOCK VALUATION**

You are provided with information relating to Sibusiso Car Dealers.
The owner, Sibusiso, sells used cars. The business uses the specific identification method of valuing stock. The information given below relates to the month of August 2015.

REQUIRED:

5.1.1 Explain why it would be unreasonable for this business to value its stock items on the basis of FIFO or weighted average. Provide TWO points. (4)

5.1.2 Explain why it would be unreasonable for certain businesses to use the specific identification method, e.g petrol shop. Provide TWO points. (4)

5.1.3 Sibusiso Car Dealers does not want the cost prices of stock items to be public knowledge. What strategies could they use to keep the cost prices confidential? (2)

5.1.4 Calculate the gross profit earned during August 2015. (4)

INFORMATION:

	Description	**Cost price**	**Published selling price**
Item 1	BMW 1 series coupe	270 000	305 000
Item 2	BMW 2 series coupe	290 000	360 000
Item 3	BMW 3 series coupe	350 000	440 000
Item 4	BMW 4 series coupe	400 000	470 000
Item 5	BMW 5 series coupe	850 000	970 000

Items 2, 3 and 5 are sold for cash during August 2015 at their published selling price.

5.2 INTERNAL CONTROL OF INVENTORY: PROBLEM SOLVING

You are provided with information taken from Nokubonga Stores on 31 August 2015. The owner, Nokubonga, is uncertain as to whether she should be satisfied with the control of all of these items.

REQUIRED:

- Identify a problem in respect of the manner in which each item has been managed.
- Quote figures to support your comment.
- In each case offer Nokubonga practical advice for the future. (9)

	TV SETS	CELL PHONES	RADIOS
Opening units(opening stock)	120	220	318
Number of units sold during the year	600	2250	120
Number of units purchased for the year.	680	2 500	430
Number of units per physical count at year-end	200	430	628
Selling price per unit	R8 000	R1 200	R800
Sales	R4 700 000	R2 700 000	R96 000
Period of stock on hand	120 days	69 days	1884 days

23

QUESTION 6 **(34 Marks; 20 Minutes)**

CASH BUDGET AND INTERNAL CONTROL

You are provided with information relating to Ixopo (Pty) LTD. The financial year of the business ended on 31 July 2015. The company issued 800 000 ordinary shares on 31 July 2015 and is planning to repurchase 100 000 ordinary shares in July 2015 from unsatisfied shareholders.

REQUIRED:

6.1 Why it is a good idea to compare budgeted against actual figures? (2)

6.2 Refer to the Cash Budget under information 4. Identify **TWO** items that was incorrectly entered in the Cash Budget. (2)

6.3 Complete the Debtors Collection Schedule for July 2015. (10)

6.4 Calculate the following:

6.4.1 Percentage increase in salary and wages with effect from July 2015. (3)

6.4.2 Missing figures **A** and **B** in the extract from the Cash Budget. (7)

6.5 At the end of July 2015 you identified the following when comparing the budgeted against the actual figures:

- Explain what you would mention to shareholders about each of the following items at the end of July 2015.
- In each case explain what effect these items will have on the company. (8)

	JULY 2015	
	BUDGETED	**ACTUAL**
Buy back of shares	300 000	300 000
Audit fees	50 000	105 000
Directors fees	170 000	340 000
Advertising	20 000	0

6.6 Shareholders are thinking of purchasing the business premises rather than renting it.

Explain **ONE** major advantage and **ONE** major disadvantage of this option. (2)

INFORMATION:

A. **Sales, purchases of stock and cost of sales:**

Total sales for April 2015 to July 2015 were as follows:

Month	Total sales
April	R120 000
May	R200 000
June	R280 000
July	R320 000

- 40% of all sales are cash, the rest is on credit.
- The mark-up is 60% on cost of sales at all times.
- Stock is replaced on monthly basis.
- 70% of all purchases are cash, the rest is on credit.

B. **Debtors collection:**

Debtors are expected to pay as follows:

- 30% are expected to pay their account in the month of sale (current) to qualify for 2.5% discount for early payment.
- 50% pay in the following the sales transaction month (30 days).
- 18% pay in the second month (60 days).
- 2% are written off.

C. **Creditors payment:**

Creditors are paid in the month after purchases to receive 5% discount.

4. **IXOPO LTD.**

EXTRACT FROM CASH BUDGET FOR JUNE AND JULY 2015.

	JUNE 2015	JULY 2015
RECEIPTS		
Cash sales	120 000	140 000
Collection from debtors	?	?
PAYMENTS		
Directors fees	200 000	170 000
Audit fees	-	50 000
Salary and wages	90 000	100 800
Funds for share buy-back	-	300 000
Vehicles bought on credit	190 000	-
Payment to creditors	35 625	A
Cash purchase of stock	122 500	B
Depreciation	12 800	12 800
Advertising	2 000	2 000
Land and buildings	-	3 000 000
Rent expense	30 750	30 750

34

GRAND TOTAL: 300

Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

MEMORANDUM

SEPTEMBER 2015

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one marks. Not the method mark for the answer.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
11. Be aware of candidates who provide valid alternatives beyond the marking guideline.
12. Codes: f=foreign item; p=placemen

This memorandum consists of 19 pages.

QUESTION 1

1.1 **Indicate whether the following statements are TRUE or FASLE. Write only 'true' or 'false' next to the question number (i) – (iv) in the answer book.**

(i)	False✓
(ii)	True✓
(iii)	False✓
(iv)	True✓

4
4

1.2 **Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for July 2015.**

Cash Receipts Journal
146 970
1 800✓✓
12 340✓✓
161 110✓

Cash Payment Journal
68 900
1 300✓✓
920✓✓
600✓✓
50 000✓✓
121 720✓

14
14

1.3 **Prepare the Bank Reconciliation Statement on 31 July 2015.**

	Debit	Credit
Credit balance as per bank statement✓		44 040✓
Credit outstanding deposit✓		18 000✓
Debit outstanding cheques✓		
• 897	8 700✓	
• 905	1 200✓	
• 908	3 100✓	
Operation Debit balance as per bank account✓	49 040☑	
Operation both total must be the same	62 040☑	62 040

11
11

1.4	**Explain how cheque No. 908 should be treated when preparing the financial statements as at 31 July 2015 the end of the financial year.**

- Increase bank ✓ and increase creditors✓ in the Balance Sheet notes.

Do not accept: Dr bank and Cr Creditors control is for ledger account not financial statement

2
2

1.5	**Refer to information G. The bookkeeper has decided to write off the amount of R50 000.**

- **Which GAAP/IFRS principle will the bookkeeper be applying?**
- **The bookkeeper wants to prevent a similar problem in future. Give TWO suggestions to improve internal control in this regard.**

Principle of prudence ✓

Solutions: ✓✓ ✓✓

- Division of duties
- Encourage EFT payments by customers / debtors
- All cash received must be deposited daily (deposit slips must tally with receipts issued)
- Daily checks to see that deposits are made

5
5

TOTALMARKS
36
36

QUESTION 2

2.1	**Choose the correct word/s from those given below to complete the sentences:**

2.1.1	Working capital ✓
2.1.2	Unqualified ✓
2.1.3	Finance cost ✓
2.1.4	Cash and cash equivalents ✓

4
4

2.2 **Asset Disposal Account**

2014 DEC	31	Vehicles✓	GJ	800 000✓	2014 DEC	31	Accumulated Depreciation: Vehicles✓ (750 000✓ + 50 000✓)	GJ	800 000✓
		Profit on sale of asset✓	GJ	70 000☑			Bank✓	GJ	70 000✓
		operation							
				870 000					870 000

10
10

Do not accept depreciation of 49 999, the asset will be no longer used by the business.
Foreign items -1 each (max -2)

2.3 **GREY LIMITED**

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	Sales(7 200 000✓ – 30 000✓ –7 200✓)	☑	7 162 800
	Cost of sales (4 780 000✓ – 4 800✓✓)	✓	(4 775 200)
9	Gross profit operation	☑	2 387 600
	Other operating income operation	☑	157 040
	Bad debts recovered	✓	600
	Rent income (93 800✓ – 7 700✓✓)	☑	86 100
	Provision for bad debts adjustment	✓✓	340
9	Profit on sale of asset check 2.2	☑	70 000
	Gross operating income		2 544 640
	Operating Expense operation	☑	(1 349 640)
	Audit fees		**68 000**
	Insurance		**148 000**
	Directors fees		**470 000**
	Salaries and wages(270 000✓ + 10 000✓)	✓	280 000
	Employer contribution (72 000✓ + 1 050✓+ 1 200✓)	✓	74 250
	Consumable stores (12 000✓ – 3 000✓)	✓	9 000
	Sundry expenses operation- reasonable figure	☑	30 090
	Loss due to theft (42000 ✓x 20/80✓)	☑	10 500
	Trading stock deficit (197 000✓ + 4 800✓ – 52 500✓✓ – 144 000✓)	☑	5 300
26	Depreciation (50 000☑ + 165 000✓✓ + 39 500✓)	☑	254 500
	Operating profit operation	☑	1 195 000
	Interest Income	✓	12 000
	Operating profit before interest expense operation	☑	1 207 000
	Interest expense	✓	(7 000)
	Net profit before tax	✓	1 200 000
	Income tax operation	☑	(360 000)
7	Net profit after tax	✓	840 000

Operation for total amounts for depreciation and trading stock deficit
Check 2.2 for depreciation of 50 000
Foreign items i.e. Balance sheet items -1 each (max -2)
If the pre-adjustment figure is shown as the final answer the relevant mark is still given
If final figures are correct award full marks, if incorrect mark workings, if no works no marks

51
51

2.4.1

ORDINARY SHARE CAPITAL

AUTHORISED:	
Number of authorized ordinary shares: 3 000 000 shares	
ISSUED:	
2 000 000 ordinary shares in issue at the beginning of financial year	**5 225 000**
250 000✓ additional shares issued during the financial year at an issue price of R2,50 per share	625 000✓
10 000✓ shares bought back during the financial year at R2,60✓☑	(26 000)☑
2 240 000✓Ordinary shares in issue at the end of the financial year	5 824 000☑
operation if one part correct	

8
8

2.4.2

RETAINED INCOME

Balance at the beginning of the financial year	**770 000**
Funds used for shares buy-back (10 000✓ x 0,50✓☑)	(5 000)☑
Net profit after tax for the year	840 000✓
Dividends	(370 000)☑
Interim/paid	(100 000)✓
Final/recommended (2250 000✓✓ x 0,12✓) operation if one part correct	(270 000) ☑
Balance at the end of the financial year operation	1 235 000☑

Operation if one part is correct

12
12

TOTALMARKS
85
85

QUESTION 3

3.1.1	Direct labour cost	
	30✓ x 8✓ x 4✓ x 5✓ x 25✓ x 12✓	☑1 440 000
	Overtime	
	15✓ x 20✓ x 50✓ x 5✓	☑75 000
	operation	☑1 515 000

13
13

3.1.2	Factory overheads	
	Sundry expenses	**12 000**
	Depreciation	**76 500**
	Insurance	**72 000**
	Consumable stores (11 000✓ + 50 000✓ + 2 000✓ – 8 000✓)	☑55 000
	Factory foreman (8 000 x 7)✓ + (9 500 x 5)✓	☑103 500
	Factory cleaner (48✓ x 800✓)	☑38 400
	Maintenance (8 000✓ + 3 000✓)	✓11 000
	Water and electricity (80 000✓)70/100✓	✓56 000
	Rent (33 600✓) 560/840✓	✓22 400
	operation	☑446 800

21
21

3.1.3	Production cost statement for the year ended 28 February 2015.		
Direct material cost (600 000✓ + 2 000 000✓ + 18 000✓ – 418 000✓)		1.	☑2 200 000
Direct labour cost	check 3.1.1	2.	☑1 515 000
Prime cost/Direct cost	operation		☑3 715 000
Factory overheads	check 3.1.2	3.	☑446 800
Total cost of production/total manufacturing costs			4 161 800
Work in process at beginning of the year			✓ 80 900
			4 242 700
Work in process at the end of the year	operation. bracket is essential		☑ (850 700)
Cost of production of finished goods			☑3 392 000 operation

11
11

3.2.1	**The number of unproductive hours that were caused due to load-shedding.**
20 weeks✓ x 3 days✓ x 3hrs✓ x 30 workers✓ = 5 400 Hours☑ or 9 hours per week x 4 weeks x 5 months x 30 workers = 5 400 Hours	
The Rand amount lost on direct wages as a result of the load shedding.	
5 400 Hours☑ x R25✓ x = R135 000 ☑	

8
8

3.2.2	Apart from these unproductive hours, explain TWO other ways in which load shedding may have negatively affected the business.

Any possible points ✓✓ ✓✓

- Zwide Pampers produced 848 000 instead of 900 000 and is less by 52 000. The estimated profit will be less by(52 000 X R1,60) R83 200
- They might lose customers to alternative suppliers because of failing to meet the demand.
- Workers have had to be paid extra for overtime worked but still not enough units were produced.

4
4

3.2.3	What advice would you provide to Robert to counteract the effect of load shedding? Provide TWO points.

Any possible points ✓✓ ✓✓

- To have a backup system (use of generator).
- Work in shifts
- Use load shedding time for activities that do not need power e.g. meetings, planning.

4
4

over
Please turn

3.3 DIEGO COSTA MANUFACTURING

3.3.1	Calculate the number of units that Diego Costa Manufacturing needed to produce in order to break even in 2015.

$$\frac{✓452\ 000}{311,50✓ - 111,50✓}$$

= 2 260 units. ☑ operation if one part is correct

4
4

3.3.2	Comment on the number of watches they are producing. Quote figures or financial indicators to support your answer. (Refer to 3.2.1)

- The business produced 5 000 units. This exceeds the break-even point of 2260 units by 2 740 units. The business is operating at a profit.✓✓

2
2

TOTALMARKS
67
67

over
Please turn

QUESTION 4

4.1.1 Stock turnover rate

$$\frac{5\,625\,000✓}{½\,(670\,000✓ + 580\,000✓)}$$

$$\frac{5\,625\,000}{625\,000}$$

9 times☑ operation one part must be correct

Marks: 4 / 4

4.1.2 % return on total average capital employed

$$\frac{1\,330\,000✓ + 185\,000✓}{½\,(7\,850\,000✓ + 1\,800\,000✓ + 6\,450\,000✓ + 950\,000✓)} \times \frac{100}{1}$$

$$\frac{1\,515\,000}{8\,525\,000} \times \frac{100}{1}$$

17,77% or 17.8%☑ operation one part must be correct

Marks: 7 / 7

4.2 **The shareholders are pleased with the return, earnings and dividends:**

- **Quote THREE financial indicators that indicate this.**
- **Quote figures and trends to support your comment.**

Financial indicators (with figures) and trend ✓ ✓ ✓
Valid explanation beyond the trends ✓ ✓ ✓

Comment on shareholders return per share:
This has increased from 12% to 13%. Good return better than alternative investment (Good Day Bank is offering 9% on all investments)

Comment on earnings per share:
These have increased from 120 cents to 133 cents. This indicates that the profits have increased from the previous year.

Comment on dividends per share:
These have increased from 20 cents to 34 cents. Shareholders should be satisfied.

Marks: 6 / 6

4.3 Calculate the missing figures in the Cash Flow Statement.

NO.	WORKINGS	ANSWER
(a)	399 000✓ – 18 000✓ – 32 000✓ Or 18 000 – 399 000 + 32 000	operation one part must be correct and the answer must be in bracket to indicate the out flow of cash (349 000)☑
(b)	4 326 000✓ + 380 000 ✓+ 140 000 ✓– 1 489 000✓	operation one part must be correct and the answer must be in bracket to indicate the out flow of cash (3 357 000)☑
(c)	5 950 000✓ + 425 000✓ – 5 200 000✓ Or 100 000✓ X 11,75✓✓	operation one part must be correct 1 175 000☑
(d)	50 000✓ X 11 ✓✓	operation one part must be correct and the answer must be in bracket to indicate the out flow of cash (550 000)☑

Marks: 17 / 17

Mark only one line sign must be correct

4.4 **The directors decided to increase the loan during the current financial year:**

- **Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not**

Ratios with figure : ✓✓ ✓✓
Comment: ✓✓ ✓✓

ROTCE
- This is 17,77% see 4.1.2

Debt/equity ratio
- This is 0,23 : 1

Explanation

Positively geared as ROTCE is higher than interest rate.

Low financial risk / not making much use of loans (it relies more on funds from internal source)

8
8

4.5 **The existing shareholders are happy with the price at which the new shares were issued:**

- **Comment on the price at which the 100 000 new shares were issued**
- **Quote TWO financial indicators to support your comment**

Comment ✓ ✓
Quoting of indicator ✓ ✓

Shares were issued at a price higher than the NAV. NAV was R11, 21 and shares were issued at R11, 75.

Shares were issued at a price higher than a market price. Market price was R10, 50 and shares were issued for R11, 75.

4
4

4.6

The Cash Flow Statement highlights some important decisions taken by the directors during the past year.

- **Explain THREE of these important decisions. Quote figures to support your answer.**

Explain how these decisions would benefit the company.

THREE decisions with figures ✓✓ ✓✓ ✓✓

Explanation of Decisions benefiting the company ✓ ✓ ✓

Decisions (with figures)	Explanation of Benefits
Allocate 1 mark for the item and 1 mark for the figure	
Fixed asset purchased for R3 357 000	Improve profit earning capacity/existing tangible assets may be obsolete.
Issue of additional shares for R1 175 000	To finance the purchasing of tangible assets.
Increase in loan by R850 000	To finance the fixed cost / purchases of tangible asset

9
9

TOTALMARKS
55
55

QUESTION 5

5.1 STOCK VALUATION

5.1.1

Explain why it would be unreasonable for this business to value its stock items on the basis of FIFO or weighted average. Provide TWO points

Possible answers ✓✓ ✓✓

- They sell low volumes of these large articles which makes it easier to identify the specific cost on each car
- It would be inappropriate to value cars based on the weighted average because the cost prices vary considerably.
- They sell separate items that are very different from each other in terms of character

Accept any valid point

4
4

5.1.2

Explain why it would be unreasonable for certain businesses to use the specific identification method, e.g petrol shop. Provide TWO points

Accept any valid point ✓✓ ✓✓

- Petrol cost price might change depending on the performance of Rand against the Dollar.
- Old stocks may be sold at higher price or lower prices depending on how the petrol price changes.
- Petrol prices are also regulated and depend on Brent crude oil prices.
- Cannot identify the exact petrol bought on a specific day at a specific Price
- Petrol price is regulated by the government.

4
4

5.1.3

Sibusiso Car Dealers does not want the cost prices of stock items to be public knowledge. What strategies could they use to keep the cost prices confidential?

Accept any valid point ✓✓

Keep the cost prices in a catalogue which can be secured in the manager's office.

Secret cost codes could be used

2
2

5.1.4

Calculate the gross profit earned during August 2015

70 000✓ + 90 000 ✓+ 120 000✓ = 280 000☑ operation if one part is correct

4
4

5.2 CONTROL OF INVENTORY

Comment on the stock control of each item, quoting figures to support your comment. In each case offer Nokubonga practical advice for the future

Problem with a figure ✓ ✓
problem with no figure : no mark(s)
ADVICE ✓

	Problem identified with figures.	**Advice**
TV sets	There is cash missing. The actual sales should be R4 800 000 instead of R4 700 000 (R100 000 is missing)	Institute investigation. Administer disciplinary procedures and sanction the guilty parties' e.g. legal actions, suspension and ect.
Cellphones	The control of stock is a problem 40 cellphones are missing.	Institute procedure to safeguard the stock e.g. special cabinets with one person controlling the key.
Radios	The radios are not selling well only 10 per month sold. The stock on hand is high.	Discontinue selling radios it is not worth it.

9
9

TOTALMARKS
23
23

QUESTION 6

6.1 Why it is a good idea to compare budgeted against actual figures.

Any valid explanation ✓✓

Possible responses:
- To reflect on whether your projected income and expenditure have been realistic.
- To improve future projections.
- To determine variances between projections and actual amounts.
- To be able to control income and expenditure on a monthly basis.

2
2

6.2 Refer to the Cash Budget under information 4. Identify TWO items that was incorrectly entered in the Cash Budget.

- Depreciation ✓
- Vehicle bought on credit✓

2
2

6.3 Complete the Debtors Collection Schedule for July 2015.

	Credit sales	June 2015	July 2015
April	72 000	12 960	
May	120 000	60 000	21 600
June	168 000	49 140✓✓✓	84 000✓✓
July	192 000		56 160✓✓✓
Total collection	Operation if one part is correct	122 100☑	161 760☑

10
10

6.4.1 Calculate percentage increase in salary and wages with effect from July 2015.

100 800✓ / 90 000 ✓X 100 = 12%☑ operation

3
3

6.4.2 Calculate Missing figures A and B in the extract from the Cash Budget

	WORKINGS	ANSWER
A	(280 000 X 100 / 160)✓ = (175 000 X 30 / 100)✓ =(52 500 X 95 / 100)✓	operation ☑49 875
B	(320 000 X 100 / 160)✓ = (200 000 X 70 / 100)✓	operation ☑140 000

7
7

6.5 At the end of July 2015 you identified the following, when comparing the budgeted against the actual figures:

- **Explain what you would mention to shareholders about each of the following items at the end of July 2015.**
- **In each case explain what effect these items will have on the company.**

EXPLANATION ✓	ADVICE ✓
Buy- back of shares: Well controlled / amount spent is equal to budgeted amount.	Maintain the good budgeting ethics.
Audit fees: Over budget/ poor control of audit/ change of auditors increase in prices/ the business has been audited twice or more this year/poor internal auditing resulting in a longer and expensive external audit.	Change of auditors/ audited twice will eliminate fraud and assure shareholders that their investment is protected against any fraudulent activities. Improve the internal audit
Directors fees: Over budget by 100% or double the amount/ poor control of directors fees by R170 000.	The increase in director's fees is acceptable if the company made a profit and salaries of employees have been increased along those lines to avoid problems in future. The finance committee must approve that and shareholders must be informed.
Advertising: The amounted budgeted, R20 000, has not been used.	Consider the implications of not advertising. It is important to advertise in order to attract customers and possibly improve sales.

8
8

6.6 Shareholders are thinking of purchasing the business premises rather than renting the premises.

Explain ONE major advantage and ONE major disadvantage of this option.

Advantage:✓

Saving on rent / Earn capital gains as property increases in value.

Disadvantage:✓

Repairs and maintenance to be paid/ additional loans will be required to finance this option.

2
2

TOTALMARKS
34
34