basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2014

MEMORANDUM

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 foreign item penalty for misplaced item). No double penalty applied.
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).
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 before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Codes: f=foreign item; p=placement/presentation.

This memorandum consists of 18 pages.

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QUESTION 1

1.1 CONCEPTS

1.1.1	Perpetual inventory system ✓✓
1.1.2	VAT exempt ✓✓
1.1.3	Zero rated VAT ✓✓

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1.2 INVENTORY VALUATION

1.2.1 Calculate the following on 31 May 2013:

Weighted-average value per box
✓✓ ✓✓
R875 900 / 23 050
= R38 ☑

Value of the closing stock
✓ ☑
3 350 x R38
= R127 300 ☑

Number of washing powder boxes missing
✓ ✓ ✓ ✓
23 050 – 3 350 – 18 800 = 900

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1.2.2 Division of duties plays an important part in preventing this problem. Explain how Jakob should implement this in the business with regard to stock.

Any valid answer ✓✓ Expected responses:
The person ordering should not be the person receiving the goods.
The person paying the supplier should also agree to the quantities taken in stock.
The person doing the physical count should not be the person ordering or controlling the stock (the count could be supervised by the internal auditor).

Name ONE other strategy he could use and explain how he should implement this strategy.

Any valid answer ✓✓ Expected responses:
Rotation of duties
Control the processing of documents – order note must tally with invoices
Physical security of stock

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1.3 VAT

1.3.1 **If VAT input is greater than VAT output, SARS for VAT will be shown in the financial statements as a Trade and Other (Payable/Receivable).**

Receivables ✓✓

2

1.3.2 **The credit sales for October 2013 amounted to R120 000 (excluding VAT). Calculate the amount of VAT on the credit sales.**

R120 000 x 14/100 = R16 800 ✓✓

2

1.3.3 **The total of the debit notes issued to suppliers for merchandise returned to creditors indicates VAT of R1 120. Determine the VAT-exclusive amount that must be posted to the Trading Stock Account.**

R1 120 x 100/14 = R8 000 ✓✓

2

1.3.4 **Calculate the VAT paid if the total cash purchases for October 2013 was R159 600 (including VAT).**

R159 600 x 14/114 = R19 600 ✓✓

2

TOTAL MARKS
30

QUESTION 2

2.1 BANK RECONCILIATION STATEMENT AND INTERNAL CONTROL

2.1.1 Identify the items and the amounts that must be entered in the Cash Receipts Journal (CRJ) and the Cash Payments Journal (CPJ) for August 2013. List only the item number and the amount. Do NOT give totals for each journal.

Cash Receipts Journal (CRJ)	
Item number	**Amount**
3	R2 000✓✓
6	R540✓
7	R14 000✓

Cash Payments Journal (CPJ)	
Item number	**Amount**
2	R21 500✓✓
4	R620✓
5	R8 000✓
8	R3 600✓✓

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2.1.2 BANK RECONCILIATION STATEMENT ON 31 AUGUST 2013

	Debit	Credit
Cr balance as per bank statement ✓		42 000✓
Cr outstanding deposit ✓		15 600✓
		18 000✓
Cr amount wrongly debited✓		300✓
Dr outstanding cheques✓		
2395	15 000✓	
2418	8 450✓	
2420	12 000✓	
Dr balance as per bank account✓	40 450☑	
	75 900	75 900

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2.1.3 **It is clear that the business is not controlling its cash properly. What specific problems will the internal auditor include in his report? Explain TWO of these problems, providing figures to support your explanation, and give a possible solution for each. Dismissal of employees is not an option at this stage.**

	Explanation (with figures) ✓✓ ✓✓	Possible solution✓ ✓
Problem 1	The physical security of depositing cash, R21 500 was stolen.	Use cash in transit service/two people to do the depositing/ ask customers to use EFTs/change depositing routines
Problem 2	Rolling of cash, deposits of R34 800 (July) and R33 600 (August) are several days old and are still not deposited at the end of each month.	Internal auditor must check that the cashier is depositing cash daily/appoint a different person to do the depositing

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2.2 DEBTORS' AGE ANALYSIS

2.2.1 **The business is not controlling its debtors effectively. Give ONE reason why you would agree with this statement. Refer to figures in your answer.**

- Only 25% (R23 500) of the outstanding balance is within the 30 days credit terms. ✓✓

2

2.2.2 **Anna is of the opinion that her debtors' clerk is not screening (checking) the debtors properly before they start buying on credit from her business.**

Give TWO strategies that the debtors' clerk should follow before allowing customers to open accounts.

Any two valid responses to explain screening ✓✓ ✓✓
Expected responses:

- New debtors must provide ID documents and proof of residence
- New debtors must provide three credit references which the debtors clerk must check for good payment records
- Debtors must provide proof of income e.g. salary slip

4

TOTAL MARKS
35

QUESTION 3

3.1 INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

Sales (4 220 700✓ - 850✓)		✓4 219 850
Cost of sales (1 100 720✓ – 680✓)		✓(1 100 040)
Gross profit	**7**	☑ 3 119 810
Other income		☑12 860
Profit on sale of asset		**12 500**
Provision for bad debts adjustment (3 450 – 3 090)		✓✓360
Gross operating profit	**3**	3 132 670
Operating expenses		**(2 293 750)**
Sundry expenses		☑31 000
Bank charges		**6 000**
Audit fees		**45 000**
Directors fees (432 000✓ + 540 000✓✓)		☑972 000
Salaries and wages (940 000✓ + 9 000✓✓)		☑949 000
Employer's contribution (103 400✓+ 90✓ + 900✓)		☑104 390
Rent expense (63 360✓ – 5 280✓✓)		☑58 080
Bad debts (2 790✓+ 540✓✓)		☑ 3 330
Depreciation (13 750✓ + 81 400✓ + 3 000✓ + 18 500✓)		☑116 650
Trading stock deficit (138 000✓– (82 000✓+ 47 700✓✓)		☑8 300
Operating profit	**32**	☑838 920
Interest income		**680**
Profit before interest expense		839 600
Interest expense		✓☑(39 600)
Net profit before tax		☑800 000
Income tax for the year		**(240 000)**
Net profit after tax	**4**	☑560 000

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3.2 FIXED ASSETS NOTE ON 31 DECEMBER 2013

FIXED/TANGIBLE ASSETS	VEHICLES
Carrying value – 1 January 2013	**309 100**
Cost	**489 500**
Accumulated depreciation	**(180 400)**
Movements	
Additions at cost	0
Disposal at carrying value	✓✓(35 750)
Depreciation	**(95 150)**
Carrying value – 31 December 2013	☑178 200
Cost	✓✓407 000
Accumulated depreciation	**(228 800)**

5

3.3 TRADE AND OTHER PAYABLES

Creditors (43 400✓ - 680✓✓)	☑ 42 720
Shareholders for dividends	✓✓84 000
SARS: PAYE (14 100✓ + 1 600✓)	✓15 700
Creditors for salaries	✓✓6 680
UIF (1 300✓ + 90✓ + 90✓)	☑1 480
Pension fund (14 500✓ + 630✓ + 900✓)	☑16 030
Accrued expenses	☑ ☑540 000
SARS: Income tax (240 000 – 224 000)	✓✓16 000
	☑722 610

24

TOTAL MARKS
75

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QUESTION 4

4.1

4.1.1	True ✓✓
4.1.2	True ✓✓
4.1.3	True ✓✓
4.1.4	False ✓✓

8

4.2 **4.2.1** **CASH GENERATED FROM OPERATIONS**

Net profit before tax	**980 000**
Adjustment for:	
Interest expense	**36 000**
Depreciation	**200 000**
Operating profit before changes in working capital	**1 216 000**
Changes in working capital	☑ (111 300)
Change in inventories	✓✓ (77 800)
Change in trade and other receivables	✓✓ 48 500
Change in trade and other payables	✓✓ (82 000)
Cash generated from operations	☑ 1 104 700

8

4.2.2 **Calculate:**

Taxation paid

R294 000 ✓ – R8 900 ✓ – R12 400 ✓ = R272 700 ☑

4

Dividends paid

R70 000 ✓ + (200 000 x $^{40}/_{100}$) = R150 000 ☑
R80 000 ✓✓

4

Fixed assets purchased

R3 350 000 ✓ + R200 000 ✓ + R165 000 ✓ – R2 000 000 ✓
= R1 715 000 ☑

5

4.2.3 Calculate the following financial indicators on 30 June 2013:

Solvency ratio

(R3 350 000 + R458 400) : (R400 000 + R504 400)
R3808400 ✓✓ : R904 400 ✓✓

= 4,2 : 1 ☑

5

Acid test ratio

(R458 400 – R316 900) : R504 400 ✓
R141 500 ✓✓

= 0,3 : 1 ☑

4

Return on average capital employed (ROTCE; use net profit before tax in your calculation.)

$$\frac{\text{R980 000 ✓ + R36 000 ✓}}{\text{½ ✓(R2 190 000 + R3 304 000)✓}} \times \frac{100}{1} = 37\ \%\ ☑$$

5

4.2.4 **Calculate the minimum number of shares Gus must buy in July 2013 to gain control of the company.**

To control Gus must own at least :
50% x 450 000 = 225 000 + 1 = 225 001 shares
OR 225 000 + 100 = 225 100 shares
OR 51% x 450 000 = 229 500 shares

Number of shares required
225 001 ✓✓ – 108 000 ✓ = 117 001 shares ☑
225 100 – 108 000 = 117 100 shares
229 500 – 108 000 = 121 500 shares

4

Gus wants to purchase the additional shares at R8,00 without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.

Any TWO ✓✓ ✓✓

- All shares must be advertised to the public as this is a public company and it is a requirement of the Companies Act.
- He is only offering R8.00 while the market value is 1450 cents.
- This is an example of insider trading and it is a criminal offence./Gus will be taking advantage of his position to enrich himself.
- The value of R8.00 is below the net asset value of R12.10.

4

4.2.5 **One of the directors feels that the company should also make use of loans in the new financial year. Quote TWO financial indicators (with figures) and explain each indicator to support her opinion.**

Financial indicator (with figures) ✓ ✓ Explanation ✓ ✓

ROTCE:
- It has increased from 22% to 36,9%
- Company is positively geared as the ROTCE (37%) is greater than the rate of borrowing (9%)

Debt/equity ratio:
- It has decreased from 0,3 : 1 to 0,1 : 1.
- Company has a low financial risk – this favours additional borrowing (lowly geared)

4

4.2.6 **The directors feel that the liquidity has deteriorated. Quote THREE financial indicators (with figures) to support this opinion.**

Financial indicator (with figures) ✓ ✓ ✓ Explanation ✓ ✓ ✓

The current ratio has decreased from 1,5 : 1 to 0,9 : 1.

The acid-test ratio has decreased from 0,9 : 1 to 0,3 : 1.

The stock turnover rate decreased from 15 times to 8 times.

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4.3 AUDIT REPORT

4.3.1 **Is the audit report presented by Tshabalala & Associates regarded as a qualified report, a disclaimer of opinion report or an unqualified report?**

Unqualified report ✓

Give ONE reason. ✓ any valid response e.g.
The words "fairly present in all material respects" are used
The auditor has not identified any problem in his report.

2

4.3.2 **Explain why the Companies Act makes it a requirement for public companies to be audited by an independent auditor. Give ONE reason.**

Any ONE reason ✓✓
- Unbiased view presented.
- Separation between management and ownership – interest of shareholders are safeguarded.

2

4.3.3 **To whom is this audit report addressed?**

Shareholders ✓

Give ONE reason.

They have appointed the external independent auditor at the annual general meeting.

2

4.3.4 **Senzo Tshabalala, a senior partner in Tshabalala & Associates, wants to purchase shares in Bongi Limited, as he sees it as an excellent investment opportunity. What advice would you offer Senzo? Explain.**

Excellent answer ✓✓✓ good answer ✓✓ satisfactory answer ✓

- Conflict of interest.
- Senzo will not be regarded as an independent auditor as he will become a shareholder in the company.
- The audit will have to be done by another auditing firm.

3

TOTAL MARKS
70

QUESTION 5

5.1 COST CONCEPTS

5.1.1	D ✓✓
5.1.2	A ✓✓
5.1.3	B✓✓

6

5.2 PRODUCTION COST STATEMENT

5.2.1 FACTORY OVERHEAD COSTS

Factory maintenance	**19 404**	
Depreciation	**32 390**	
Factory foreman's salary (9 500 x 13)	123 500	✓✓
Factory indirect material	35 730	✓
Water and electricity (137 000 x ¾)	102 750	✓✓
Rent Expense (296 000 x $^{18}/_{30}$) or 60%	177 600	✓✓
Insurance (30 000 x 70%)	21 000	✓✓
Factory cleaning staff (52 x 950 x 1.1)	54 340	✓✓
	566 714	☑

12

5.2.2 PRODUCTION COST STATEMENTFOR YEAR ENDED 30 JUNE 2013

Direct material cost (42 400✓ + 1 182 500 ✓+ 24 100✓ - 32 800✓ - 56 700✓)	1 159 500	☑
Direct labour cost [(6 400 x 12) ✓ x 7✓ + (130 x 57) ✓ x 7]	589 470	☑
PRIME COST	1 748 970	☑
Factory overhead cost	566 714	☑
TOTAL MANUFACTURING COST	2 315 684	☑
Work in process (1 July 2012)	43 300	✓
	2 358 984	
Work in process (30 June 2013)	(33 000)	✓
COST OF PRODUCTION OF FINISHED GOODS	2 325 984	☑ ✓

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5.3 UNIT COSTS AND BREAK-EVEN POINT

5.3.1 Calculate the following:

Direct material cost per unit

756 000 ÷ 42 000 = R18,00 ✓✓

2

Factory overhead cost

42 000 x R9,00 = R378 000 ✓✓

2

5.3.2 **Give a possible reason for the change in unit costs in each of the following cases:**

Direct material cost per unit

Less wastage / more efficient production methods / better trained employees / cheaper suppliers / bulk discounts.

One valid point ✓✓

Factory overhead cost per unit

Economy of scale (more units produced)/ more efficient use of consumables or electricity

One valid point ✓✓

4

5.3.3 **Calculate the break-even point for the year ended 31 August 2013. The break-even point for the previous year was 23 064 units.**

$$\frac{\text{R567 000 ✓}}{\text{R60} - (\text{R15,50} + \text{R7,50} + \text{R18,00})}$$

✓ R41 ☑

= 29 842,1 OR 29 842 OR 29 843 units ☑

4

5.3.4	**Explain whether the business should be satisfied with the level of production achieved. Mention the break-even point in your explanation.** The business would be satisfied ✓ because it produced 12 157 units more than the break-even point. (40.7%) ✓✓	3

TOTAL MARKS
50

QUESTION 6

6.1 **Complete the table by filling in only the amounts in the appropriate columns.**

EXAMPLE: The tenant will pay monthly rent of R6 000.

No.	Amount in the Cash Budget for May 2014		Amount in the Projected Income Statement for May 2014	
	RECEIPT	PAYMENT	INCOME	EXPENSE
e.g.	R6 000		R6 000	
6.1.1		1 800 ✓		1 800 ✓
6.1.2				7 800 ✓
6.1.3	52 000 ✓		52 000 ✓ or (22 000) ✓✓	30 000 ✓
6.1.4		34 000 ✓	1 700 ✓	

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6.2 **CASH BUDGET**

6.2.1 **Debtors' Collection Schedule**

MONTHS	FEE INCOME ON CREDIT	APRIL 2014	MAY 2014
March (actual)	R140 000	84 000	
April (budgeted)	R200 000	68 600	✓✓ 120 000
May (budgeted)	R280 000		✓✓ 96 040
CASH FROM DEBTORS		152 600	☑ 216 040

5

6.2.2 **Calculate A–D:**

A	6 540 x $^{110}/_{100}$ = 7 194 ✓
B	90 000 x $^{100}/_{120}$ = 75 000 ✓✓
C	310 000 – 418 200 = (108 200) ✓✓
D	C + 280 000 = 171 800 ☑

6

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Calculate the amount of the loan on 1 April 2014.
4 400 x $^{100}/_{11}$ ✓ x 12 ✓ = 480 000 ☑

3

Calculate the percentage increase in salaries on 1 May 2014.
(50 220 – 46 500)✓ / 46 500✓ x 100 = 8%☑

3

6.2.3

Explain what you would mention to Molly about each of the items listed below and give ONE point of advice in each case.	
FUEL (PETROL):	
COMMENT ✓	Over-budget / poor control of vehicles / possible unforeseen increase in prices/wastage.
ADVICE ✓	Such increases in fuel prices must be anticipated and considered in budgeting / look at trends / wastage / monitor drivers by using logbooks and tracking devices for distances.
COLLECTION FROM DEBTORS:	
COMMENT ✓	Under-budget / not well controlled / not according to expectations of the collection policy.
ADVICE ✓	Ensure debtors adhere to policy by notifying them of outstanding balances / SMS / interest on overdue amounts / discount incentives / do not allow further credit to debtors who do not adhere to the required credit policy/increase the discount given from 2% to 5%
ADVERTISING:	
COMMENT ✓	Well controlled / amount spent as per budgeted amount.
ADVICE ✓	Maintain the good budgeting ethics / but consider the impact of advertising by increasing this expense as fee income does not meet the budget

6

6.3 INTERNAL CONTROL

Identify a problem that Candice is faced with concerning each of her products. State a different problem for each product. You must quote figures to support your answer. Give a suitable solution to each problem identified.

Product	Problem (with figures)	Solution
Fruit juice	Cash collected shows that cash has been stolen [R29 610 – R28 800 = R810] ✓✓	Improve control measures for cash collection. ✓ Cash register - only one person to handle cash
Chips	Too many items of chips (758) on hand/unsold. High comparative price [R11] due to high mark-up used [75%]. ✓✓	Order only flavours in demand. Reduce selling price of items. ✓
Chocolates	A number of chocolates have not been accounted. Possibly stolen [35 units] or Too much of stock losses [20 units]✓✓	Stricter control over sales of chocolates. Consider the area where they are being displayed. Suitable storage facilities should be used for chocolates. ✓

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TOTAL MARKS
40

TOTAL: 300

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