



Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING
COMMON TEST
JUNE 2016

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 300

TIME: 3 HOURS

N.B. This question paper consists of 17 pages and an answer book of 15 pages.

INSTRUCTIONS AND INFORMATION

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 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.

Question 1: 60 Marks; 36 Minutes

Main topic of the question	This question integrates:
Cash Flow and ratio's	Financial accounting Cash flow Statement and ratio's

QUESTION 2: 35 Marks; 21 Minutes

Main topic of the question	This question integrates:
Interpretation of Financial Statement	Financial accounting Analysis and interpretation of financial statement

QUESTION 3: 45 Marks; 27 Minutes

Main topic of the question	This question integrates:
Reconciliations and Interpretation	Financial accounting Bank reconciliation and creditors reconciliations Managing resources Internal control

QUESTION 4: 90 Marks; 54 Minutes

Main topic of the question	This question integrates:
Financial Statement	Financial accounting Income Statement and notes

QUESTION 5: 30 Marks; 18 Minutes

Main topic of the question	This question integrates:
Stock valuation and internal control	Managing resources inventory valuation: FIFO and internal control problem-solving

QUESTION 6: 40 Marks; 24 Minutes

Main topic of the question	This question integrates:
Fixed asset and internal control	Financial accounting Tangible assets Asset disposal account Managing resources Internal control

QUESTION 1 CASH FLOW AND RATIO'S**(60 Marks;36 Minutes)****1. BHUNU LIMITED.**

You are provided with information related to Bhunu LTD.

REQUIRED:

- 1.1 Prepare the reconciliation between net profit before tax and cash generated from the operating activities. (16)
- 1.2 Complete the Cash Flow Statement for the year ended 29 February 2016. (27)
- 1.3 At the AGM, a shareholder stated that the cash flow statement reflects good decisions taken by the directors.
Explain **TWO** points, with relevant figures, to support his opinion. (6)
- 1.4 Calculate the following financial indicators for the financial year ended 29 February 2016.
 - 1.4.1 Net asset value per share (NAV) (3)
 - 1.4.2 Current ratio (5)
 - 1.4.3 Debt/equity ratio (3)

INFORMATION:**A. Extract from the Income Statement:**

	29 Feb 2016
Depreciation	?
Interest on loan (capitalised)	144 000
Net profit before tax	?
Income tax for the year (28%)	210 000
Net profit after tax	?

B. The following figures were extracted from the financial records on 29 February:

	2016	2015
Ordinary share capital	2 800 000	1 440 000
Retained income	479 000	317 000
Non-current liabilities	1 062 000	1 240 000
Fixed/Tangible assets	2 795 000	2 185 000
Financial asset	700 000	740 000
Inventories (all trading stock)	920 000	780 000
Debtors control	345 000	429 000
Cash and cash equivalents	613 000	5 000
Creditors control	288 000	378 000
Shareholders for dividends	252 000	81 000
SARS (Income tax)	Dr 2 000	Cr 24 000
Bank overdraft		85 000

C. Share capital

- Authorised share capital consists of 1 000 000 ordinary shares.
- 600 000 shares were issued on 1 March 2015.
- 200 000 new ordinary shares were issued on 1 September 2015.
- 100 000 ordinary shares were repurchased on 1 February 2016 at 80 cents above the average issue price. (This transaction was properly recorded).
- On 29 February 2016 the share register reflect that a total of 700 000 shares had been issued to date.

D. Fixed assets

- Additional property was purchased for R 836 000 during the year.
- Equipment was sold for R72 000 at carrying value during the year.

E. Interim dividends

Interim dividends of R 126 000 was paid on 30 September 2015.

QUESTION 2 INTERPRETATION OF FINANCIAL STATEMENT**(35 Marks; 21 Minutes)****2.1 STANLEY LIMITED.**

You are provided with information related to Stanley LTD.

REQUIRED:

- 2.1.1 Comment on the solvency of this business. Quote a financial indicator from the question to support your answer. (4)
- 2.1.2 The company directors feel that the shareholders should be happy with, the returns, earnings and dividends of the company.
- Quote **THREE** relevant financial indicators (actual ratios or percentages) to support their opinion. (6)

INFORMATION:**FINANCIAL INDICATORS:**

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

	2016	2015
Debt/Equity ratio	?	0.27:1
Total assets : total liabilities	4.2:1	2.3:1
Current ratio	2.4:1	1.8:1
Acid-test ratio	1:1	0.7:1
Stock-turnover rate	3 times	2.4 times
% return on average shareholders' equity (after tax)	25%	23.9%
% return on total capital employed (before tax)	43.3%	39.7%
Net asset value per share	350 cents	330 cents
Dividends per share	64 cents	65 cents
Earnings per share	95.2 cents	78.8 cents
Interest rate in all investments	10%	9%

2.2 BB LIMITED AND NGOBESE LIMITED

Your friend, Sibusiso, wants to buy shares in a company which sells clothing. 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.

	BB LTD	NGOBESE LTD
Market price per share on the JSE	800 cents	900 cents
Net asset value per share	720 cents	1 010 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21.3%	11.2%
Current ratio	6.0 : 1	1.5 : 1
Acid-test ratio	3 : 1	1 : 1
Period for which stock is on hand	180 days	32 days
Average debtors' collection period	60 days	28 days

REQUIRED:

- 2.2.1 Sibusiso is of the opinion that Ngobese Ltd is handling its working capital more effectively and is in a better liquidity position than BB Ltd. Explain and quote **THREE** financial indicators to support his opinion.

(9)

- 2.2.2 The existing shareholders of the two companies hold different opinions of the current market value of their shares.

- Explain why the existing shareholders of BB Ltd are happy with this. Quote a financial indicator/figures to support your answer.
- Explain why the existing shareholders of Ngobese Ltd are very disappointed with current market value. Quote a financial indicator/figures to support your answer.

(4)

2.3 BLIND LIMITED AND SMITH LIMITED

Your friend, Sizwe, wants to buy shares in a company which sells TV Games. 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.

	BLIND LTD	SMITH LTD
Current ratio	5 : 1	1.7 : 1
Debt-equity ratio	0.3 : 1	2 : 1
Return on total capital employed (ROTCE)	14%	10%
Return on shareholders' equity (ROSHE)	19%	9%
Earnings per share (EPS)	600 cents	1000 cents
Dividend per share (DPS)	450 cents	500 cents
Net asset value per share (NAV)	350 cents	800 cents
Market price of shares on JSE	450 cents	700 cents
Interest rate on loans	12%	12%

REQUIRED:

- 2.3.1 Compare and comment on the dividend pay-out policies of the two companies. (6)
- 2.3.2 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (6)

QUESTION 3 RECONCILIATIONS AND INTERPRETATION**(45 Marks, 27 Minutes)**

3.1 You are provided with information related to Miller Jewelers.

REQUIRED:

- 3.1.1 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for February 2016. (10)
- 3.1.2 Calculate the correct balance for the Bank Account on 29 February 2016. (4)
- 3.1.3 Prepare the Bank Reconciliation Statement on 29 February 2016. (8)
- 3.1.4 The fixed deposit of R100 000 matures next month. The interest on fixed deposit is 10% p.a while the interest on overdraft is 12% p.a. What advice would you offer the owner in this regard? Explain **TWO** points, quoting appropriate figures to support your answer. (4)
- 3.1.5 **Refer to Information 4 below.**
- Explain why the internal auditor should be concerned about the outstanding deposit of R20 295.
 - Explain how cheque No. 674 should be dealt with when the financial Statements are prepared on 29 February 2016. Give a reason for your answer. (4)

INFORMATION:

1. At the end of the previous month, 31 January 2016, the following items were reflected in the Bank Reconciliation Statement:

	Debit	Credit
Balance as per Bank Statement		12 545
Outstanding deposit:		12 000
Outstanding cheques:		
• 261 (dated 19 August 2015)	5 000	
• 519 (dated 15 January 2016)	8 920	
• 543 (dated 19 February 2016)	4 300	
Balance as per bank account	6 325	

2. On 29 February 2016, the provisional totals in the journals were:
- CRJ R70 600
 - CPJ R105 320
3. The following items were reflected on the Bank Statement but not in the journals for February 2016:
- Direct deposit by a debtor, K Kwela, R2 400
 - Bank charges, R520
 - Interest on fixed deposit for February, R700
 - Interest on overdraft for February, R810
 - Stop-order in favour of Rama Insurance Co, R660
 - Dishonoured cheque on 29 February 2016, originally presented by a debtor, M Maduna, R6 200
 - Cheque no. 519 was presented for payment.
4. The following differences were noticed:
- Cheque No. 565 for repairs was shown in the CPJ as R1 570, but on the February Bank Statement as R1 750. The Bank Statement is correct.
 - A deposit of R12 000 appeared on the Bank Statement on 1 February 2016, but did not appear in the February CRJ.
 - A deposit of R20 295, dated 20 February 2016, appeared in the February CRJ, but not on the February Bank Statement.
 - The following cheques appeared in the February CPJ, but not on the Bank Statement:
 - No. 654 (dated 23 February 2016), R2 800
 - No. 674 (dated 29 May 2016), R2 520

3.2 THE CREDITORS CONTROL ACCOUNT AND THE CREDITORS LIST

The bookkeeper of Nonhlanhla Zwane Stores made some mistakes and omitted certain transactions in preparing the Creditors' Control Account and the Creditors' List on 29 February 2016. You are the internal auditor for the store.

REQUIRED:

- 3.2.1 List the corrections that the bookkeeper must make to the Creditors' Control Account in the General Ledger and Creditors list. If no entry is applicable, write "NO ENTRY"

(15)

INFORMATION**Pre-adjustment figures on 29 February 2016**

Creditors' Control Account balance		R160 300
Creditors' List total from the Creditors' Ledger		R170 400
• Brian Traders	R29 600	
• Thomas Wholesalers	R96 500	
• Willies Stores	R44 300	

ERRORS AND OMISSIONS

- A The total of the Creditors Allowance Journal was undercast by R13 000.
- B The total of Creditors Journal was inaccurately added as R52 250 instead of R62 350.
- C A payment of R43 000 to Willies Stores was correctly recorded in the Cash Payments Journal but the bookkeeper neglected to post this payment to the creditor's account.
- D A cheque for R2 100 issued to Brian Traders in settlement of their debt of R2 300 was correctly recorded in the Cash Payments Journal but inadvertently posted to Thomas Wholesalers account. Rectify the error.
- E A credit balance of R470 from Willies Stores' account in the Debtors Ledger must be transferred to their account in the Creditors Ledger.
- F Credit purchases of merchandise to the value of R38 600 from Thomas Wholesalers were wrongly entered as R83 600 in the Creditors Journal and posted as such.
- G Brian Traders' account was mistakenly debited with credit purchases of merchandise to the value of R15 000.

QUESTION 4 INCOME STATEMENT AND NOTES**(90 Marks, 54 Minutes)**

You are provided with information relating to Mbuso Limited. The company sells clothing and sews garments for their customers. Their financial year ends on 29 February 2016.

REQUIRED:

- 4.1 Prepare the Income Statement for the year ended 29 February 2016 (59)
- 4.2 Prepare the following notes to the financial statements on 29 February 2016:
- 4.2.1 Retained income (8)
- 4.2.2 Trade and other payables (23)

INFORMATION:

The following balances and totals were extracted from the Pre-adjustment Trial Balance of Mbuso Ltd. on 29 February 2016.

Balance Sheet Accounts Section	
Ordinary share capital	8 000 000
Retained income	700 000
Mortgage Loan: TVM Bank (interest rate: 18% p.a.)	500 000
Vehicles	?
Equipment	950 000
Accumulated depreciation on vehicles (1 March 2015)	1 350 000
Accumulated depreciation on equipment (1 March 2015)	450 000
Fixed Deposit: TVM Bank (interest rate: 12% p.a.)	900 000
Creditors Control	660 000
Debtors Control	458 500
Trading stock	740 900
Provision for bad debts (1 March 2015)	30 000
Bank	45 200
Pension fund	45 400
UIF	12 000
SARS (PAYE)	64 100
SARS (Income tax)	100 000
Nominal Accounts Section	
Sales	5 840 000
Cost of sales	2 730 000
Debtors allowances	20 000
Insurance	53 800
Rent income	120 600
Salaries and wages	860 000
Interest on loan	63 000
Interest on fixed deposit	130 000
Packing material	52 000
Bad debts	14 000
Employers contributions	191 000
Bad debts recovered	3 400
Directors fees	300 000
Sundry expenses	?
Ordinary share dividends	185 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A. There were two Directors at the start of the accounting period. Directors fees have been paid for the first half of the accounting period.
- On 1 September 2015 the directors fees decreased by 5% p.a for both directors. On 1 December 2015, one director left the company. Both directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- B. A debtor who originally owed R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded. The remaining balance must be written off.
- C. An invoice issued to a debtor for goods sold on credit for R 70 000, upon which a trade discount of 10% was granted, was not recorded. The mark-up for this sale was 60%.
- D. An amount of R1 700 received from M Mpoani had been credited to the debtors control account in February 2016. The account of M Mpoani was written off during January 2016.
- E. Provision for bad debts must be adjusted to 5% of debtors.
- F. No entries have been made for stock stolen at the beginning of January 2016. The insurance company has informed Mbuso LTD that they have transferred R 32 000 into the business bank account in respect of the insurance claim. Mbuso LTD bears 20% of any stock loss.
- G. The physical count on 29 February 2016 reflect the following stock on hand:
- Trading stock R 650 150
 - Packing material R 21 000
- H. Rent income for March 2016 has already been received. The monthly rent was increased by 10% on 1 December 2015.
- I. An employee was left out in the salaries Journal for February 2016. The details from his pay-slip were:

Gross salary	R25 000	Net salary	R18 375
PAYE deduction	R4 500		
Pension deduction	R1 875		
UIF deduction	R250		

The business contributions were as follows:

- Pension fund: 10,5% of gross salary.
- UIF: rand-for-rand basis.

Note: all contributions are debited to the Employers contribution account.

- J. Total depreciation for the year was R 93 000
- K. Provide for outstanding interest on loan. A payment of R200 000 was made towards the loan on 31 August 2015 and this was properly recorded.
- L. Income tax for the financial year was calculated as R322 000 and this is 28% of the net profit before tax.
- M. Final dividends were declared at 35 cents per share. 560 000 ordinary shares were in issue on 29 February 2016.

QUESTION 5 INVENTORY VALUATION AND PROBLEM SOLVING**(30 Marks; 18 Minutes)**

5.1 You are provided with information related to H World Traders for the year ended 29 February 2016. The business sells only high definition decoders. The periodic inventory system and the FIFO stock valuation method are in operation. They buy all their stock from one supplier.

REQUIRED:

- 5.1.1 Explain **ONE** main difference between the periodic and continuous (perpetual) inventory systems. (2)
- 5.1.2 Using the FIFO method calculate the following:
- Value of closing stock on 29 February 2016. (7)
 - Calculate cost of sales. (5)
 - Gross profit for the year ended 29 February 2016. (3)
- 5.1.3 Calculate the average stock holding period (in days) for this financial year. (4)

INFORMATION:**A.**

DATE	NUMBER OF UNITS	PRICE PER UNIT	CARRIAGE ON PURCHASES	AMOUNT R
1 March 2014: (opening stock)	100			R55 600
PURCHASES	1 150		R28 750	R776 250
May 2015	250	R630	R6 250	R163 750
October 2015	800	R650	R20 000	R540 000
January 2016	100	R700	R2 500	R72 500
28 February 2016: (closing stock)	130			?

- B.** Carriage on purchases during the year amounted to R25 per television set.
- C.** Ten (10) defective television sets bought during January 2016 were returned to the supplier. The supplier allowed for this return including the carriage.
- D.** A selling price of R1 095 per television set was maintained throughout the year. The total sales for the year amounted to R1 215 450.

5.2 PROBLEM SOLVING

Amanda Sibiya is the owner of Cell-G, who sells cellular phones. She has three different branches that are managed by Thando, Zanoluhle and Sizolwethu. She is concerned that the branches are not running effectively and gave you the following information to analyse for May 2016.

REQUIRED:

Identify ONE problem in each branch. Quote figures to identify the problem in each case. Give Amanda advice on how to solve each problem.

(9)

	Branch 1 Thando	Branch 2 Zanoluhle	Branch 3 Sizolwethu
Sales	R340 000	R170 000	R400 000
Returns from customers for the month	R25 500	R21 000	R20 000
Stock on hand	60 days	20 days	120 days
Stock turnover rate	8 times	4 times	12 times
Number of employees	5	7	7
Stock stolen/lost during the month	0	2 units	15 units
Advertising	R15 000	R10 000	R12 000

QUESTION 6 FIXED ASSET AND INTERNAL CONTROL**(40 Marks; 24 Minutes)**

You are provided with information related to Mpephose Traders for the year ended 29 February 2016. The business is owned by Sibongile Buthelezi.

INFORMATION:**A. Office equipment and disposals:**

Office equipment includes the office computers. Four of the office computers were stolen on 31 August 2015. These four computers were originally bought at a cost price of R14 000 each. The accumulated depreciation on the stolen computers on 31 August 2015 was R19 600. The insurance company, Ace Insurers, only paid out R6 000 for each computer. These computers were replaced at a higher price on 31 August 2015. Depreciation was calculated at 10% p.a.

B. Information from the financial statements for year ended 29 February 2016:

FIXED ASSETS	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value at beginning of year	1 200 000	550 000	403 501
Cost	1 200 000	1 000 000	699 000
Accumulated depreciation		(450 000)	(295 499)
Movements			
Additions		?	
Disposal at carrying value	(700 000)	(36 400)	
Depreciation		?	(111 000)
Carrying value at the end of year	500 000	?	292 501
Cost	500 000	992 000	699 000
Accumulated depreciation		?	(406 499)

REQUIRED:

- 6.1 Prepare the Asset Disposal Account for office equipment (computers) stolen on 31 August 2015. (9)
- 6.2 Calculate the date which the stolen equipment was purchased. (6)
- 6.3 Calculate the cost price of the new equipment which was purchased on 31 August 2015. (5)
- 6.4 Calculate the total depreciation for equipment on 29 February 2016. (5)
- 6.5 One of the office employees, Zolly Ndunakazi, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Sphiwe broke the security gate of the office to make the incident look like forced entry. She is not sure if Sibongile knows about this.
What advice would you give Zolly? Explain ONE point. (3)
- 6.6 Explain how the Fixed Assets Register will assist the internal auditor in his duties. (3)

C. Delivery vehicles:

As a service to their customers, the business delivers goods within Durban. They charge a flat rate of R250 per delivery. Clients pay cash directly to the drivers.

3 660 deliveries were made during the year. The delivery service operated on 260 days during the year.

You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.

D. Information from the Fixed Assets Register and the accounting records on 29 February 2016:

Fixed Assets Register	Delivery vehicle 1	Delivery vehicle 2	Delivery vehicle 3
Name of driver	Old mill	Thanduyise	Khombindlela
Date purchased	1 April 2015	1 January 2010	1 April 2013
Cost price of vehicle	R315 000	R144 000	R 240 000
Accumulated depreciation	R94 500	R143 999	R168 000
Carrying value	R220 500	R1	R72 000
Number of days worked	200 days	260 days	260 days
Number of deliveries done	300 deliveries	2080 deliveries	1 500 deliveries
Cash paid in by drivers	R75 000	R525 000	R275 000
Fuel and maintenance costs for the year	R36 400	430 500	R201 500.

REQUIRED:

- 6.7 Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer. Provide a valid solution for each problem.

(9)

TOTAL MARKS: 300

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○



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ACCOUNTING

MEMORANDUM

COMMON TEST

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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 mark. 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 a 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=placement.

This memorandum consists of 15 pages.

QUESTION 1

- 1.1 Prepare the reconciliation between net profit before tax and cash generated from the operating activities.

Cash generated from operations	
Net profit before tax (210 000✓ X 100/28✓)	750 000✓
Depreciation (2 795 000✓ + 72 000✓ - 836 000✓ - 2185 000✓)	154 000✓
OR 2185 000 + 836 000 - 72 000 - 2 795 000)	
Interest expenses	144 000✓
Operating profit before changes in working capital	1 048 000
Changes in working capital	(146 000)
Increase in Inventory (920 000 - 780 000)	(140 000)✓✓
Decrease in Debtors (345 000 - 429 000)	84 000✓✓
Decrease in Creditors (288 000 - 378 000)	(90 000)✓✓
Operation	902 000✓

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- 1.2

CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2016.

Cash flows from operating activities operation	315 000✓
Cash generated from operations check 1.1	902 000✓
Interest paid	(144 000)✓
Dividends paid (81 000✓ + 126 000✓✓) OR (81 000 + 378 000 - 252 000)	(207 000)✓
Income tax paid (24 000✓ + 210 000✓ + 2 000✓) OR (-24 000 - 210 000 - 2 000)	(236 000)✓
Cash flows from investing activities operation	(724 000)✓
Purchase of fixed assets	(836 000)✓
Proceeds on sale of fixed assets	72 000✓
Decreased in financial asset (700 000 - 740 000)	40 000✓✓
Cash flows from financing activities operation	1 102 000✓
Proceeds from issue of share capital (200 000✓ x 8.80✓)	1 760 000✓
Buy back of shares (100 000✓ x 4.80✓) operation	(480 000)✓
Payment of long-term loan	(178 000)✓
Net change in cash equivalents operation	693 000✓
Cash equivalents - beginning of year (5000 - 85 000)	(80 000)✓
Cash equivalents - end of year operation	613 000✓

27

1.3 At the AGM, a shareholder stated that the cash flow statement reflects good decisions taken by the directors.

Explain TWO points, with relevant figures, to support his opinion.	Explanation of Benefits ✓
Decisions ✓ (with figures) ✓	Improve profit earning capacity/existing tangible assets may be obsolete
Purchases of fixed asset R836 000	To finance the purchasing of tangible assets/ Repayment of loan
Proceeds on shares issued R 1 760 000	To boost debt/equity ratio/Decrease interest to increase profit
Repayment of loan R178 000	

1.4.1 Net asset value per share (NAV)

3 279 000 ✓ x 100
700 000 ✓
468 cents ✓

1.4.2 Current ratio

1 880 000 ✓ : 540 000 ✓
3.48 : 1 ✓ OR 3.5 : 1

1.4.3 Debt/equity ratio

1 062 000 ✓ : 3 279 000 ✓
0.32 : 1 ✓

QUESTION 2

2.1.1 Comment on the solvency of this business. Quote a financial indicator from the question to support your answer.

Solvency improved from 2.3 : 1 to 4.2 : 1. ✓✓
Total assets can be used to pay off total liabilities ✓✓

2.1.2 The company directors feel that the shareholders should be happy with, the returns, earnings and dividends of the company.

Quote THREE relevant financial indicators (actual ratios or percentages) to support their opinion.
Return on average shareholders' equity improved from 23.9% to 25% by 1.1%. The return is higher than alternative investment of 10%. ✓✓
Earnings per share improved from 78.8 cents to 95.2 cents by 16.4 cents. ✓✓
Dividends per share decreased from 65 cents to 64 cents by 1 cent. The company reserve 31.2 cents for future plans or unforeseen expenses ✓✓

2.2.1 Sibusiso is of the opinion that Ngobese Ltd is handling its working capital more effectively and is in a better liquidity situation than BB Ltd. Explain and quote THREE financial indicators to support his opinion.

Financial indicator / Quoting of figures / Explanation
For those who provide more than three options, penalty of 1 for an irrelevant indicator (max 2)
Current ratio of Ngobese Ltd is 1.5 : 1 and of BB Ltd is 6:1 (BB Ltd's ratio is 4 times bigger). Ngobese has enough current assets to cover his current liabilities whereas BB Ltd is holding too much of his funds in the form of current assets which do not result in a return for the business.
Acid test ratio of Ngobese Ltd is 1 : 1 and of BB Ltd is 3 : 1. (BB Ltd's ratio is 3 times bigger). Even if Ngobese is not able to sell all of his trading stock he should still be able to cover his short term debt. BB Ltd is holding much of his current assets in the form of trading stock (stock piling).
Period for which enough stock is on hand for Ngobese Ltd is 32 days and for BB Ltd is 180 days (6 months). Ngobese Ltd has enough stock for 1 month which is appropriate for a company selling clothing which normally change seasonally. BB Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
Debtors average collection period of Ngobese Ltd is 28 days which is within the normal acceptable credit terms and is much lower than the 60 days of BB Ltd.

2.2.2

The existing shareholders of the two companies hold different opinions of the current market value of their shares.

Explain why the existing shareholders of BB Ltd are happy with this. Quote a financial indicator/figures to support your answer.

Comparing market price and NAV of BB Ltd ✓ Figures ✓

Market price of BB Ltd is 800 cents which is higher than the NAV of 720 cents OR market price is 80 cents higher than the NAV. BB Ltd is thus able to fetch a price higher than the value of the shares in the books of the company.

Explain why the existing shareholders of Ngobese Ltd are very disappointed with the current market value of their shares. Quote a financial indicator/figures to support your answer.

Comparing market price and NAV of Ngobese Ltd ✓ Figures ✓

Market price of Ngobese Ltd is 900 cents which is lower than the NAV of 1 010 cents OR Market price is 110 cents lower than the NAV.

4

2.3.1

Compare and comment on the dividend pay-out policies of the two companies.

Financial indicators or explanations thereof with figures

Comparison and comment
Do not accept comparison of the DPS only

Must mention both companies
✓ Can get 1 mark

Blind LTD DPS 450 cents ✓
EPS 600 cents ✓
OR 2 marks
Distributes 75% of earnings

Blind Ltd is distributing a higher percentage of income earned; Smith Ltd has decided to retain half of EPS.

OR

Blind Ltd appears to keep shareholders satisfied by giving them good dividends; Smith Ltd appears to have plans for growth (better long term benefits) / equalization of dividends over time.

SMITH LTD DPS 500 cents ✓
EPS 1000 cents ✓
OR 2 marks
Distributes 50% of earnings

6

2.3.2

Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

Financial indicators or explanations thereof with figures

Must use D/E and ROTCE

BLIND D/E ratio 0,3 : 1 ✓

ROTCE is 14% above the interest rate of 12% ✓

I choose Blind Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest)
OR I choose Blind Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans

OR I do not choose Smith Ltd as there is high financial risk and negative gearing / too much money borrowed and not able to use the funds effectively

OR I choose Smith Ltd as there is high use of loans and, and if they can improve efficiency (ROTCE), profit would improve significantly.

SMITH LTD D/E ratio 2 : 1 ✓

ROTCE is 10, % below the interest rate of 12% ✓

6

QUESTION 3

3.1.1

Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for February 2016.

CRJ	CPJ
70 600	105 320
5 000✓	520✓
2 400✓	810✓
700✓	660✓
	6 200✓
	180✓
78 700✓	113 690✓

Check operation for both CRJ and CPJ

10

3.1.2

Calculate the correct balance for the Bank Account on 29 February 2016.

$6\ 325✓ + 78\ 700✓$ check 3.1.1 – $113\ 690✓$ check 3.1.1 = $-28\ 665✓$ operation

4

3.1.3

Prepare the Bank Reconciliation Statement on 29 February 2016.

Debit balance as per bank statement	operation 39 340✓	
Credit outstanding deposit		20 295✓
Debit outstanding cheques		
No. 543	4 300✓	
No. 654	2 800✓	
No. 674	2 520✓	
Credit balance as per bank account	Check operation 48 960✓	28 665✓
Check operation		48 960✓

8

3.1.4

The fixed deposit of R100 000 matures next month. The interest on fixed deposit is 10% p.a while the interest on overdraft is 12% p.a. What advice would you offer the owner in this regard? Explain TWO points, quoting appropriate figures to support your answer

Good explanation = 2 marks Satisfactory = 1 mark Incorrect = 0

Pay off the overdraft because the interest of 10% p.a on the fixed deposit is lower than the interest rate on a bank overdraft.

Re-invest the difference (R100 000 – amount of overdraft calculated in (3.1.2) in order to earn a return of 10% p.a. on a fixed deposit OR Re-invest the difference in the business in order to earn a bigger profit.

4

3.1.5

Explain why the internal auditor should be concerned about the outstanding deposit of R20 295.

It should appear promptly on the Bank Statement. ✓

Fraud could be involved e.g. rolling over of cash by the cashier. ✓

Explain how cheque No. 674 should be dealt with when the financial Statements are prepared on 29 February 2016. Give a reason for your answer.

Reduce the bank overdraft and increase creditors ✓

The funds have not yet been lost at the Balance Sheet date as the cheque is post-dated ✓ (Consider favourable balance in 3.1.2)

4

3.2.1

List the corrections that the bookkeeper must make to the Creditors' Control Account in the General Ledger and Creditors list.

	Creditors control	Creditors list
Pre-adjustment	160 300	170 400
Balance/total		
A.	- 13 000✓	
B.	+ 10 100✓	
C.		- 43 000✓
D.		+ 2 300✓
		-2 300✓
E.	+470✓	+ 470✓
F.	-45 000✓	-45 000✓
G.		OR -30 000+ 15 000✓
		+ 15 000✓
Check operation	112 870✓	112 870✓

15

QUESTION 4

4.1 MBUSO LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2016

Sales	5 840 000✓ - 20 000✓ + 70 000✓ - 7 000✓)	5 883 000✓
Cost of sales	(2 730 000✓ + 43 750✓)	(2 773 750)✓
Gross profit	operation	3 109 250✓
Other operating income	operation	120 600✓
Bad debts recovered	(3 400✓ + 1 700✓)	5 100✓
Rent income	(120 600✓ - 9 900✓)	110 700✓
Provision for bad debts adjustment	(30 000✓ - 25 200✓)	4 800✓
Gross operating income	operation	3 229 850
Operating Expense	operation	(2 101 850)✓
Insurance		53 800✓
Salaries and wages	(860 000✓ + 25 000✓)	885 000✓
Employers contribution	(191 000✓ + 2 625✓ + 250✓)	193 875✓
Directors fees	(300 000✓ + 142 500✓ + 71 250✓)	513 750✓
Bad debts	(14 000✓ + 19 200✓)	33 200✓
Stock lost due to theft	(32 000✓ x 20/80)✓	8 000✓
Packing material	(52 000✓ - 21 000✓)	31 000✓
Trading stock deficit	(740 900✓ - 43 750)✓	7 000✓
sales above - 32 000✓ - 8 000✓ see stock lost above - 650 150✓)		
Depreciation		93 000✓
Sundry expenses	check operation balancing figure	283 225✓
Operating profit	operation	1 128 000✓
Interest Income		130 000✓
Operating profit before interest expense	operation	1 258 000✓
Interest expense	(63 000✓ + 45 000✓)	(108 000)✓
Net profit before tax	operation	1 150 000✓
Income tax		(322 000)✓
Net profit after tax	operation	828 000✓

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
operation one part must be correct where there is a method mark
award ✓ for 883 000 instead of 70 000 - 7 000✓ for sales workings
Calculation for 25 200 as follows: (458 500 - 19 200 - 63 000) ÷ 700 (5%)
Award ✓ for 40 000 instead of 32 000 - 8 000✓ for trading stock deficit

59

4.2.1

Retained income	
Balance at the beginning	700 000✓
Buy-back of shares✓	(144 000)✓
Net profit after tax	828 000✓
Dividends	(381 000)✓
Interim	185 000✓
Final (560 000 x 0.35)✓	196 000✓
Balance at the end	1 003 000

8

4.2.2

Trade and other payables	
Creditors	660 000✓
Creditors for salaries	18 375✓
SARS - income tax (322 000✓ - 100 000✓) or (322 000+ 100 000)	222 000✓
SARS-PAYE (64 100✓ + 4 500✓)	68 600✓
Accrued expenses (142 500✓ + 71 250✓ + 45 000✓)	258 750✓
Income received in advance	9 900✓
Pension fund (45 400✓ + 1 875✓ + 2 625✓)	49 900✓
UIF (12 000✓ + 250✓ + 250✓)	12 500✓
Shareholders for dividends (see 4.2.1)	196 000✓
operation	1 496 025✓
	OR 1 696 025

23

QUESTION 5

5.1.1

Explain ONE main difference between the periodic and continuous (perpetual) inventory systems.

- Perpetual: Stock movements are recorded on a continual basis and shortfalls can easily be traced. ✓
- Periodic: Physical stocktaking determines amount of stock on hand, and a shortfall cannot be traced that easily. ✓

2

5.1.2

Calculate value of closing stock using FIFO.

$$90 \checkmark \text{ units} \times (700 + 25) \checkmark = R65\,250 \checkmark \text{ one part correct}$$

$$40 \checkmark \text{ units} \times (650 + 25) \checkmark = R27\,000 \checkmark \text{ one part correct}$$

$$R92\,250 \checkmark \text{ one part correct}$$

7

Calculate cost of sales using FIFO.

$$55\,600 \checkmark + (776\,250 \checkmark - 7\,250 \checkmark) - 92\,250 \checkmark \text{ see above}$$

$$= R732\,350 \checkmark \text{ operation}$$

OR

$$55\,600 + 740\,500 + 28\,500 - 92\,250$$

$$= 732\,350 \checkmark \text{ method mark}$$

5

Calculate gross profit using FIFO.

$$1\,215\,450 \checkmark - 732\,350 \checkmark \text{ see above}$$

$$= R483\,100 \checkmark \text{ one part correct}$$

3

5.1.3

Calculate the average stock holding period (in days) for this financial year.

$$1/2(55\,600 \checkmark + 92\,250 \checkmark) \times 365 \text{ see calculation in 5.1.2}$$

$$732\,350 \checkmark \text{ see c.o.s. 1}$$

$$= 36,8 \text{ days} \checkmark \text{ operation one part correct}$$

4

5.2

BRANCHES	PROBLEMS <i>Problem with a figure</i>	SOLUTIONS <i>Solution to any relevant solution to the problem</i>
Branch 1 Thando	Sales are not enough in accordance to the money spent on advertising R15 000. Returns are high R25 500 compared to other branches.	Thando should consider other alternative advertising methods. She should investigate why there are so many returns.
Branch 2 Zanokuhle	Sales are poor (R170 000 compared to R340 000 and R400 000) Stock turnover rate is slow 4 times.	He should consider other advertising strategies to influence the stock turnover rate.
Branch 3 Sizolwethu	Control of stock is a problem. 15 units of stock stolen in a month. Lot of stock on hand (120) days stock piling.	Sizolwethu can sell some of the excess stock at a reduced price. Improve control over stock to minimize theft.

QUESTION 6

6.1

Asset Disposal Account

31 Aug 2015	Equipment✓	GJ	56 000✓	31 Aug 2015	Accumulated depreciation✓	GJ	19 600✓
					Bank✓	CRJ	24 000✓
					Loss on disposal of asset✓	GJ	12 400✓
			56 000	☒			56 000

Operation both totals must the same

9

6.2

Use a Calculation to determine when the stolen equipment was purchased.

$$\begin{aligned}
 56\,000 \times 10/100 &= 5\,600 \text{ first year (28 February 2012)✓} \\
 &= 5\,600 \text{ second year (28 February 2013)✓} \\
 &= 5\,600 \text{ third year (28 February 2014)✓} \\
 &= 2\,800 \text{ fourth year (31 August 2015)✓}
 \end{aligned}$$

Stolen equipment was purchased on 1 March 2011 ✓ ☒ operation

6

6.3

Calculate the cost price of the new equipment which was purchased on 31 August 2015.

$$1\,000\,000✓ - 56\,000✓ - 992\,000✓ = 48\,000✓ \quad \text{operation}$$

5

6.4

Calculate the total depreciation for equipment on 28 February 2016.

$$2\,800✓ + 94\,400✓ + 2\,400✓ = 99\,600✓ \quad \text{operation}$$

5

6.5

One of the office employees, Zolly Nduvakazi, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Sphiwe broke the security gate of the office to make the incident look like forced entry. She is not sure if Spongile knows about this.

What advice would you give Zolly? Explain ONE point.

Any valid point provided it is ethical e.g. ✓✓
Excellent = 3 Good = 2 Satisfactory = 1 Unethical = 0

- She should take the morally and ethically correct action – advise Sphiwe not to lay the insurance claim.
- Advise/find out if Spongile knows about Sphiwe's dishonesty – affects partners' relationship in the business
- Consider whistle-blowing issues – e.g. should she speak to Sphiwe / advise Spongile first / inform the partner or the insurance company

3

6.6

Explain how the Fixed Assets Register will assist the internal auditor in his duties.

Any valid response e.g. ✓✓
Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

- Assists internal control – he can check the physical existence of the assets and compare these to the register which must agree with the ledger – he will then be sure that all fixed assets are accounted for.
- Could see the complete history / life-span of the assets & their depreciation – for valuation of the asset & financial reporting.

3

6.7

Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer.
Provide a valid solution to each problem.

Delivery vehicle 1: Any valid problem identified / Quoting of relevant figure

Possible responses:

- The driver has been lazy/not working too hard – only did 300 deliveries in the year.
- The driver is absent from work too often – 60 days away from work.
- The vehicle is not being utilised enough – only did 8% of the trips.
- The driver is being paid the same salary as other drivers despite only doing 8% of the work.
- It was used for 11 months but depreciated by 30 %.

Any valid solution related to the problem identified above

Possible responses:

- Pay drivers per delivery – this will encourage them to work harder.
- Allocate this vehicle to the busiest driver.

Delivery vehicle 2: Any valid problem identified / Quoting of relevant figure

Possible responses:

- The driver has been working too hard – did 8 deliveries per day (2080/260).
- This vehicle is old / has a high running cost yet it is used for 2080 out of 3 660 deliveries.

Any valid solution related to the problem identified above

Possible responses:

- Allocate this vehicle to the least busy driver.
- Dispose or replace this vehicle.

Delivery vehicle 3: Any valid problem identified / Quoting of relevant figure

Possible responses:

The driver has been fraudulent – fees collected are R100 000 short (R375 000 – R275 000).

Any valid solution related to the problem identified above

Possible responses:

- Conduct an internal audit of fees collected.
- Conduct a disciplinary enquiry against the driver.
- Install tracking devices.