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

PROVINCIAL ASSESSMENT

ACCOUNTING

JUNE 2017

MEMORANDUM

MARKS: 300

MARKINGPRINCIPLES:

1. Penaltiesforforeignitemsareappliedonlyifthecandidateisnotlosingmarkselsewhereinthe questionforthatitem (nopenaltyformisplaceditem).Nodoublepenaltyapplied.
2. Fullmarksforcorrectanswer.Ifanswerincorrect,marktheworkingsprovided.
3. Ifapre-adjustmentfigureisshownasafinalfigure,allocatethepart-markfortheworkingforthat figure(notthemethodmarkfortheanswer).
4. Unlessotherwiseindicated,thepositiveornegativeeffectofanyfiguremustbeconsideredtoaward themark.Ifno+or–signorbracketis provided,assumethatthefigureis positive.
5. Whereindicated,part-marksmaybeawardedtodifferentiatebetweendifferingqualitiesofanswers from candidates.
6. Wherepenaltiesareapplied,themarksforthatsectionof thequestioncannotbe afinalnegative.
7. Wheremethod marksareawardedforoperation,themarker mustinspectthereasonablenessofthe answerbeforeawardingthemark.
8. Inawardingmethodmarks,ensurethatcandidatesdonotgetfullmarksforanyitemthatisincorrect atleastinpart.
9. Codes:f=foreignitem;p= placement/presentation.

Thismemorandumconsistsof 12pages.

QUESTION 1: RECONCILIATIONS AND CONTROLS (48 marks; 29 minutes)

1.1 RECONCILIATIONS

A	3✓✓
B	2✓✓
C	1✓✓

(6)

1.2 MTHIMKULU BLANKETS

1.2.1 Explain the importance of doing regular reconciliations with regard to creditors.

Creditors' reconciliations should be done monthly, once the statement is received from the creditor, to see if the business and the creditor are in agreement with the amount owed.✓ If done regularly it is easy to make sure that the account is up to date and accurate.✓ Errors can be fixed early and controls can be put in place where there are irregularities.✓
Any other relevant answer.

(3)

1.2.2 Reconcile the creditor's statement with the Creditors Ledger account.

Creditors reconciliation statement

No.	Description	Showtime (Pty) Ltd		Mthimkulu Blankets	
		Debit R	**Credit R**	**Debit R**	**Credit R**
	Balance	✓12 660			✓16 730
(a)	Incorrect return	✓270			
(b)	Invoice not delivered		✓980		
(c)	Wrong side of account			✓280	
(d)	Error			✓4 500	
	Totals	☑**12 930**	☑**980**	☑**4 780**	☑**16 730**
	New balance		☑**11950**		☑**11 950**

(12)

1.2.3 The debtor's clerk at Showtime (Pty) Ltd has contacted Bongiwe as they are concerned about the conduct of the account. Do you agree with the concerns of the debtor's clerk? **Analyze TWO area to back up your argument**.

Bongiwe has spent over her credit limit.✓✓ These limits are in place to ensure that the account cannot be overspent. This limits the amount of debt that the business can build up.✓✓
The account should be settled within 30 days, which is the terms and conditions of the account.✓✓ There is R4 040 that is over 90 days outstanding.✓✓

(8)

1.3 CONTROLS

1.3.1 Identify ONE problem area with regard to the bank reconciliation statement, which showsBongiwe has problems controlling the cash in her business.

There is an amount of R50 000 that cannot be found.✓✓

(2)

1.3.2 Explain TWO control measures that Bongiwe needs to put in place to ensure that this does not happen in the future.

Money should be banked as soon as possible and all documentation, such as deposit slips, must be retained.✓✓ If money cannot be banked immediately then it should be locked away in a safe with limited access.
Where possible separation of duties needs to be enforced so the person doing the banking is not the same person doing the recording and reconciling.✓✓

(4)

1.3.3 Compete the bank reconciliation statement for September so that it balances, after taking into account the additional information given

Bank reconciliation statement

Details	Debit R	Credit R
Overdraft according to the bank statement	12 550	
Credit outstanding deposits:		
(a) 5 September 2015		✓50 000
(b) 30 September 2015		✓25 000
Debit outstanding cheques:		
(a) No. 1022 (27 August 2015)	✓16 800	
(b) No. 1222 (29 September 2015)	✓22 150	
(c) No. 1333 (30 September 2015)	✓1 400	
(d) No. 1321 (3 October 2015)	✓1 580	
Credit correction of error✓		☑✓5 780
(e) Favourable bank balance according to the ledger 17 800 + 8 500 + 1 400 – 1 400✓	☑26 300	
	☑ 80 780	☑80 780

(13)

[48]

QUESTION 2: INVENTORY SYSTEMS (44 marks; 26 minutes)

2.1.1 Name and explain another method of valuing stock. (2)

Weighted average method – the stock bought at varying prices is averaged at the end of the year. ✓✓
OR
Specific identification method – specific items are bought at varying cost prices.

2.1.2 Calculate the number of units sold during the period. (8)

126 000✓ / 1 400✓ = 90☑

65 – 15 = 50 ☑

77 500✓ / 1 550✓ = 50 ☑

Total (90 + 50 + 50) = 190 ☑

2.1.3 Calculate the total number of units on hand on 31 March 2016. (5)

40 ✓+ 80 + 90+ 70✓ = 280✓ – 190 ✓= 90☑

2.1.4 Calculate the value of the closing stock using the FIFO valuation method. (7)

70✓ x 950✓ = 66 500☑
20✓ x 900✓ = 18 000☑
= 84 500☑

2.1.5 Calculate the gross profit for the period 1 January to 31 March 2016 (12)

Sales (126 000✓ + 97 500✓ + 77 500✓) – 22 500✓ =278 500☑
Cost of sales (38 000✓ + 68 000 ✓+ 81000✓ + 66 500✓) – 84 500☑ = 169 000☑
Gross profit 109 500☑

2.1.6TWO reasons why the FIFO method is best suited toBahati Boards rather than the other method named in 2.1.1. (4)

1. The boards are easy to identify as to which stock came in first. ✓✓
2. The boards are based on fashion. ✓✓
3. It is simple and more accurate

OR

TWO reasons why the SPECIFIC IDENTIFICATION method is best suited toBahati Boards rather than the other method named in 2.1.1.

1. Only one type of product
2. Cost price per item fall in a similar range.
3. Can only be applied if each item is taken into stock at a specific cost price.
4. Other suitable answers are acceptable.

2.1.7 How to identifying whether the stock is going missing or not. (4)

- Implement regular stock takes to check whether the quantity on hand is correct according to the books of the business.
- Observe the stock process from when it enters and leaves the shop, check whether the correct process document is in place.
- Other suitable answers are acceptable.

2.1.8 Controls that would be effective for this particular product. (2)

- It is a large product so make sure stock is stacked neatly and is easy to see.
- Expensive skateboards could be in glass cabinets with keys.
- Ensure that the stock room can only be accessed by a limited number of staff
- Other suitable answers are acceptable.

[44]

QUESTION 3: VALUE ADDED TAX✓(23 marks; 14 minutes)

3.1.1 Choose a word or phrase

(a)	Output Vat✓✓
(b)	Vat exempted✓✓
(c)	Evasion✓✓
(d)	Input Vat✓✓

8

3.1.2 (a) Calculate the amount ofVAT that Billy willeitherpay to or receive fromSARS

Vat Output (R10 710✓✓ + R175✓✓+ R336) = R11 221.00☑
Vat Input (R7 280✓✓ + R1 404.48✓✓ + R105) = R 8 789.48☑
Owed to SARS = R11 221 – R8 789.48 = R2 431.52☑
OR
Vat Output (R10 710✓✓ + R175✓✓) = R10 885.00☑
Vat Input (R7 280✓✓ + R1 404.48✓✓ + R105) = R 8 789.48☑
Owed to SARS =R10 885 – R8 789.48 = R2 095.52☑

11

(b) Explain whyBilly benefitsfrom being registeredforVAT. Quotefigures to supportyouranswer.

He benefits from being registered, because he can claim back for purchases and expenses. Purchases of goods - R7 280 00, telephone and water and electricity – R1 404.48 and drawings – R105

2

(c) What advise do you have for Billy?

Do not accept the offer as it is against the law.
This is an unethical business practice.
The supplier is evading tax which can implicate Billy in committing a criminal offence.
If the goods are faulty he might not return them since there is no proof of payment

2

QUESTION 4: COMPANY FINANCIAL STATEMENTS (73 marks; 44 minutes)

4.1 CONCEPTS

4.1.1 independent audit report✓✓
4.1.2 directors' report✓✓
4.1.3 corporate governance✓✓

4.2 GIGANA SPORTS ACCESSORIES LTD

GIGANA SPORTS ACCESSORIES LTD INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2016		
	Notes	R
Sales (2 600500 – 97 250✓)		☑2 503 250
Cost of sales (1 200 250 - 2 500✓✓)		☑1 197750
Gross profit Operation		☑1 305 500
Other Operating income Operation		☑86 576
Rent income (99 540 – 14 220✓☑)		☑85 320
Profit on sale of asset		✓✓1 000
Provision for bad debts		✓256
Gross operating income		☑1 392 076
Operating expenses Operation		☑823 550
Salaries and wages (275 000 + 17 500✓✓)		☑292 500
Directors' fees (300 000 + 10 000✓)		☑310 000
Audit fees		✓20 000
Sundry expenses		✓ 93 000
Insurance		✓15 000
Advertising (8 750 + 6 000✓ – 5 000✓✓)Any one part correct		☑9 750
Depreciation		✓83 300
Operating profitOperation		☑568 526
Interest income		0
Profit before interest income / finance cost		568 526
Interest expense		✓✓(48 000)
Profit before tax Operation		☑520 526
Taxation		✓(210 000)
Net profit for the year		☑✓310 526

Workings: Average price - R1 200 000 / 50 000 = R24 therefore 10 000 x 24 = 240 000.
R11 (R35 - R24) therefore 10 000 x 11 = R110 000.

Salary = R12 000 + R2 000 = R14 000 x 100 / 80 = R 17 500

4.2.2

GIGANA SPORTS ACCESSORIES LTD NOTES TO THE BALANCE SHEET		
Trade and other receivables		
Debtors control (65 200 – 2 500✓)		☑ 62 700
Less: Provision for bad debts (5 120 – 256)		✓☑(4 864)
Net debtors		✓57 836
Prepaid expenses		✓ 5 000
SARS income tax (282 000✓ – 210 000✓)		☑72 000
		☑134 836
Retained income		
Balance at the beginning of the year		152 500
Net profit for the year		☑310 526
Funds utilized for share buy-back (10 000✓ x R11☑)		☑(110 000)
Ordinary share dividends		☑(68 800)
Paid		52 000
Recommended (40 000☑ x R0.42 cents✓)		☑✓16 800
Balance at the end		☑ 284 226
Trade and other payables		
Creditors		✓55 000
Accrued expenses		✓10 000
Income received in advance		✓14 220
Current portion of the loan		✓✓120 000
Creditors for salaries		✓12 000
Medical Aid fund		✓2 000
SARS PAYE		✓✓3 500
Shareholders for dividends		✓✓21 000
		☑237 720

QUESTION 5: ASSET MANAGEMENT, CASH FLOW STATEMENT AND ANALYSIS (79 marks; 47 minutes)

5.1 MULTIPLE CHOICE QUESTION

5.1.1 (a ✓✓
5.1.2 (c) ✓✓
5.1.3 (d) ✓✓
5.1.4 (a) ✓✓
5.1.5 (c) ✓✓

5.2 UMKHANYA LTD

5.2.1

UMKHANYA LTD TANGIBLE ASSET NOT FOR THE YEAR ENDED 20 FEBRUARY 2015			
Fixed assets	Land & Building	Vehicles	Equipment
Carrying value at the beginning of the year	8 200 000	3 330 000	2 340 000
Cost	8 200 000	✓**6 500 000**	3 215 000
Accumulated depreciation		(3 170 000)	✓**(875 000)**
Movement			
Additions at cost	500 000	0	☑☑**65 000**
Disposal at carrying value (750 000 – 601 875)		✓✓✓☑**(148 125)**	0
Depreciation (Vehicles: 862 500 + 84 375)		✓✓✓☑**(946 875)**	✓☑**(474 500)**
Carrying value at the end of the year	✓8 700 000	2 235 000	✓☑**1 930 500**
Cost	✓8 700 000	**5 750 000**	☑**3 280 000**
Accumulated depreciation		✓☑**(3 515 000)**	(1 349 500)

5.2.2 (a)

Cash generated from operating activities	R
Profit before taxation	4 250 000
	☑2 021 375
Adjustments in respect of : depreciation Check Note 3	☑1 421 375
: interest expense	✓600 000
Operating profit before changes in working capital Operation; one part correct	☑6 271 375
Changes in working capital Operation; one part correct	☑(688 000)
Increase✓ in inventory	✓(1 250 000)
Increase✓ in trade and receivables	✓(400 0000)
Increase✓ in trade and other payables	✓ 962 000
Cash generated from operations Operation	☑ 5 583 375

Workings

Equipment : 2 340 000 x 20% = 468 000 (without purchases)
1 349 500 – 875 000 = 474 500 (actual depreciation)
474 500 (depreciation for the year) – 468 000 = 6 500
6 500 = depreciation on new
xc x 20% x 6/12 = 6 500
xc 65 000 cost of addition

Vehicles :750 000 = 6 500 000 – 5 750 000
Old depreciation : 5 750 000 x 15% = 862 500
Sold = 750 000x 15% x 9/12
=84 375

5.2.2 (b)

Income tax paid	
Amount at the beginning	✓(4 000)
Income tax	✓(1 250 000)
Amount at the end	✓5 000
Amount paid	☑1 249 000

5.2.2 (c)

Dividends paid (600 000 + 1 350 000✓✓- 600 000✓ =	☑1 350 000

5.2.2. (d)

Cash effects of investing activities	☑✓(416 875)
Purchases of assets	☑(565 000)
Proceeds of assets sold	☑148 125

5.2.2. (e)

Cash flow from financing activities	☑✓(1 150 000)
Proceeds from shares sold	✓850 000
Payment of loan	✓(2 000 000)

5.2.3 (a)

Debt : equity ratio
4 000 000✓: 11 150 000✓
= 0.358: 1 / 0.36 : 1 / 0.4 ; 1☑

5.2.3 (b)

Return on capital employed
4 250 000✓ + 600 000✓X 100✓
=(7 000 000✓ + 1 500 000✓ + 6 000 000✓ + 7 850 000✓ + 3 300 000✓ + 4 000 000✓) / 2✓

= 4 850 000 X 100
14 825 000☑
= 32.7% / 33%.☑

Possible comments on the directors' approach to financing the expansion.
YES / NO✓

- They have paid back the loan therefore there is less risk (2 000 000) ✓
- They need not have issued the shares but rather should have used the loan, as the ROCE is higher than the interest rate on loans (33% - 15%).✓
- Positively geared. ✓
- Shares were used to pay back, as well as extra funds in the bank were used. Therefore there is no need to borrow as the funds are available. ✓

QUESTION 6 COMPANY CONCEPTS (33 marks; 20 minutes)

6.1 MATCH THE TERMS AND DEFINITIONS

A	3✓✓
B	4✓✓
C	5✓✓
D	1✓✓
E	2✓✓

6.2 TECHNO GEEKS LTD

6.2.1

ORDINARY SHARE CAPITAL	
Issued share capital	
1 500 000✓ shares in issue 1 September 2016 (4 000 000✓ + 2 200 000✓)	✓6 200 000
400 000✓shares bought back at R4,13✓✓ during the financial year	✓✓1 652 000
1 100 000☑ shares in issue at 28 February 2016	☑4 548 000

6.2.2

R6 200 000 ✓✓/ 1 500 000✓✓ = R4.13✓☑

6.2.3

They have retained money in the business. ✓✓The company is doing well and this has increased the demand for its shares. ✓✓ The demand for the shares has increased. The business has been re-investing their profit, which has increased the net asset value per share. ✓✓