GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2019

MARKING GUIDELINES

ACCOUNTING (10710)

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 penalty for misplaced items). No double-penalty is 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 the answer is incorrect, mark the workings provided.
4. 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).
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. 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. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: F = foreign item; P = placement / presentation.
12. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.

19 pages

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION – 2019

ACCOUNTING

MEMORANDUM

QUESTION 1:

1.1 **State whether each of the following statements is TRUE or FALSE.**

1.1.1	False ✓
1.1.2	False ✓
1.1.3	True ✓

3

1.2 **BANK RECONCILIATION**

1.2.1 **Calculate the following on 31 August 2019:**
Correct totals for the CRJ and CPJ:

	CRJ
(1 mark) 18610	**90 140**
	1 800 ✓✓
	4 100 ✓
	9 600 ✓
	3 700 ✓
122 050	109 340

	CPJ
(1 mark) 16 810 600*	**100 280**
	4 700 ✓✓
	234 ✓
	380 ✓
	200 ✓
	7 560 ✓
126 064	113 354

***600 (3 marks if R4 100 does not appear in CRJ and R4 700 in the CPJ)**

Bank Account balance:

✓ ☑ ☑ ☑

– 5300 + 109 340 – 113 354 = - 9 314

see above see above

OR

– 5300 + 122 050 – 126 064 = - 9 314

Accept alternative arrangements for calculations such as ledger account / equation form.

15

1.2.2 **Prepare the Bank Reconciliation Statement on 31 August 2019.**

Bank Reconciliation Statement on 31 August 2019		
Balance as per bank statement	Operation, balancing figure	8 676 ☑
Credit outstanding deposit		12 070 ✓
EFT outstanding	4 700 ☑	
Debit outstanding cheques		
720	11 000 ✓	
510	14 360 ✓	
Balance as per bank account see 1.2.1		9 314 ☑
Operation – both totals	30 060 ☑	30 060

7

1.2.3 **Explain ONE benefit of using the electronic funds transfer (EFT) system rather than cheques for direct payments to suppliers.**

Any ONE valid response ✓✓

- Cheaper than cheque payments or debit orders (only data costs)
- Shorter period for the clearance of funds
- Less fraud and theft than with cheques / eliminate risks of lost / stolen / forged / dishonoured cheques (greater security)
- Payees are happy because funds can be transferred more quickly at any time of the day or night (not restricted by banking hours)
- Save on bank charges
- Simplifies bookkeeping and efficiency / saves time / transactions quicker / proof of payment immediate

2

1.2.4 **The internal auditor is concerned about the management of cash.**

(a) **Identify ONE problem that justifies his concern. Quote figures.**

Rolling / late depositing of cash: ✓ R12 000 ✓received on 15 July and deposited only on 01 August 2019.

2

(b) **Provide ONE point of advice to avoid this problem in future.**

Any ONE valid response ✓✓

- Create a policy for regular, daily depositing.
- Request notification from the bank for all transactions (sms).
- Division of duties / one person serves as a check on another.
- Check bank statements promptly.
- Use a security company to collect cash.
- Ask debtors to pay by EFT.
- Background checks / police clearance on staff.

2

1.3 **CREDITORS' RECONCILIATION**

	Creditors' Ledger	Creditors' Reconciliation Statement
Balance	**28 370**	**25 300**
A		+ 13 320 ✓✓ **(14 800 – 1 480)**
B	+ 2 700 ✓✓ **1 350 + 1 350**	
C	+ 350 ✓	
D		– 7 200 ✓
E	-2 700✓	-2 700✓
Operation – both totals	28 720 ☑	28 720

9

-1 for superfluous items, only if marks awarded for that line. Max -2

TOTAL MARKS
40

QUESTION 2

2.1 KLEMISH MANUFACTURERS

2.1.1

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

Direct material cost (3100 000 + 204 000)	3 304 000 ✓☑
Direct labour cost Prime cost – DMC	1 296 000 ☑
Prime cost	4 600 000 ✓
Factory overhead cost (974 400 ✓ + 46 200 ✓✓) (84 000–37 800) Operation; one part correct	1 020 600 ☑
operation Prime + FOHC	5 620 600 ☑
Work-in process (beginning)	500 800 ✓
	6 121 400
Work-in process (end) operation TCP – subtotal above Check that is deducted / ignore brackets / do not accept 500 800 or 0	(775 400) ☑
Total cost of production 10 800 X 495	5 346 000 ✓✓

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2.1.2

ABRIDGED INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

Sales	**8 160 000**
See TCP 2.1.1 Could do FGS account **Cost of sales** (672 000✓+ 5 346 000 ☑ – 18 000✓) ignore brackets	(6 000 000) ☑
Gross profit Sales – COS	2 160 000 ☑
Administration cost (296 800 + 1 000) one part correct / ignore brackets	(297 800) ✓ ☑
Selling and distribution cost (844 000 – 1000 ✓- 46 200 ☑) (84 000–37 800) One part correct / ignore brackets	(796 800) ☑
Net profit operation (subtract AC & SDC) one part correct	1 065 400 ☑

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2.2 DAMARA'S JEWELLERY

2.2.1

Break-even point:

(a) **Calculate the break-even point for February 2019**.

$$\frac{\text{R1 296 000}}{\text{R407 – R245}} = \frac{\text{R1 296 000}}{\text{R162}} = 8\,000 \text{ units}$$

✓ ✓ ✓ ☑ one part correct

OR

$$\frac{\text{R1 296 000}}{\text{R7 7326 000 – R4 410 000}} \times 18\,000 = \frac{\text{R1 296 000}}{\text{R2 916 000}} \times 18\,000 = 8\,000 \text{ units}$$

(b) **Damara is satisfied with the results. Explain ONE reason with figures to support Damara's satisfaction.**

Reason ✓

Quote Figures ✓✓

- The break-even point dropped from 13 500 units to 8 000 units.
- The business is producing 18 000 units, which exceeds the break-even point of 8 000 units.
- This indicates that the business will be making a profit of R4 070 000 (10 000 X R407).

	4

	3

2.2.2

Refer to the unit costs.

(a) **Explain why the fixed costs per unit decreased.**

Total fixed costs remained the same at R1 296 000 ✓ but the number of units produced increased to 18 000 units ✓

	2

(b) **Provide ONE possible reason for the change in Direct Material Costs.**

Any one valid reason e.g. ✓✓

- Reduction in price / exchange rate (if imported)
- Greater efficiency in using raw materials / less wastage
- Better quality of raw materials leading to less wastage
- Found a supplier closer to the factory to reduce carriage

	2

TOTAL MARKS
35

QUESTION 3

3.1 CONCEPTS

3.1.1	B ✓
3.1.2	D ✓
3.1.3	A ✓
3.1.4	E ✓

4

3.2 PHAMBILI LIMITED

3.2.1 Prepare the following notes for the financial year ended 28 February 2019.

(a) **Ordinary share capital**

500 000 ✓	Ordinary shares at beginning of the year	1 220 000 ✓
900 000 ✓	Shares issued at R3,00 ✓	2 700 000 ✓
(150 000) ✓	Shares repurchased at R2,80 ✓✓ ASP (Do not accept R0,75 as ASP)	(420 000) ☑
1 250 000 ✓	Ordinary shares in issue at the end	3 500 000 ☑

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ASP – average share price

(b) **Retained income**

Balance at the beginning of the year	**355 500**
Net profit after tax 1 148 000 ✓ × $^{72}/_{28}$ ✓	2 952 000 ☑
Funds used for repurchase of shares (150 000 × R0,75)	(112 500) ✓☑
Ordinary share dividends operation, one part correct	(975 000) ☑
Interim	350 000 ✓
See above Final (1 250 000 ☑ × R0,50 ✓) operation, one part correct	625 000 ☑
Balance at the end of the year inspect operation Must subtract ordinary share dividends and shares repurchased	2 220 000 ☑

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3.2.2 **Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings.**

BALANCE SHEET ON 28 FEBRUARY 2019

ASSETS		
NON-CURRENT ASSETS TA-CA	6 519 800 ☑	
Fixed Assets	1 499 500 ✓	
Financial Assets (Fixed Deposit) balancing figure	5 020 300 ☑	
CURRENT ASSETS	**1 400 200**	3
Inventory (480 000 + 16 000)	496 000 ✓✓	
Trade and receivables (400 000 ✓ – 5 400 ✓ + 32 000 ✓✓)	426 600 ☑	
Cash and cash equivalents (1 010 100 ✓ – 532 500 ☑)	477 600 ☑	
TOTAL ASSETS	7 920 000☑	11
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY	5 720 000 ☑	
Ordinary share capital See 3.2.1	3 500 000 ☑	
Retained income See 3.2.1	2 220 000 ☑	3
NON-CURRENT LIABILITIES	992 000	
Loan (1 376 000✓ – 384 000 ✓✓) (32 000 × 12) Operation, one part correct	992 000 ✓☑	5
CURRENT LIABILITIES	**1 208 000**	
Trade and other payables (177 500 ✓+ 10 000✓+ 11 500✓ + 625 000☑ *See 3.2.1*)	*824 000☑I* * 199 000 / **1 208 000 / ***583 000	
Current portion of loan See above	384 000 ☑	
Shareholders for dividends *See 3.2.1*	*625 000*	
NOTE: CURRENT PORTION OF LOAN + SHAREHOLDERS FOR DIVIDENDS CAN BE ADDED TO TRADE AND OTHER PAYABLES OR SHOWN SEPARATELY * 177 500 + 10 000+ 11 500 **= 199 000** ** 177 500 + 10 000+ 11 500 + 625 000 + 384 000 = 1 208 000 ***177 500 + 10 000 + 11 500 + 384 000 = 583 000		
TOTAL EQUITY AND LIABILITIES	7 920 000 ☑	7

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3.3 **AUDITING**

3.3.1 **Explain why the shareholders would be satisfied with this audit report.**
Any ONE relevant answer ✓✓

- This is a positive report / clean report / in accordance with IFRS or Companies Act.
- This is an unqualified report / the report was fairly presented as per the auditor's opinion.
- The auditors did not mention any irregularities / shortcomings in the financial statements.

2

3.3.2 **Tello Motloung, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain.**
Valid explanation ✓✓

- Advice – This is unethical and the issue of new shares should be advertised to all according to the Memorandum of Incorporation / Companies Act.
- It is unethical as it constitutes insider trading.

2

3.3.3 **Explain why the auditors found it necessary to stipulate the page numbers in the report.**
Any ONE valid explanation ✓✓

- They are only responsible for the pages that they have stipulated in the report / only financial statements on Pages 23 – 89 were subjected to audit / examination.
- They are not accountable for the other information in the annual report.

2

3.3.4 **Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties**.
Any TWO explanations ✓✓ ✓✓

- Not to be re-appointed as auditors
- Face disciplinary procedures by the professional body
- Lose clients / fired by shareholders (because their integrity would be questioned)
- Can be sued

4

TOTAL MARKS

65

QUESTION 4

4.1 **Calculate the missing figures indicated by (a) – (e) in the Fixed Asset Note.**

	CALCULATIONS	AMOUNT
(a)	R6 800 000 – R5 800 000	R1 000 000 ✓✓
(b)	R840 000 + R960 000	R1 800 000 ✓✓
(c)	R850 000 – R180 000	R670 000 ✓✓
(d)	✓ ✓ ✓✓ R150 000 – (R15 000 + R15 000) – R7 500 R30 000 $\frac{R150\,000}{1} X \frac{10}{100} X \frac{6}{12} = R7\,500$	R112 500 ☑
(e)	See (d) R7 500 ☑ + R70 000✓☑ + R20 000✓☑ Sold old / remaining new R850 000 – R150 000 X 10% = R70 000 $\frac{R40\,000}{1} X \frac{10}{100} X \frac{6}{12}$ = R20 000	R97 500 ☑

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4.2

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019		
		R
CASH EFFECTS OF OPERATING ACTIVITIES	operation	(344 715) ☑
Cash generated from operations (2 854 800✓– 198 615 ✓**)**	one part correct	2 656 185 ✓
Interest paid		**(208 800)**
Dividends paid (676 500 ✓+ 1 458 000✓✓)	one part correct	(2 134 500) ☑
Income Tax paid (23 700✓- 713 250✓+ 31 950✓ **)**	one part correct	(657 600) ☑
CASH EFFECTS FROM INVESTING ACTIVITIES	operation	(187 500) ☑
Fixed assets purchased (900 000 **+** 400 000)	see 4.1 one part correct	(1 300 000) ✓☑
Proceeds on sale of fixed assets (112 500 ☑+ 1 000 000 ☑)	see 4.1	1 112 500 ☑
CASH EFFECTS FROM FINANCING ACTIVITIES	operation	1 944 000 ☑
Proceeds from the sale of shares		1 800 000✓
Repurchase of shares 36 000 (3 marks) (720 000 ✓✓ X 5% ✓X R16 ✓**)** 40% X 300 000 = 120 000 + 600 000	one part correct	(576 000) ✓
Proceeds of loan (2 100 000 – 1 380 000)		720 000 ✓✓
Net change in cash and cash equivalents	operation	1 411 785☑
Cash and cash equivalents at beginning of year		1 429 465 ✓
Cash and cash equivalents at end of year		2 841 250 ✓

12 6 9 3

30

BRACKETS ESSENTIAL BEFORE AWARDING THE MARK – SHOULD INDICATE OUTFLOW

4.3

Calculate the Debt-Equity ratio for 2019.

2 100 000✓ : 11 000 250✓
0,19 : 1✓

3

4.4 **The directors decided to increase the loan during the current financial year. Explain TWO financial indicators to indicate why this was a good decision. Quote figures.**

Financial indicator ✓ ✓ Trend and figures ✓ ✓ Comment ✓✓ ✓✓

ROTCE
This has decreased from 21,3% to 20.9%.
Positively geared as ROTCE is higher than the interest rate of 12%

Debt-Equity
This has increased from 0,13 : 1 to 0,19 : 1.
Low financial risk / lowly geared / not making use of loans / relies more on own capital

8

4.5 **The board of directors is of the opinion that the shareholders should be happy with their percentage return and the market price of their shares. Quote and explain TWO financial indicators with figures to support their opinion.**

Financial indicator ✓ ✓ Trends and figures ✓ ✓ Comments ✓ ✓

ROSHE
Improved from 12,3% to 15,7% and it is 8,2% more than the interest (7,5%) in alternative investments.

NAV
NAV per share of 1 608 cents is less than the market price of 1 680 cents.

6

4.6 **The Cash Flow Statement reflects some important decisions taken by the Directors.**
Apart from the loans, identify TWO good decisions. Explain the effect of this decision on the company. Quote figures.

DECISION **Decision✓✓ Figures ✓✓**	**EFFECT ON COMPANY** **✓✓**
Sale of land and building, R1 000 000 / Selling of fixed assets R1 112 500	Increased the cash flow. / Used funds to buy other fixed assets.
Issue of shares R1 800 000 / 120 000 shares	Increased the cash flow. / Used funds to buy assets.
Purchase of fixed assets 900 000 + 400 000 = 1 300 000	Leads to capital growth (future productivity). / More assets in the company. / Generates more income.

6

TOTAL MARKS
70

QUESTION 5: STOCK VALUATION AND VAT

5.1 **Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK**

5.1.1	periodic ✓
5.1.2	specific identification ✓
5.1.3	asset ✓
5.1.4	weighted-average ✓

4

5.2 **KROOKED SKATEBOARD TRADERS**

5.2.1 **Calculate the following on 28 February 2019:**

(a) **The value of closing stock using the weighted-average method.**

1 618 200 (3 marks)
1 392 400 (1 mark) (40 x 320) (2 marks)
238 600 ✓ + (1 298 000 + 94 400) ✓ - 12 800✓✓
860✓ + 4 400✓ - 40✓
5 220 (3 marks)
= R310 ☑ check operation
(8 marks)

420 x R310 = R130 200 ☑ one part correct

9

(b) **Cost of sales:**

R1 618 200 (2 marks)
(R238 600 + R1 392 400 – R12 800) ✓☑ – R130 200 ☑
= R1 488 000 ☑

Accept ledger account / table.

4

(c) **Gross Profit:**

R1 680 000 ✓– R1 488 000☑
= R192 000☑ one part correct

Accept ledger account / table.

3

5.2.2

G Gonzales the owner of Krooked Skateboard Traders wants to alternate between using the weighted-average method and a FIFO method, depending on which will result in the higher cost of sales.

(a) **In your opinion, why do you think G Gonzales wants to increase the value of cost of sales in the financial statements?**

It decreases gross / net profit and therefore decreases tax liability.✓✓

2

(b) **Provide ONE reason why the bookkeeper says that alternating between two methods of valuing stock does not comply with the requirements of GAAP.**

Any acceptable answer ✓✓

- The business must stay consistent from one year to the next in order to compare results.
- It is not ethically correct to manipulate profit by changing policies.
- Needs permission from SARS to change from one inventory valuation method to another

2

5.3 **PROTEC TRADERS**

Identify a different problem in each store. Quote figures to support the problem identified in each case and give Patrick Ace advice on how to solve each problem.

	Problem (Quote figures.) **Problem ✓✓✓ Figure✓✓✓**	**Solution / Advice** ✓ ✓ ✓
Store 1: Lucas	Lucas spent R30 000 on advertising and his turnover amounted to R280 000 Advertising is 10.7% of sales.	Lucas should review his advertising and promotional strategies in order to increase sales volume.
Store 2: Pitso	The returns of R28 000 is too high / 8,24% of sales is returned. The returns policy of 21 days is too long.	Change supplier for better quality if the product is inferior / Train the workers to provide a better sales service. Change the returns policy to 7 days.
Store 3: Pepe	Control of stock is a problem – 50 units of stock stolen in a month.	Improve control over stock to minimize theft.

9

5.4 VALUE ADDED TAX (VAT)

5.4.1 **Calculate the amount of VAT either receivable from or payable to SARS on 30 June 2019. Indicate whether this amount is receivable or payable.**

33 600 ✓ – 315 000 ✓✓ + 243 750 ✓✓ – 1 200✓ + 900 ✓
= – 37 950✓ ☑ one part correct

OR – 33 600 – 243 750 + 315 000 + 1 200 – 900 = 37 950

VAT CONTROL	
33 600	315 000
243 750	1 200
900	
37 950	

Receivable / Payable: Payable ✓ must be payable for 1 mark

10

5.4.2 **The owner wants to change the VAT amount on bad debts from R900 to R6 000. Give ONE reason why you would disagree with him.**

Possible responses for two marks:✓✓

- It is unethical to forward incorrect information to SARS in order to reduce the amount payable / increase amount receivable.
- It is illegal / fraudulent to provide falsified information to SARS as this will lead to fines or a jail sentence to the offender.

Possible responses for one mark:
Unethical / Illegal / Fraud

2

TOTAL MARKS

45

QUESTION 6: BUDGETING

6.1 SEAGATE TRADERS

Complete the table by filling in only the amounts for July 2019 in the appropriate columns.

NO.	Amount in the Cash Budget for July 2019		Amount in the Projected Income Statement for July 2019	
	RECEIPT	PAYMENT	INCOME	EXPENSE
Example	R3 300		R3 300	
6.1.1	49 500✓		49 500✓ **OR: 26 200** **(2 marks)**	23 300✓
6.1.2		19 800✓	990✓	
6.1.3				1 320✓
6.1.4				3 080✓ **(36 960/12)**
6.1.5		55 000✓		55 000✓
6.1.6		27 500 ✓		

10

6.2 BRITE TRADERS

6.2.1 **Calculate the credit sales for August 2019 and then complete the Debtors' Collection Schedule for September 2019.**

	CREDIT SALES	SEPTEMBER
June	**46 200**	
July	**54 000**	**4 320**
August	**(118 800 x 40%)** 47 520 ✓✓	**Check 70% of credit sales** 33 264 ☑☑
September	**36 960**	**20%** 7 392 ✓✓
	One part correct	44 976 ☑

7

6.2.2 **Calculate the missing amounts indicated by (a) – (e) on the Cash Budget.**

	CALCULATIONS	AMOUNT
(a)	**61 600 (one mark)** (92 400 x 100 ÷ 150)✓ x 25%✓	**One part correct** 15 400 ☑
(b)	**67 500 (one mark)** (90 000 x 75%)✓ x 95%✓	**One part correct** 64 125 ☑
(c)	35 200 x 106%	37 312 ✓✓
(d)	5 808 x 100 ÷ 110	5 280 ✓✓
(e)	– 24 860 – 11 220	**bracket/neg ✓amount✓** (36 080) ✓✓

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6.2.3 (a) **Cleve, the owner decided to offer special discounts to customers during August. The customers will be reminded weekly by telephone or sms about this offer.**
You are of the opinion that this has NOT benefited the business. Provide TWO reasons to support your opinion. Quote figures.

Any TWO reasons✓ ✓ with figures✓ ✓

- Actual sales were R89 400 compared to budget of R118 800
- Actual Sales is less than budgeted by R29 400 (32.8% / 33%), but actual telephone costs is more than the budgeted by R2 750 (50%)
- Profit margin was budgeted for 50%, but only 40% realised

4

(b) **Explain what you would say to Cleve about the control of the following costs. Quote figures to support your answer and provide ONE point of advice in EACH case.**

ITEM	COMMENT WITH FIGURES **Two marks each✓✓ ✓✓**	ADVICE **One mark each✓ ✓**
Delivery Costs	Sales were less than budgeted, so actual delivery expenses should decrease to R8 940. (10% of sales)	Investigate possible fraud or inefficiency / Change to another delivery firm / Charge customers for deliveries.
Advertising	R1 600 overspent on advertising. Method of advertising / advertiser was ineffective – did not increase sales.	Change the advertiser / method of advertising.

6

6.2.4

(a) **Calculate the purchase price of the new vehicle.**

R247 500 (2 marks)
(R6 875✓ x 36✓) x 100/90 = R275 000 ✓ ☑ **One part correct**
brackets not required

4

(b) **Apart from the deposit and the monthly instalment of R6 875 on the new vehicle, explain how the next month's Cash Budget will be affected. State TWO points.**

Any 2 valid points ✓ ✓

- Delivery expenses paid to Dell Deliveries will be avoided.
- Fuel costs must be included.
- Salary of a driver must be provided for.
- Insurance must be included.

2

TOTAL MARKS
45

TOTAL: 300