



Education

KwaZulu-Natal Department of Education

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
PREPARATORY EXAMINATION
SEPTEMBER 2018**

MARKS: 300

TIME: 3 HOURS

This question paper consists of 17 pages and an answer booklet of 18 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer 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.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information and table below as a guide when answering the question. Try NOT to deviate from it.

Question 1: 50 marks; 30 minutes	
Topic of the question	This question integrates:
Manufacturing	Managerial accounting Concepts Direct material cost Direct labour Factory overheads Managing resources Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic of the question	This question integrates:
Inventory valuation	Managing resources Inventory valuation: FIFO and internal control: problem-solving

QUESTION 3: 60 marks; 35 minutes	
Topic of the question	This question integrates:
Company Financial Statement and Audit report	Financial accounting Calculate the correct net profit after tax Note for Retained Income Balance Sheet Audit Report

QUESTION 4: 80 marks; 45 minutes	
Topic of the question	This question integrates:
Note, Cash Flow Statement and Interpretation.	Financial accounting Concepts Cash Flow Statement Calculations and financial indicators Analysis and interpretation

QUESTION 5: 30 marks; 20 minutes	
Topic of the question	This question integrates:
Reconciliation	Financial accounting Concepts Bank Reconciliation Creditors Reconciliation Managing resources Internal control

QUESTION 6: 40 marks; 25 minutes	
Topic of the question	This question integrates:
Cash Budget and internal control	Managerial accounting Analysis and interpretation of a cash budget Managing resources Internal control and internal audit

QUESTION 1

MANUFACTURING

(50 Marks;30 Minutes)

1.1 Choose a description in **COLUMN B** to match the concept in **COLUMN A**. Write only the letter (A – E) next to the number (1.1.1 – 1.1.4)

	COLUMN A.		COLUMN B
1.1.1	Direct Material	A	The varnish purchased to use on the school desks.
1.1.2	Indirect material	B	Depreciation on factory equipment.
1.1.3	Indirect labour	C	Stationery used in the office.
1.1.4	Factory overheads	D	The factory cleaner’s salary.
		E	The wood purchased to produce school desks.

(4)

1.2 WASBANK MANUFACTURERS

Wasbank Manufacturers is a business owned by Mbali Mbatha. The business produces one style of jerseys. The financial year ended on 28 February 2018.

REQUIRED:

1.2.1 Calculate the following:

- Direct material cost (8)
- Direct labour cost (10)
- Factory overhead cost (18)

1.2.2 Calculate the number of metres of raw material fabric that was wasted during the production process. (4)

- 1.2.3 The accountant is of the opinion that the workers are not properly supervised.
- Identify TWO separate problems relating to the supervision of workers. Quote figures to support your answer. (4)
 - In each case, provide a possible solution. (2)

INFORMATION:

A. Stock balances:	28 February 2018	28 February 2017
Raw material stock	?	192 000
Work-in-process stock	27 380	128 000
Indirect materials	40 000	30 000

B. Raw material stock:

Fabric was issued from the storeroom to the factory using the weighted-average method.

	Quantity (metres)	Cost per metre	Total cost
Stock on 1 March 2017	2 500	R76.80	R192 000
Purchases of fabric	24 000	R98	R2 352 000
Issued to factory	23 460	?	?
Stock on 28 February 2018	3040	?	?

Usage:
Mbali has done a study of the manufacturing process and discovered that they need 4.7 metres of fabric to manufacture one Jersey.

C. Direct labour:

The business employs ten workers, with the following conditions:

- They must work 8 hours normal time per day for 5 days a week.
- 48 weeks a year to produce two jerseys per 8 hours, per worker.
- Hours worked by workers:

	Hours per worker	Rate per hour	No. of workers
Normal time	1 500	R50	10
Overtime	1 400	R100	5
	2 900		

D. Indirect labour:

- Foreman R 250 000
- Cleaner R 110 000 (50% of her work hours in the factory)
- Admin clerk R 190 000

E. Additional information:

- Indirect material purchased during the financial year amounted to R350 000. 70% of all indirect material is allocated to the factory.
- The water and electricity for the financial year amounted to R180 000. This is divided amongst the factory, office and sales department in the ratio 4 : 1 : 1.
- Rent expense was paid up to 31 March 2018. This amounted to R93 100. The rent increases annually by 10% on 1 January. The factory occupies 80% of the floor space.
- Maintenance on factory equipment amounts to R140 per hour. A total of 560 maintenance hours were recorded.
- A total of 4 800 jerseys were manufactured during the financial year.
- Depreciation on the factory plant and machinery, R80 000; Office equipment, R50 000; Sales department R 20 000.

QUESTION 2 INVENTORY SYSTEMS AND VALUATION (40 Marks; 25 Minutes)**2.1 INVENTORY VALUATION**

You are provided with information related to Ladysmith Traders for the year ended 28 February 2018. The business is owned by Nonkululeko Mbatha. The business sells Rolex watches. The periodic inventory system and FIFO stock valuation method is in operation.

REQUIRED:

2.1.1 Explain TWO differences between the perpetual stock system and the periodic stock system. (4)

2.1.2 Calculate the following:

- Customs duty paid per watch (2)
- The value of closing stock using FIFO method. (7)
- Cost of sales (8)
- Stock holding period in days for 2018. (5)

2.1.3 Comment on the stock holding period for 2018. (This period for 2017 was 158 days) (2)

INFORMATION:

A. The Rolex watches are imported from USA.

B. The watches are valued using the First-in-First-out method (FIFO)

C. Balances:

	NUMBER OF UNITS	TOTAL
Opening stock	100	3 000 000
Closing stock	78	?

D. Purchases during the financial year:

DATES	NUMBER OF UNITS	UNIT COST	Customs duty
01 March 2017	120	R33 000	R18 000
15 August 2017	81	R35 000	R12 150
11 January 2018	69	R37 000	R10 350

E. Carriage on purchases for the financial year:

- Watches were transported at R50 per watch from King Shaka International Airport to the business.

F. 5 watches bought on 15 August 2017 were returned to the supplier. The supplier agreed to refund R35 000 per watch and no other costs.

2.2 PROBLEM SOLVING

Vusi Mhlungu owns three bicycle shops, Shop A, Shop B and Shop C. He appointed a manager for each of these shops. You are supplied with information regarding each of the shops. He wants to improve the financial results of these shops and is asking your advice on them.

Each store calculates their selling price at cost plus 60%. Managers may decide to adjust these prices by 10% if necessary.

REQUIRED:

- Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer. (3)
- Identify one problem relating to each shop. Provide figures to support your answer. In each case provide a possible solution. (9)

	SHOP A	SHOP B	SHOP C
Name of Managers	Mbambo	Mfusi	Shabalala
Targeted profit mark-up	60%	60%	60%
Mark-up achieved	60%	50%	65%
Sales	400 000	510 000	247 500
Cash sales	180 000	510 000	24 750
Credit sales	220 000	Nil	222 750
Number of employees	5	10	3
Gross profit	150 000	170 000	97 500
Period stock on hand	120 days'	60 days'	60 days'
Creditors' payment period	21 days'	60 days'	110 days'
Debtors' collection period	30 days'	None	90 days'
Bad debts	2 200	None	22 275
Salaries	105 000	210 000	63 000

QUESTION 3 FINANCIAL STATEMENTS AND AUDIT REPORT (60 Marks; 35 Minutes)

3.1 MASAKHANE LTD

The following information relates to Masakhane Ltd. The financial year ended 28 February 2018.

REQUIRED:

- 3.1.1 Calculate the correct Net Profit after tax for the year ended 28 February 2018. (indicate a + for increase and a – for decrease) (9)
- 3.1.2 Prepare the Retained Income note on 28 February 2018. (10)
- 3.1.3 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2018. Show workings. (31)

INFORMATION:

A. Amounts extracted from the records on 28 February 2018.

Balance sheet accounts section	
Ordinary share capital	?
Retained income	?
Fixed assets (carrying value)	2 392 000
Loan from: Ekuvukeni bank	1 894 400
Trading stock	468 750
Trade debtors	440 500
Trade creditors	437 600
Fixed deposit: Inkuzi bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	547 400
Consumable stores on hand	18 000
Accrued income	11 500

- B. The following information has not yet been taken into account. At this point, the net profit before tax was R2 000 750:
- (i) On 1 December 2017 M.K Mkhize, a debtor, returned merchandise. A credit note for R2 000 was issued to her. (The cost price was R1 250.) No entries were made for the return of the merchandise. These items were returned to stock.

(ii) The auditors discovered that the profit on disposal of a vehicle R8 000, was incorrectly recorded as a loss.

(iii) The auditors are owed a further R28 000 after completing the audit.

(iv) KB Builders was paid R200 000 for the construction of a storeroom (R120 000) and repairs to paving (R80 000.) The entire amount was debited to land and buildings in error.

(v) Income tax was correctly calculated to be to R572 400 after taking (i) – (iv) above into account.

- C. The loan was taken from Ekuvukeni Bank on 1 April 2016. This loan will be repaid over 5 years. All payments thus far are up to date.
- D. Shares:
- 405 000 in issue at the beginning of the financial year (1 March 2017)
 - 170 000 issued during the financial year (1 October 2017).
 - 80 000 shares bought back on 1 January 2018 at R2.50 higher than the average price.
 - 495 000 in issue at the end of the financial year. (28 February 2018)
- E. Dividends:
- Interim dividends of R75 000 was paid on 30 September 2017.
 - A final dividend of 20 cents per share was declared on 28 February 2018. Shares bought back on 1 January 2018 also qualify for the final dividends.
- F. Financial indicators:

Current ratio	1.4:1
Solvency ratio	2:1

3.2 AUDIT REPORT

You are provided with an extract from the audit report of Old Mill Ltd.

REQUIRED:

- 3.2.1 Choose the correct word from those in brackets and explain your choice. (3)
- Old Mill Limited received a/an (qualified/unqualified/disclaimer of opinion) audit report.
- 3.2.2 Briefly indicate how this audit report would possibly affect the shares of Old Mill Limited on the Johannesburg Securities Exchange (JSE). Mention TWO points. (4)
- 3.2.3 You have been appointed as the external auditor of Old Mill Limited. The managing director, Mandla Mbambo, has asked you to reflect his directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer. (3)

INFORMATION:

Audit Opinion

Because of the significance of the matter described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Old Mill Limited for the year ended 29 February 2017.

Mduduzi Hlatshwayo, Chartered Accountants (CA)

QUESTION 4 CASH FLOW STATEMENT AND INTERPRETATION**(80 Marks; 45 Minutes)**

- 4.1 Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A**. Write only the letter (A – D) next to the number (4.1.1 – 4.1.3) in the ANSWER BOOK. (3)

	COLUMN A	COLUMN B	
4.1.1	To what extent does the business rely on borrowed funds?	A.	Liquidity
4.1.2	Can the business pay off all its debts?	B.	Solvency
4.1.3	Is the business able to pay its short-term debts in the next financial year?	C.	Profitability
		D.	Risk and gearing

- 4.2 You are provided with information relating to Phumlani LTD for the financial year ended 30 June 2018.

REQUIRED:

- 4.2.1 Prepare the ordinary share capital note on 30 June 2018. (8)

- 4.2.2 Calculate the following figures that will appear on the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Purchases of tangible assets (5)
- Buy-back of shares (repurchased of shares) (3)

- 4.2.3 Calculate the following for the financial year ended 30 June 2018:

- Return on total capital employed (ROTCE) (8)
- Net asset value per share (NAV) (3)

- 4.2.4 **Refer to information C.**

The CEO, Mantombi Mbatha currently owns 46.4% of the issued shares on 1 July 2017. The board of directors has decided to repurchase some shares and issue all the unissued shares.

- Calculate the percentage (%) of shares that Mantombi owns after the repurchase of shares.
NOTE: None of Mantombi's shares were repurchase. (4)
- Calculate the minimum number of shares Mantombi must buy when the unissued shares have been issued to gain control of the company. (4)
- Mantombi wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give THREE reasons (with figures) why you would not approve of this. (6)

- 4.2.5 The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion. (6)

- 4.2.6 The shareholders are not happy with their return and earnings. Quote and explain TWO financial indicators (with figures) to support their opinion. (4)

INFORMATION:**A. Information extracted from the Income Statement on 30 June 2018:**

Depreciation	180 000
Interest on loan	36 000
Net profit before tax	1 500 000
Net profit after tax	1 050 000

B. Information from the Balance Sheet on 30 June:

	2018	2017
Fixed assets (at carrying value)	3 350 000	2 000 000
Shareholders' equity	7 697 000	4 345 000
Ordinary share capital	7 644 000	4 200 000
Retained income	53 000	145 000
Loan	400 000	560 000
SARS : income tax	Cr 12 400	Dr 8 900
Shareholders for dividends	?	70 000

C. Shares:

- Authorised share capital is 2 000 000 ordinary shares.
- On 30 June 2017, 1 200 000 ordinary shares had been issued.
- On 1 January 2018, 40 000 shares were repurchased at R4.10. (These shares do not qualify for final dividends.)
- On 30 June 2018, all shares that were un-issued as at 30 June 2017 were issued.

D. Dividends:

- Interim dividends of 40 cents per share was declared and paid on 31 December 2017.
- Final dividends of 55 cents per share was declared.

E. Fixed assets:

- Fixed assets were sold for cash at a carrying value of R200 000 during the financial year. Fixed assets were also purchased during the financial year.

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

	2018	2017
Current ratio	0.9 : 1	2 : 1
Acid test ratio	0.5:1	0.9:1
Debtors collection period	21 days	38 days
Stock turnover rate	11 times	15 times
Debt-equity ratio	0.1:1	0.3:1
Return on total capital employed (ROTCE)	?	29%
Return on shareholders' equity (ROSHE)	17%	20%
Earnings per share (EPS)	54 cents	33 cents
Dividend per share (DPS)	95 cents	60 cents
Net asset value per share (NAV)	?	390 cents
Interest rate on investment	9%	9%
Market value (JSE)	400 cents	300 cents

4.3 MGM LTD AND MKN LTD

You have R100 000 to invest in a listed company. You choose to focus on two companies in the same industry.

Note: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

- 4.3.1 Compare and comment on the dividend pay-out policies of the two companies. (6)
- 4.3.2 Comment on the value of the shares of the two companies on the Johannesburg Securities. Explain how this will influence your choice of company. (6)
- 4.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (6)

INFORMATION:

	MGM LTD	MKN LTD
Debt-equity ratio	0.4:1	1.1:1
Return on total capital employed (ROTCE)	16%	10%
Return on shareholders' equity (ROSHE)	19%	9%
Earnings per share (EPS)	650 cents	1 000 cents
Dividend per share (DPS)	585 cents	500 cents
Net asset value per share (NAV)	350 cents	800 cents
Market price of shares on JSE	470 cents	700 cents
Interest rate on loans	11%	11%

QUESTION 5 DEBTORS AGE ANALYSIS AND CREDITORS RECONCILIATION

(30 Marks; 20 Minutes)

- 5.1 Indicate whether each of the following statements is TRUE or FALSE. Write only 'True' or 'False' next to the question number (5.1.1 – 5.1.3) in the ANSWER BOOK.
- 5.1.1 An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month.

(1)
- 5.1.2 A debit balance on the Bank Statement reflects an unfavourable balance.

(1)
- 5.1.3 Service fees and interest on an overdraft will be recorded as Bank Charges in the Cash Payments Journal.

(1)

5.2 DEBTORS AGE ANALYSIS

Chetty Traders sell goods for cash and on credit. The business is owned by Trevor Chetty.

REQUIRED:

- 5.2.1 How can the preparation of a debtor's collection schedule and debtor's age analysis assist Trevor in controlling debtors?

(4)
- 5.2.2 Chetty Traders requires pay slips from all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in each case.

(4)
- 5.2.3 Calculate the percentage of debtors complying with the credit terms.

(3)
- 5.2.4 Explain TWO measures to improve collection from debtors.

(4)

INFORMATION:

Debtors' age analysis on 28 February 2018:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
300 200	36 024	24 016	156 104	84 056

The credit period is 60 days.

5.3 CREDITORS' RECONCILIATION

Malinga Traders received a statement of account from a creditor, Vryheid Suppliers. The balance on the statement did not agree with that on the account of Vryheid Suppliers in the Creditors Ledger of Malinga Traders.

REQUIRED:

5.3.1 Provide THREE requirements for good internal control over creditors (3)

5.3.2 Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditors Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

Total the columns to show the correct balance at the end of February 2018. (9)

INFORMATION:

Balance in the Creditors Ledger of Malinga Traders	R17 925
Balance in the statement received from Vryheid Suppliers	R29 400

A comparison between the Creditors Ledger Account of Vryheid Suppliers and the statement of account showed the following differences:

- A. An invoice for R11 200 received from Vryheid Suppliers was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R9 100 on the statement.
- B. Malinga Traders entered a discount of R875 relating to a payment of R9 000 on the 10 February 2018. Vryheid Suppliers did not approve this discount stating that the payment was received late.
- C. The statement of account reflected returns valued at R1 190. The Creditors Ledger Account showed R690. It was established that Malinga Traders miscalculated the value of the goods returned.
- D. An invoice for R3 100 received from Vryheid was incorrectly recorded as a debit note in the Creditors Ledger.
- E. A direct transfer of R7 000 by Malinga Traders was recorded in the Cash Payment Journal on 27 February 2018. The statement of account from Vryheid Suppliers was dated 25 January 2018.

QUESTION 6**CASH BUDGET****(40 Marks; 25 Minutes)****6.1 MZIMKHULU STORES.**

You are provided with information relating to Umzimkhulu Stores for the two months ended 30 October 2017.

REQUIRED:

- 6.1.1 Provide ONE difference between a Cash Budget and a Projected Income Statement. (2)
- 6.1.2 Identify TWO items from the Projected Income Statement that will not appear in the Cash Budget. (2)
- 6.1.3 Complete the debtor's collection schedule for July to September 2018. (9)
- 6.1.4 Calculate the following:
- The % decrease in budgeted sales in August 2018. (3)
 - The amount that will be paid to creditors during September 2018. (5)
 - The interest on fixed deposit that will be received for September 2018. (4)
- 6.1.5 Sizwe is pleased that the number of customers has increased in July. You do not share his opinion that this increase in customers is good.
- Explain TWO problems you have identified and quote figures from the question to support your answer. (4)
 - Give ONE point of advice in each case. (2)
- 6.1.6 **Refer to information I.**

The owner Sizwe feels that there were problems regarding some of the income and expense items, at the end of August 2018. He compared the actual figures with the budgeted figures and noted differences between certain items.

Provide ONE possible reason for the difference. Give ONE point of advice, to the owner, in respect of each item. (9)

INFORMATION:

- A.** Debtor's collection schedule of Umzimkhulu stores for the period ending 30 September 2018.

DEBTORS COLLECTION SCHEDULE				
MONTH	CREDIT SALES	JULY 2018	AUGUST 2018	SEPTEMBER 2018
May	360 000	72 000		
June	540 000	189 000	108 000	
July	450 000	171 000	157 500	?
August	436 500		165 870	?
September	?			?
		432 000	431 370	?

- B.** Projected Income Statement:

	JULY BUDGET	JULY ACTUAL	AUGUST BUDGET	SEPTEMBER BUDGET
Total sales	600 000	672 000	582 000	?
Cash sales	150 000	70 000	145 500	?
Credit sales	450 000	602 000	436 500	?
Bad debts	18 000	25 000	27 000	22 500

- C.** Credit sales: 75% of all sales are on credit.

Debtors are given 30 days in which to settle their debts. However, trends over the past years reveal that debtors pay as follows:

- 40% within the same month of sale, subject to a 5% discount.
- 35% in the month following the sale.
- 20% in the second month following the sale.
- 5% of debts are written off after 90 days

- D.** Bad debts projections:

- September R27 000
- October R22 500
- November R21 825
- December R25 000

- E.** Stock purchases:

- The business works on a fixed stock base where the stock sold in a month is replaced at the end of that month.
- The business uses a mark-up of 60% on cost.
- 80% of stock is purchased on credit and creditors are paid after 30 days.

- F. Fixed deposit:
 - The business has three fixed deposits with Zothani Bank to the value of R675 000 at an interest rate of 8%.
 - One of these fixed deposit, worth R375 000 matures in August 2018.
- G. Actual collection from debtors in July amounted to R438 000.
- H. Cash budget for three months ending 30 September 2018.

	JULY	AUGUST	SEPTEMBER
RECEIPTS			
Rent income	9 000	9 000	8 280
Fixed deposit		375 000	
Interest on fixed deposit	4 500	4 500	?
Payments			
Purchase of stock	?	?	?
Payment to creditors	?	?	?
Salaries and wages	520 000	520 000	?

I.

August 2018	Budget	Actual	Variance
Sales	582 000	522 000	- 60 000
Sundry expenses	35 000	35 100	+ 100
Advertising	29 100	17 460	- 11 640

TOTAL MARKS: 300



Education

KwaZulu-Natal Department of Education

ACCOUNTING

ANSWER BOOK

SEPTEMBER 2018

PREPARATORY EXAMINATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

Name: _____

Grade: _____

QUESTION	MARKS	MOD BY THE SCHOOL	MOD BY THE CLUSTER	MOD BY THE PROVINCE
1				
2				
3				
4				
5				
6				
TOTAL				

N.B. This answer book consists of 18 pages

QUESTION 1

1.1 Choose a description in COLUMN B to match the concept in COLUMN A.
Write only the letter (A – E) next to the number(1.1.1 – 1.1.4)

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2.1

Direct material cost

8

Direct labour cost

10

Factory overheads cost	
------------------------	--

18

1.2.2 Calculate the number of metres of raw material fabric that appear to be wasted during the production process.

--

4

1.2.3

The accountant is of the opinion that the workers are not properly supervised.		
	IDENTIFY SEPARATE PROBLEMS	POSSIBLE SOLUTION
PROBLEM 1		
PROBLEM 2		

6

TOTAL MARKS
50

QUESTION 2

2.1.1 Explain TWO differences between the perpetual stock system and the periodic stock system.

perpetual stock system

periodic stock system

4

2.1.2 Calculate the following:

Customs duty paid per watch

2

The value of closing stock using FIFO method

7

Cost of sales

8

Calculate the Stock holding period in days

5

2.1.3 Comment on stock holding period (2017 was 158 days)

2

2.2 Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer.

3

Identify one problem relating to each branch. Provide figures to support your answer. In each case provide a possible solution.

	Identify a problem	Possible solution
SHOP A		
SHOP B		
SHOP C		

9

TOTAL MARKS
40

3.1.3 Balance Sheet (Statement of Financial Position) on 28 February 2018.

Asset	
Non current assets	
Current assets	
Total assets	
Equity and liabilities	
Shareholders' equity	
Non current liabilities	
Loan	
Current liabilities	
Total equity and liabilities	

3.2.1 Choose the correct word from those in brackets and explain your choice.

Old mill Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Choice :

Explanation:

3

3.2.2 Briefly indicate how this audit report would possibly affect the shares of Old mill Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.

4

3.2.3 You have been appointed as the external auditor of Old mill Ltd. The managing director, Mandla Mbambo, has asked you to reflect his directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer.

Would you agree?

Reason:

3

TOTAL MARKS
60

QUESTION 4

4.1

Choose an accounting concept from Column B that best matches the analysis questions in Column A.

4.1.1

4.1.2

4.1.3

3

4.2.1

Ordinary share capital

Authorised 2 000 000 shares

Issue

8

4.2.2

Calculations

Answers

Tax paid

4

Dividends paid

4

Purchases of tangible assets

5

Buy-back of shares

3

4.2.3 Return on total capital employed (ROTCE)

8

Net asset value per share (NAV)

3

4.2.4 Refer to information C.

Calculate the percentage (%) of shares that Mantombi owns after the repurchase of shares.

NOTE: None of Mantombi's shares were repurchased.

4

Calculate the minimum number of shares Mantombi must buy when the unissued shares have been issued to gain control of the company. Refer to information 3.

4

Mantombi wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give TWO reasons why you would not approve of this.

6

- 4.2.5 The directors are not pleased with liquidity ratios. Quote **THREE** financial indicators (with figures) to support this opinion.

6

- 4.2.6 The shareholders are not happy with their return and earnings. Quote and explain **TWO** financial indicators (with figures) to support their opinion.

4

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

6

- 4.3.2 Comment on the value of the shares of the two companies on the Johannesburg Securities.

6

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

6

TOTAL MARKS
80

5.2.3 Calculate the percentage of debtors complying with the credit terms.

3

5.2.4 Explain TWO measures to improve collection from debtors

4

5.3.1 Provide THREE points for good internal control over creditors

3

5.3.2

CREDITORS LEDGER OF MALINGA TRADERS		STATEMENT FROM VRYHEID SUPPLIERS
	17 925	29 400
A.		
B.		
C.		
D.		
E.		

9

TOTAL MARKS
30

QUESTION 6

- 6.1.1 Provide ONE difference between a Cash Budget and a Projected Income Statement.

2

- 6.1.2 Identify TWO items from the Projected Income Statement that will not appear in the Cash Budget.

2

- 6.1.3 **DEBTORS COLLECTION SCHEDULE**

MONTH	CREDIT SALES	JULY 2018	AUGUST 2018	SEPTEMBER 2018
May	360 000	72 000		
June	540 000	189 000	108 000	
July	450 000	171 000	157 500	
August	420 000		159 600	
September				
		432 000	425 100	

9

6.1.4	ITEM	CALCULATION	ANSWER
	% decrease in budgeted sales in August 2018.		
	Payment to creditors in September 2018.		
	Interest on fixed deposit for September 2018		

3

5

4



Education

KwaZulu-Natal Department of Education

ACCOUNTING

MEMORANDUM

SEPTEMBER 2018

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. Operation means 'Check operation'. 'One part correct' means 'Operation & one part correct'.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item, p=placement.

This memorandum consists of 19 pages

QUESTION 1

- 1.1 Choose a description in COLUMN B to match the concept in COLUMN A.
Write only the letter (A – D) next to the number(1.1.1 – 1.1.4)

1.1.1	E ✓
1.1.2	A ✓
1.1.3	D ✓
1.1.4	B ✓

4

- 1.2.1

Direct material cost

$192\,000 \checkmark + 2\,352\,000 \checkmark$
 $2\,500 \checkmark + 24\,000 \checkmark$
 $2\,544\,000$ two marks
 $26\,500$ five marks
 $= R96 \checkmark$ operation on part correct
 $= R2\,252\,160 \checkmark$ operation on part correct

8

Direct labour cost

$50 \checkmark \times 1\,500 \checkmark \times 10 \checkmark = R750\,000 \checkmark$ operation on part correct
 $100 \checkmark \times 1\,400 \checkmark \times 5 \checkmark = R700\,000 \checkmark$ operation on part correct
 $= R1\,450\,000 \checkmark$ operation

10

Factory overheads cost

Indirect material $(30\,000 \checkmark + 350\,000 \checkmark - 40\,000 \checkmark) \frac{70}{100}$
Foreman
Cleaner $(110\,000) \frac{50}{100}$ two or nothing
Water and electricity $(180\,000) \frac{4}{6}$ two or nothing
Rent expenses $(93\,100 \checkmark - 7\,700 \checkmark) \frac{80}{100}$
Maintenance $(140 \checkmark \times 560 \checkmark)$
Depreciation
operation on part correct

18

1.2.2

Calculate the number of metres of raw material fabric that appear to be wasted during the production process.

$$23\,460 \checkmark - 22\,560 \checkmark \checkmark = 900 \checkmark \text{ operation on part correct}$$

(4.7 x 4 800)

OR

$$26\,500 - 25\,600 = 900$$

(2 500 x 24 000) - (22 560 x 3040)

OR

Number of jerseys expected to be produced: $23\,460 / 4.7 = 4\,992$ two marks
 Number of jerseys produced: 4 800
 Shortage in production: $4\,992 - 4\,800 = 192$ jerseys x 4.7 = 902.4 metres

4

1.2.3

The accountant is of the opinion that the workers are not properly supervised.

	IDENTIFY SEPARATE PROBLEMS	POSSIBLE SOLUTION
PROBLEM 1	Problem ✓ ✓ figures ✓ ✓ The workers worked 1 500 hours normal time compared to 1 400 hours overtime; 93% of hours worked is overtime. OR They should have worked 1 920 hours normal time. They only worked 1 500 hours normal time. OR 420 hours lost in a year OR 8.75 hours OR 8 hours 45 minutes lost per week	Workers should be monitored to ensure they work the correct number of normal time.
PROBLEM 2	The level of production is too low, for the 2 900 hours worked, they should have produced a total number of 5500 (1500/8X2X10=3 750) + (1400/8X2X5=1 750) Jerseys. The business only produced 4 800 Jerseys	Monitor workers to ensure they produce two Jerseys per hour, per worker.

Accept any relevant problems with figures

TOTAL MARKS

50

QUESTION 2

2.1.1

Identify TWO differences between the perpetual stock system and the periodic stock system.

Any valid difference with comparison ✓ ✓
 Incomplete / one system only explanation: 1 marks

Expected responses:

perpetual stock system	periodic stock system
Stock on hand is available at all times, electronically.	Stock on hand is available through physical stock-take.
Cost of sales is available at the point of sales	Cost of sales is calculated and this is done usually at the end of the financial year.
Stock purchased is recorded as an asset.	Stock purchased is recorded as an expense.
Accept any relevant answers	

4

2.1.2

Calculate the following:

Customs duty paid per watch

$$18\,000/120 = 150 \checkmark \text{ two or nothing}$$

OR

$$12\,150/81 = 150$$

OR

$$(18\,000 + 12\,150 + 10\,350) \div (120 + 81 + 69) = R150$$

The value of closing stock using FIFO method

$$69 \times 37\,150 = 2\,563\,350 \checkmark \text{ two or nothing}$$

$$9 \times 35\,150 = 316\,350 \checkmark \text{ two or nothing}$$

$$78 \times 50 = 3\,900 \checkmark \text{ two or nothing}$$

$$2\,883\,600 \checkmark \text{ one part correct}$$

OR

$$69 \times 37\,200 = 2\,566\,800 \text{ three or nothing}$$

$$9 \times 35\,200 = 316\,800 \text{ three or nothing}$$

$$2\,883\,600 \text{ method mark one part correct}$$

Cost of sales

$$3\,000\,000 \checkmark + 9\,388\,500 \checkmark + 13\,500 \checkmark - 175\,000 \checkmark - 2\,883\,600 \checkmark$$

Accept other format

see closing stock above

one part correct

Accept other format

8

Calculate the Stock holding period in days

2 941 800 three marks	see above
$\frac{1}{2} \times (3\,000\,000 + 2\,883\,600) \times \frac{365}{1}$	
2 085 390	$\times \frac{365}{1}$
7 008 720	

114.9 days ☒ operation on part correct accept 115 days

5

2.1.3 Comment on stock holding period (2017 was 158 days)

Stock holding period improved from 158 days to 115 days by 43 days ✓
 Too much cash tied up in stock.

2

2.2 Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer.

YES/NO ✓ Figure ✓ Comment ✓

Mfusi decreased his prices by 10% and his sales are the highest. — *yes*
 Shabalala increased his prices with 5% and he had the lowest sales. — *no*

3

Identify one problem relating to each branch. Provide figures to support your answer. In each case provide a possible solution.

	Identify a problem ✓ ✓ ✓ ✓ ✓	Possible solution ✓ ✓ ✓
SHOP A	120 days' stock Payment to creditors is too soon on 21 days compared to debtors collection period.	Keep less stock Pay creditors after collection from debtors
SHOP B	Profit mark-up is 10% lower No credit sales Payment to creditors is in 60 days Too many workers	Give less discount Sell on credit Pay creditors later Get rid of some workers
SHOP C	Sales are the lowest at R247 500 Too much credit granted to customers Bad debts very high Bad debts are 10% of credit sales that is too high	Prices must be higher Improve credit control Improve collection from debtors

TOTAL

QUESTION 3

3.1.1

Net profit before tax
 Accept brackets instead of – if no sign, assume + Positive/negative effect & figure must be correct
 Foreign entries -1 (max. 2) ✓

Gross profit (-2000 + 1 250)	(750) ✓ ✓
Profit on sale of asset (8 000 + 8 000)	16 000 ✓ ✓
Auditors	(28 000) ✓
Repairs	(80 000) ✓
Net profit before tax operation on part correct	1 908 000 ✓
Income tax	(572 400) ✓
Net profit after tax operation	1 335 600 ✓

9

3.1.2

Retained income

Balance at the beginning	300 000
Buy-back of shares (80 000 ✓ X 2.50 ✓)	(200 000) ✓
Net profit after tax see 3.1.1	1 335 600 ✓
Dividends operation on part correct	(190 000) ✓
Paid / interim	75 000 ✓
Final/ recommended (575 000 ✓ X 0.20 ✓)	115 000 ✓
Balance at the end of the year operation	1 245 600 ✓

10

3.1.3 Balance Sheet (Statement of Financial Position) on 28 February 2018.

Asset		5
Non current assets	operation	3 292 000 ✓
Tangible assets (2 392 000 ✓ – 80 000 ✓)		2 312 000 ✓
Fixed deposit	TA-CA-TA	980 000 ✓
Current assets	(CL X 1.4)	1 708 000 ✓
Inventory (468 750 ✓ + 18 000 ✓ + 1 250 ✓)		488 000 ✓
Trade and other receivables one part correct (440 500 ✓ + 11 500 ✓ – 2 000 ✓)		450 000 ✓
Cash and cash equivalent	balancing figure	770 000 ✓
Total assets	(Total liabilities X 2)	5 000 000 ✓
Equity and liabilities		
Shareholders' equity	operation	2 500 000 ✓
Ordinary share capital	TE&L-CL-NCL-RI	1 254 400 ✓
Retained income	see 3.1.2	1 245 600 ✓
Non current liabilities		1 280 000
Loan (1 894 400 ✓ – 614 400 ✓ ✓)		1 280 000 ✓
Current liabilities	operation	1 220 000 ✓
Trade and other payables (437 600 ✓ + 28 000 ✓)		465 600 ✓
SARS: Income tax		25 000 ✓
Current portion of loan	see NCL	614 400 ✓
Shareholders for dividends	see 3.1.2	115 000 ✓
Total equity and liabilities	TA=TE&L	5 000 000 ✓

NOTE: Trade and other payables could be (437 600 + 28 000 + 25 000 + 115 000) = 605 600

31

3.2.1

Choose the correct word from those in brackets and explain your choice.

Old mill Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Choice :

Disclaimer of opinion ✓

Explanation:

Auditors could not find sufficient audit evidence to express opinion ✓✓

3

3.2.2

Briefly indicate how this audit report would possibly affect the shares of Old mill Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.

Any TWO valid points ✓✓ ✓✓

- Potential investors and shareholders would lose confidence in the company and directors and would not want to invest in the company
- Current shareholders will lose confidence in the company and directors and will try to sell their shares
- Share price of the company will drop (supply and demand)
- Negative image of the company (bad publicity)

4

3.2.3

You have been appointed as the external auditor of Old mill Ltd. The managing director, Mandla Mbambo, has asked you to reflect his directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer.

Would you agree?

No ✓

Reason: Explanation of reason ✓✓

This is a material amount which is of interest to the shareholders who have appointed the directors. (GAAP materiality concept).

The Companies Act No. 71 of 2008 and King Code requires for the director's fees to be disclosed separately

3

TOTAL
MARKS

60

QUESTION 4

4.1

Choose an accounting concept from Column B that best matches the analysis questions in Column A.

4.1.1	D✓	
4.1.2	B✓	
4.1.3	A✓	

3

4.2.1

Ordinary share capital

Authorised 2 000 000 shares

Issue		
1 200 000✓	shares @ R3.5	4 200 000✓
(40 000)✓	buy-back of shares @ R3.5✓	(140 000)✓
800 000✓	shares issued @ R4.48	3 584 000✓
1 960 000	Shares operation	7 644 000✓

8

4.2.2

Calculations

	Answers
Tax paid	
450 000✓ – 12 400✓ – 8 900✓ OR	(428 700)✓
12 400 + 8 900 – 450 000 OR	
-12 400 – 8 900 + 450 000	
Dividends paid	
70 000✓ + 480 000✓✓ OR	(550 000)✓
Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	
One mark	
70 000 + (1 558 000 – 1 078 000)	Method mark
	550 000
Purchases of tangible assets	
3 350 000✓ + 180 000✓ + 200 000✓ – 2 000 000✓ OR	(1 730 000)✓
2 000 000 – 180 000 – 200 000 + 3 350 000	
operation one part correct	
Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	
Buy-back of shares	
40 000✓ X R4.10✓	(164 000)✓
operation one part correct	
Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	

4

5

3

4.2.3

Return on total capital employed (ROTCE)

$\frac{1}{5}\%$ (7 697 000✓ + 400 000✓) + (4 345 000✓ + 560 000✓) X $\frac{100}{1}$	
8 097 000 two marks	4 905 000 two marks
1.536 000 two marks	X $\frac{100}{1}$
6 501 000 five marks	
23.6%✓ operation one part correct accept 24%	
Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	

8

Net asset value per share (NAV)
$\frac{7\ 697\ 000\ \checkmark}{1\ 960\ 000\ \checkmark} \times \frac{100}{1}$
392.7 cents✓ see 4.2.1
operation one part correct Accept 393 cents
Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)

3

4.2.4

Calculate the percentage (%) of shares that Mantombi owns after the repurchased of shares.

556 800 shares owned by Mantombi before repurchased of shares

$$\frac{556\ 800\ \checkmark}{1\ 160\ 000\ \checkmark} \times \frac{100}{1}$$

48%✓ operation one part correct

4

Calculate the minimum number of shares Mantombi must buy when the unissued shares have been issued to gain control of the company.

$$980\ 000 + 1 = 980\ 001\ \checkmark - 556\ 800\ \checkmark$$

$$= 423\ 201\ \checkmark \text{ operation one part correct}$$

OR

$$980\ 000 + 100 = 980\ 100 - 556\ 800 = 423\ 300$$

OR

$$1\ 960\ 000 \times 51\% = 999\ 600 - 556\ 800 = 442\ 800$$

4

Mantombi wants to purchase the additional shares at R3.00 without advertising the shares to the public. Give THREE reasons why you would not approve of this.

Any relevant answer ✓✓ ✓✓ ✓✓

- All shares must be advertised to the public as this is a public company and it is a requirement of the Companies Act.

- She is only offering R3.00 while the market value is 400 cents.

- This is an example of insider trading and it is a criminal offence./Mantombi will be taking advantage of her position to enrich herself.

- The value of R3.00 is below the net asset value of 393 cents see 4.2.3.

6

4.2.5

The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion.

- Acid test ratio decreased from 0.9 : 1 to 0.5 : 1 by 0.4✓✓
- Current ratio decreased from 2 : 1 to 0.9 : 1 by 1.1✓✓
- Stock turnover rate decreased from 15 times to 11 times by 4 times✓✓

If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly.
For those who provide more than five options, penalty of -2 for any irrelevant indicators (max -2).
Do NOT accept debtors collection period

6

4.2.6	The shareholders are not happy with their return and earnings. Quote and explain TWO financial indicators (with figures) to support their opinion. - ROSHE decreased from 20% to 17% by 3%, ROSHE of 17% is above the interest rate on investment of 9% by 8% the business is still doing well. ✓✓ - DPS of 95c is above the EPS of 54c and that is not good for the company ✓✓
-------	---

4

4.3.1	Compare and comment on the dividend pay-out policies of the two companies. Award part-marks for incomplete answers
Financial indicators or explanations thereof, with figures	Comparison and comment ✓✓ Do not accept comparison of the DPS only Must mention both companies :Can get 1mark MGM Ltd is distributing a higher percentage of income earned: MKN Ltd has decided to retain half of EPS OR MGM Ltd appears to keep shareholders Satisfied by giving them good dividends: MKN Ltd appears to have plans for growth (better long term benefits
MGM Ltd	DPS 585 cents ✓ EPS 650 cents ✓ Distributes 90% earnings
MKN Ltd	DPS 490 cents ✓ EPS 980 cents ✓ Distributes 50 %

6

4.3.2	Comment on the value of the shares of the two companies on the Johannesburg Securities.
Financial indicators or explanations thereof, with figures	Explanation, must involve a choice Do not accept comparison of JSE prices only ✓✓ 2 marks or nothing
MGM Ltd	JSE price of 470 ✓ cents greater than NAV of 350 cents ✓ I would invest in MGM Ltd as the shares seem to be in demand. OR I would not invest in MGM Ltd as the shares might be overpriced.
MKN Ltd	JSE price of 700 ✓ cents less than NAV of 800 cents ✓ I would invest in MKN Ltd as the shares seem to be under-valued. OR I would not invest in MKN Ltd as the shares might be in low demand.

6

4.3.3	Comment on the degree of risk and gearing. Explain how this will influence your choice of company.
Financial indicators or explanations thereof, with figures	Comparison, must involve a choice Accept valid alternative terminology ✓✓ Can get 1 mark
MGM Ltd	Debt-equity is 0.4:1 ✓ ROTCE is 16% above the interest rate of 11% ✓ I choose MGM Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest) OR I choose MGM Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans
MKN Ltd	Debt-equity is 1.1:1 ✓ ROTCE is 10% below the interest rate of 11% ✓ I do not choose MKN 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 MKN Ltd as there is high use of loans and, if they can improve efficiency (ROTCE), profit would improve significantly

TOTAL MARKS

80

6

QUESTION 5

5.1

Indicate whether the following statements are TRUE or FALSE. Write only 'True' or 'False' next to the question number.

5.1.1	True✓
5.1.2	True✓
5.1.3	False✓

3

5.2.1

How can the preparation of a debtor's collection schedule and Debtor's age analysis assist Trevor in controlling of debtors.

Debtor's collection schedule:

Any valid explanation ✓ ✓
Good explanation = 2 marks; satisfactory = 1 mark; incorrect answer = 0 marks

- Project anticipated receipts from debtors.
- Ensure that debtors keep to terms of their accounts.
- Act if the debtors do not comply with credit terms
- Compare anticipated budget with actual budgets.

debtor's age analysis assist:

Any valid explanation ✓ ✓
Good explanation = 2 marks; satisfactory = 1 mark; incorrect answer = 0 marks

- Effective method of credit control.
- Action can be taken against debtors who do not comply by charging interest/ legal action.
- Bad debts can be minimized.
- Make decision based on age analysis of the debtor(s).

4

5.2.2

Chetty Traders have the pay slip of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in each case.

Do not accept pay slip of debtor
Can award two marks if information & reason is in same sentence

Information to be obtained	Reason
Telephone numbers	Prompt communication of statement of account.
Proof of residence / Address	To be able to trace debtors not adhering to credit terms and conditions To avoid fictitious debtors To be able to do a proper background check on each new debtor Constant reminders of amount owed To ensure that statements are sent to correct addresses
Contact details of family / friend	To track the debtor if other information is incorrect / changes
Bank statement / balance	To check how the debtor is managing his finances
Identity document	Ensure that correct personal details of customers are on record
Credit references / Credit history	To check that they will not sell to bad debtors To check credit worthiness
Email address	Prompt communication of statements of account

4

5.2.3

Calculate the percentage of debtors complying with the credit terms.

60 040 two marks

$$\frac{36\ 024 + 24\ 016}{300\ 200} = 80\%$$
 OR

$$\frac{240\ 160}{300\ 200} = 80\%$$
 = 20 % ☒ One part correct
 OR $100\% - 80\% = 20\%$

3

5.2.4

Explain TWO measures to improve collection from debtors

Any TWO relevant measures ✓ ✓ ✓ ✓ Part-marks for unclear / incomplete answers

Possible responses for two marks: Accept alternative valid responses

- Monthly statements must be sent out/ emailed on time
- Offer higher discount for early payments.
- Add interest on overdue account.
- Do not sell to debtors exceeding the credit limit/ not up to date with payments.
- Send SMS reminders to debtors.
- Employ service of an attorney or debt collector / sue the debtor.
- Encourage debtors to pay by debit order.

4

5.3.1 Provide THREE points for good internal control over creditors

Any three valid and separate points ✓ ✓ ✓
Beware of alternative wording which reflects the same point.
Beware that two separate points could be in the same sentence.

- Assess the efficiency of the creditors clerk in order to prevent errors from occurring
- Ensure that creditors are paid on time to make use of discounts
- Make full use of credit terms to assist cash flow
- Division of duties amongst members of the accounting department so that one person serves as a check on another
- Reconcile the balance on the creditors control account with the total of creditors' list to ensure accuracy on a monthly basis
- The statement of account of individual creditors must be reconciled (agreed) with their accounts in the creditors ledger
- Conduct internal audits to minimise the possibility of fraud or error /
- Check documents (e.g. invoices and credit notes) to ensure accuracy of calculations and entries
- Ensure that items ordered from creditors are correctly received (i.e. quantities, condition, price)
- Ensure that all purchases are correctly authorized (i.e. procurement policy)

3

5.3.2

CREDITORS LEDGER OF MALINGA TRADERS	STATEMENT FROM VRYHEID SUPPLIERS
17 925	29 400
A.	+ 2 100✓
B.	
C.	
D.	
E.	- 7 000✓
24 500✓ Operation one part correct	24 500✓ Operation one part correct

-1 per line if the figures appear on both sides only if the transaction required so.

TOTAL MARKS
30

QUESTION 6

6.1.1 Provide ONE difference between a Cash Budget and a Projected Income Statement. Any relevant answer

Explanation of Cash Budget✓

- The Cash Budget projects future cash surplus or deficit.
- The Cash Budget projects future receipts and payments.

Explanation of projected Income Statement✓

- The projected Income Statement projects the profit and losses.
- The projected Income Statement projects the future expenses and income.

2

6.1.2 Identify TWO items from the Projected Income Statement that will not appear in the Cash Budget.

Bad debts✓
Depreciation✓

Any relevant answer such as:

discount allowed; discount received; trading stock deficit/surplus

2

6.1.3

DEBTORS COLLECTION SCHEDULE

MONTH	CREDIT SALES	JULY 2018	AUGUST 2018	SEPTEMBER 2018
May	360 000	72 000		
June	540 000	189 000	108 000	
July	450 000	171 000	157 500	90 000✓✓
August	436 500		165 870	152 775✓✓ OR 147 000
September	500 000✓✓			190 000✓✓
		432 000	431 370	427 000 OR 432 775✓

Operation one part correct

9

6.1.4

ITEM	CALCULATION	ANSWER
% decrease in budgeted sales in August 2018.	$\frac{18\,000}{600\,000} \times \frac{100}{1}$ OR $\frac{582\,000}{600\,000} \times \frac{100}{1} = 97\%$ 100% - 97%	3% ☒ Operation one part correct
Payment to creditors in September 2018.	$\frac{582\,000}{160} \times \frac{100}{100}$ 363 750 cost of sales ☒ Operation $\frac{363\,750}{100} \times \frac{80}{100}$ OR $\frac{582\,000 \times 100}{160} \times \frac{80}{100}$ $\frac{675\,000}{100} - \frac{375\,000}{12}$ = 300 000 X $\frac{8}{12}$	R291 000 ☒ Operation one part correct
Interest on fixed deposit for September 2018	$\frac{300\,000 \times 8}{100} \times \frac{1}{12}$	R2 000 ☒ Operation one part correct

3

5

4

6.1.5 Sizwe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good.

Explain TWO problems you have identified and quote figures from the question to support your answer.

Give ONE point of advice in each case.

	(a) Description of problem, quoting figures: ✓	(b) Advice: ✓
1	<i>Describe problem figure</i> ✓ Credit sales were R152 000 more than expected, while cash sales were R80 000 less than expected (this creates a cash flow problem).	<i>Comment (part-marks possible): ✓</i> Offer more favourable trade discounts to customers who buy for cash.
2	<i>Describe problem figure</i> ✓ Collections from debtors are R26 400 less than budget. This is expected to lead to increased bad debts (5%) or extra administration costs.	<i>Comment (part-marks possible): ✓</i> Screen debtors more rigorously to determine creditworthiness OR Apply more stringent credit terms before debtors open accounts OR Follow-up on each debtor by way of statements, phone calls. Etc , or charge interest. OR Debtors need to be encouraged to pay quicker – offer discount and/or charge interest on overdue accounts.

6.1.6

Refer to Information 9

The owner, Sizwe, feels that there is a problem regarding some of the income and expense items, at the end of September 2018, he compared the actual figures with the budget and noted the differences between certain items listed below.

Provide ONE possible cause for the difference and ONE point of advice to the owner, Sizwe, in respect of each item.

Item	Possible cause ✓✓ ✓✓ ✓✓	Advice ✓ ✓ ✓
Sales	• Ineffective advertising • Inadequate advertising • Use of advertising media with limited scope/coverage • New entrants in the market • Increased competition • Expensive suppliers • Product/s scarcity • Increase in freight and distribution costs • Inflation/general rise in price levels; etc.	• Advertised adequately • Make use of popular advertising media with wide coverage scope • Select appropriate advertising times/slots • Search for less expensive and yet effective advertising agency • Buy in bulk to take advantage of discounts and price increases, etc. • Grant discounts on selected items • Grant credit, etc.
Sundry expenses	• Effective internal control measures • Less wastage • Improved efficiency • Less expensive suppliers • Bulk buying	• Strengthen and maintain controls • Continue to look for more better ways of control over sundry expenses • Congratulate or compliment employees for taking care of the business resources/for being less wasteful/for being considerate and conscious when using business resources and consumables.
Advertising	• Poor supervision over the marketing personnel (advertising staff) • Unrealistic budget • Inadequate advertising • Use of cheap and less effective advertising media and/or agencies as evident in a drop in sales, among others.	• Budget realistically • Select the advertising media and/or agencies carefully • Select popular and effective media with broad/wide coverage • Advertise fairly/adequately

TOTAL MARKS

30

9