Education and Sport Development
Department of Education and Sport Development
Departement van Onderwys en Sportontwikkeling
Lefapha la Thuto le Tlhabololo ya Metshameko
NORTH WEST PROVINCE

GRADE 12

ACCOUNTING

MEMORANDUM

June 2018

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
4. 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.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. This memorandum is not for public distribution; as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
9. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
10. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a □.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Code f = foreign item, p = placement.

This memorandum consists of 14 pages.

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Demo NW/JUNE/ACCNG/ EMIS/6*******

QUESTION 1

1.1 Complete the following sentences in your own words:

1.1.1 **It is important to prepare the Bank Reconciliation Statement each month because …**

it is an important part of internal control which enables a business to check its bank balance to a document (the bank statement) received from the bank / to correct errors & omissions / identify outstanding cheques & deposits / detect fraud.✓✓ **2**

1.1.2 **It is important to prepare the Debtors' Age Analysis each month because....**

it is an important part of internal control which enables a business to identify debtors who are not complying with the credit terms / to ensure credit policies are followed / decide on action to be taken against certain debtors.✓✓ **2**

1.1.3 **Why must the balance of the Creditors Control Account in the General Ledger be the same as the total of the Creditors List in the Creditors Ledger?**

The two are prepared from the same set of information; the Creditors Control Account is a summary of the Creditors Accounts in the Creditors Ledger; If the two do not it could mean that wrong entries were made in the journals; posting errors, casting/calculations mistakes; omissions; etc. that need to be corrected.✓✓ **2**

1.2.1 **Refer to Information C. The bookkeeper has decided to write off the amount of R25 000.**

- **Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle.**

Principle of prudence ✓

- To treat transactions conservatively
- There is no guarantee that the money will be recovered and therefore it is treated as if it will not be recovered
- To make provision for possible losses in future.✓✓

- **The bookkeeper wants to prevent a problem such as this in future. Give TWO possible solutions to improve internal control in this regard.** ✓✓ ✓✓
- Division of duties / Rotation of duties / Responsible staff members to check / The person issuing receipts should not be the same person doing the deposits / Regular and timely checks / Monitor all large transactions /
- Outstanding deposits must be investigated promptly /Encourage EFT payments by customers / All cash received must be deposited daily (deposit slip must agree to receipts) **7**

1.2.2 **Calculate the correct bank balance on 31 May 2017.**

11 600✓ + 55 600✓ – 43 890✓ – 25 000✓ – 475✓ – 420✓ + 12 000✓

= 9 415☑

Accept a T account.

8

1.2.3

Bank reconciliation statement on 31 May 2017

	Debit	Credit
Dr Balance as per bank statement	✓ 18 310	
Cr Outstanding deposit		☑45 000
Outstanding cheques: ▪ 917 ▪ 1222 ▪ 1329	 ✓✓5790 ✓✓5 656 ✓✓6 540	
Correction of error		✓✓711
Dr Balance as per bank account	☑9415	
	45 711	45 711

Accept the one-line method

-1 for foreign items (max -2) e.g. R25 000, R475,R420, R12 000 and R4 340.

11

1.3 **Identify TWO different problems shown by the Age Analysis and quote the debtors name with figures from the question to support your answer. In each case suggest TWO internal control measures to correct it.**

	Identification of TWO different problems, with evidence from the question	Internal control measure to correct each problem
Problem 1	Problem ✓, Debtor`s name ✓ Figure ✓	Any valid advice ✓
	P. Masala is exceeding his credit limits by R1 400. L. van Zyl is exceeding her credit limits by R700. M. Roos is exceeding her limit by R850. ✓	Do not sell on credit to debtors who are likely to exceed their limits✓ Ensure that they settle previous month's debt before buying on credit Screening of debtors✓
Problem 2	Problem ✓, Debtor`s name ✓ Figure ✓	Any valid advice ✓
	G. Dreyer 60 days P. Masala 60 days' plus M. Roos 60 days D. Pule 60 days plus ✓ 37% of debtors more than 60 days	Charge interest on overdue accounts✓ Offer discounts for early payment✓ Consider legal action against problem debtors

8

TOTAL MARKS
40

QUESTION 2

2.1 Explain the following concepts :

2.1.1 **All companies are "separate legal entities". In your own words, briefly explain the meaning of this concept.**

In the eyes of the law, a company is treated as a person / The company is responsible for its own debts. / It pays tax in its own name /
The Assets belong to the company and not the shareholders /The company may be sued in its own name and can sue others in its own name. ✓✓

2

2.1.2 **The concept of "Limited Liability" applies in the majority of companies. In your own words, briefly explain the meaning of this concept.**

The company is liable for its own debts. /Shareholders cannot be held responsible for the debts of the company and can only lose the amount that they have invested in the company. /The personal assets of the shareholders cannot be attached to pay the debts of the company and therefore shareholders have limited liability. ✓✓

2

2.1.3 **In your own words, briefly explain the terms:**
Authorised

The maximum number of shares the company has received permission to issue to the public according to the MOI. ✓✓

Issued.

The actual number of shares the company has issued to the public up to a point in time.
It can never exceed the authorised share capital.✓✓

4

2.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
e.g.	***Salaries***	***Bank***	***15 000***	**–**	**–**	***0***
2.2.1	SARS - Income Tax ✓	Bank ✓	***25 700***	- ✓	0	- ✓
2.2.2	Bank✓	Share Capital✓	***230 000***	+ ✓	+ ✓	0
2.2.3	Dividends on Ordinary Shares✓	Shareholders for Dividends ✓	***55 555***	0	- ✓	+ ✓
2.2.4	Share Capital✓	Bank ✓	130 000✓	**–**	**–**	***0***
2.2.4	Retained income✓	Bank ✓	30 000✓	- ✓	- ✓	0

20

2.3 **Complete the statements by writing down the missing words or figures. (For QUESTIONS 2.3.2 and 2.3.3 choose from the words given in brackets.)**

2.3.1	15	✓✓
2.3.2	VAT Output	✓✓
2.3.3	Credit	✓✓
	VAT Control	✓✓
2.3.4	R9 900	✓✓
2.3.5	R11 895,65	✓✓

12

TOTAL MARKS
40

QUESTION 3

3.1 Indicate whether the following statements are TRUE or FALSE:

3.1.1	False ✓✓
3.1.2	True ✓✓
3.1.3	True ✓✓
3.1.4	False ✓✓

8

3.2.2 NOTES TO THE FINANCIAL STATEMENTS

A ORDINARY SHARE CAPITAL

AUTHORISED	
600 000 ordinary shares	
ISSUED	
400 000✓ ordinary shares in issue at beginning of the year	4 800 000✓
80 000✓ ordinary shares issued during the year at R16.50 each✓	1 320 000☑
30 000✓ordinary shares repurchased during the year - average price: R12.75✓ per share	(382 500) ☑
450 000 ✓ordinary shares in issue at end of year	5 737 500☑

10

B RETAINED INCOME

	R
Balance at beginning of year	910 000✓
Net profit after tax	1 200 000✓
Repurchase of 30 000 ✓ordinary shares at R1.25☑ above average issue price	(37 500)☑
Dividends	(190 400)☑
Interim (400 000 x 0.26) ✓	104 000☑
Final (480 000 x 0.18) ✓	86 400☑
Balance at end of year	1 882 100☑

11

3.2.1 **KING LTD**
INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME) 30 JUNE 2017.

Sales (16430 000– 450 000✓)	15 980 000✓	
Cost of sales(15 980 000 ×100/170) ✓	(9 400 000)☑	
Gross profit (Operation)	6 580 000☑	**5**
Other income (Operation)	94 192 ☑	
Rent income **(63 860** + 14 260 ✓✓)	78 120☑	
Bad debts recovered	2 800✓✓	
Provision for bad debts adjustment (42 000✓ – 28 728✓)	13 272☑	
Gross operating profit (Operation)	6 674 192☑	**10**
Operating expenses	(5 014 492)☑	
Salaries and wages **(812 000** + 6 060✓ + 2 020✓)	820 080☑	
Employer's contribution **(89 500**+ 3 030✓)	92 530✓	
Directors' fees	**2 340 000**	
Audit fees **(89 000** + 41 000✓)	130 000✓	
Bank charges **(36 400** – 1 700✓)	34 700✓	
Depreciation	**99 600**	
Loss on sale of shopping bags (3 300✓ + 42 600✓ + 9 500✓ – 4 700✓– 39 500✓)	11 200☑	
Bad debts	**18 300**	
Repairs and maintenance **(128 500** – 70 000✓)	58 500✓	
Trading stock deficit (1 840 000 ✓– 20 000✓– 1 795 500✓)	24 500☑	
Donation	20 000✓✓	
Sundry expenses	1 365 082☑	**25**
Operating profit (Operation)	1 659 700☑	
Interest income	**35 000**	
Profit before interest expense (Operation)	1 694 700☑	
Interest expense (1 700✓+ (874 000✓ – 132 000✓– 835 000✓) 93 000	(94 700)☑	
Net profit before tax (Operation)	1 600 000☑	
Income tax (1 200 000 x $^{25}/_{75}$) ✓ one part correct	(400 000)☑	**10**
Net profit after tax	**1 200 000**	
		50

3.3 AUDIT REPORT

As a shareholder, why would you be concerned about this audit report? Explain. State THREE points.

Any THREE separate valid responses ✓✓ ✓✓ ✓✓
Good answer with insight into the points mentioned in the audit report = 2 marks;
Part answer which could repeat information from audit report = 1 mark; incorrect = 0

Expected responses for 2 marks:

- This is a disclaimer/withheld/very bad report
- This does not reflect well on the company
- Proper corporate governance procedures have not been carried out
- Proper internal control procedures have not been carried out
- Potential investors (shareholders & lenders) will be deterred from investing in the company
- The share price will be negatively affected (demand for the shares will decline)

Expected responses for 1 mark:

- The auditor has mentioned his concerns ('qualified' his opinion)
- No approval for bonuses to directors
- Insufficient documentation for sundry expenses

6

TOTAL MARKS
85

QUESTION 4:

4.1.1 FOUCHE LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2018	
Cash effects of operating activities	255 400☑
Cash generated from operations	858 300☑
Interest paid	(104 000) ✓
Dividends paid (224 000 ✓+ 128 000 ✓✓) (401 000✓ + 224 000✓ - 273 000✓) Mark line only	(352 000)☑
Income tax paid (151 200 ✓- 11 600 ✓ + 7 300 ✓)	(146 900) ☑
Cash effects of investing activities	(730 400)☑
Purchase of fixed assets (1 917 500 ✓+ 145 000 ✓+ 207 300 ✓– 1 514 400✓)	(755 400) ☑
Proceeds / disposal / sale of fixed assets	145 000✓✓
Fixed deposit (320 000 – 200 000) ✓	(120 000)✓
Cash effects of financing activities	231 000☑
Proceeds of shares issued	576 000✓
Repurchase of shares (300 000 XR.95)	(285 000) ✓✓
Repayment of long-term loans (800 000 – 740 000) ✓	(60 000) ✓
Net change in cash equivalents	(244 000)☑
Cash equivalents – beginning of year	105 000✓
Cash equivalents – end of year (142 000 -3 000)	(139 000)☑

30

4.1.2 NOTE FOR CASH GENERATED FROM OPERATIONS

Net profit before taxation (388 800 + 151 200) ✓	540 000✓
Depreciation	**207 300**
Interest expense	104 000✓
Operating profit before changes in working capital	851 300
Cash effects of changes in working capital	7 000☑
Decrease in inventory (650 000 – 575 000)	75 000✓✓
Increase in receivables (269 000 – 233 000)	(36 000) ✓✓
Decrease in payables (404 000 ✓– 372 000✓) (400 000 + 4000) – (370 000 + 2 000)	(32 000) ☑
Cash generated from operations	858 300☑

12

4.2 GENERAL LEDGER OF FOUCHE LIMITED
BALANCE SHEET ACCOUNTS SECTION

Dr **Appropriation** **F** **Cr**

20.8					20.8				
Apr	30	Income tax ✓		✓ 151 200	Apr	30	Profit & loss ✓		✓✓540 000
		Dividends on ordinary shares ✓ 128 000✓ + 273 000✓		401 000☑			Retained income (326 000 -93 000)		233 000
		Retained income ✓		☑ 220 800					
				773 000					**773 000**

OR

Dr **Appropriation** **F** **Cr**

20.8					20.8				
Apr	30	Income tax ✓		✓ 151 200	Apr	30	Profit & loss ✓		✓✓540 000
		Dividends on ordinary shares ✓ 128 000✓ + 273 000✓		401 000☑					
		Retained income✓		12 200☑					
				540 000					**540 000**

11

4.3 You are provided with the following financial indicators for the past two years. Calculate the missing indicators denoted (a) to (e). Use averages where appropriate.

(a) Acid-test ratio

854 300 – 575 000 : 787 000

279 300✓✓ : 787 000✓ = 0.4 : 1☑ or 0,35:1 (One part correct)

4

(b) Stock turnover rate

$$\frac{2\ 200\ 000✓}{½✓(575\ 000✓ + 650\ 000✓)}$$ or 612 500 (2 marks)

= 3.6 times☑ or 3,59 times(One part correct)

5

(c) Debt / equity ratio

740 000✓ : 1 564 800✓

0.5 : 1☑ or 0,47:1(One part correct)

3

(d) Net asset value per share

$$\frac{1\ 564\ 800✓}{2\ 100\ 000✓✓} \times \frac{100}{1}$$

74.5 cents☑ or 75 cents (One part correct)

4

(e) Return on shareholders' equity

$$\frac{388\ 800✓}{½✓(1\ 564\ 800✓ + 1\ 286\ 000✓)} \times \frac{100}{1}$$

$$\frac{388\ 800}{1\ 425\ 400} \times \frac{100}{1}$$

27.3%☑ or 27,28%

5

4.4 **Comment on the dividends, earnings and returns earned by the shareholders. Will they be satisfied with these? Explain, quoting appropriate financial indicators (ratios / percentages, etc.) to support your answer.**

Yes ✓

EPS increase✓ from 12.5 cent to 19.9 cent ✓

DPS increase✓ from 12 cent to 21 cent ✓

ROCHE increase✓ from 19.6% to 27.3%✓(See 4.3 (e))

Any additional comment✓

8

4.5 **Comment on the liquidity of the company. Explain, quoting appropriate financial indicators (ratios / percentages, etc.) to support your answer.**

Current ratio✓ has decreased from 1.6 : 1 to 1.1 : 1 ✓

Acid-test ratio✓ has decreased from 0.6 : 1 to 0.4 : 1 ✓ which means that liquidity could be a problem.

Stock turnover✓ rate has improved from 2.3 times to 3.6 times ✓ which means stock is selling at a better rate this year.

Debtors collection period✓ has improved from 43 days to 24 days. ✓

Creditors payment✓ has increased from 45 days to 60 days. It is good for the business ✓

Although the liquidity ratios may seem low, the company can be able to meet its short term obligations. ✓✓

12

4.6 **Comment on the financial gearing of the company. Explain, quoting appropriate financial indicators (ratios / percentages, etc.) to support your answer.**

The company should make good use of loans as the ROTCE of 24.5% ✓ is significantly higher than the 14% interest rate on loans. ✓

The debt / equity ratio✓ has decreased from 0.7 : 1 to 0.5 : 1 ✓ indicating there is low financial risk.

The company is positively geared. ✓✓

6

TOTAL MARKS
100

QUESTION 5:

5.1.1 **Calculate the value of the closing stock using the weighted-average method.**

$$\frac{45\,600\checkmark + 544\,200\checkmark - 4\,600\checkmark}{120 + 1\,290 - 10}$$

$$\frac{585\,200}{1\,400\checkmark\checkmark}$$

R418 x 150 ✓= R62 700☑ (must multiply by 150)

7

5.1.2 **Calculate the number of jeans that appear to be missing.**

(120 + 1290 – 10✓– 150✓ – 1235✓ = 15 ☑ (One part correct)

4

5.1.3 **Calculate the cost of sales and gross profit.**

Cost of sales

45 600✓ + 544 200✓ – 4 600✓ – 62 700☑ = R522 500 ☑ (see 5.1.1)

Gross profit

741 000✓ – 522 500☑ = R218 500☑ (One part correct)

8

5.1.4 **Calculate the mark-up percentage.**

$$\frac{218\,500\checkmark}{522\,500\checkmark\ (\text{See 5.1.3})} \times \frac{100}{1}$$

41.8% ☑

3

5.1.5 **Calculate the average stock turnover rate.**

½ (45 600✓ + 62 700☑) (see 5.1.1)
522 500☑

54 150 ×365
522 500

37,8 days or 38 days ☑ (One part correct)

4

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

Problem ✓figure ✓ advice ✓

TV sets	Too much stock on hand✓ (360 units✓) compared to stock sales for the year (440 units). *Advice*: Reduce the price to clear the stock✓
Cellphones	50 cell phones✓ missing. ✓ *Advice*: Institute procedures to safeguard the stock e.g. special cabinets with one person controlling the keys. ✓
Radios	The radios are not selling well✓ (only 10 ✓per month) and they are low-profit items (R100 selling price). *Advice*: Discontinue selling the radios. It is not worth it. ✓

9

TOTAL MARKS

35

TOTAL: 300 MARKS

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