GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2017

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.

18 pages

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION – 2017

ACCOUNTING

MEMORANDUM

QUESTION 1: RECONCILIATION

1.1 BANK RECONCILIATION

1.1.1 **Provide ONE reason why Bank Reconciliation is important for a business.**
ANY ONE REASON ✓✓

- Ensures that the Bank Statement agrees with the Bank Account
- Ensures that there are no errors and omission of transactions
- Helps to detect fraudulent activities and reduce theft
- Internal control measure to ensure that all transactions are captured accurately

2

1.1.2 **Identify the cheque that is incorrectly entered in the Bank Reconciliation Statement for August 2017.**
Cheque 900✓

Provide ONE reason for your choice.
It is a stale cheque✓/ cheque is 6 months old.

2

Show the correction of the error by completing the table below.

General Ledger		Effect on Accounting equation		
Account Debit	**Account Credit**	**A =**	**E +**	**L**
✓ **Bank**	✓ **Creditors' Control**	**+1 980✓**	**0**	**+1 980✓**

4

Calculate the correct balance as per the Bank Account in the General Ledger after taking the error into account.

R12 000 ✓ + R7 300 ✓ + R1 400 ✓ – R10 200 ✓ – R7 354 ✓
= R3 146 ☑ **one part correct**

Indicate whether it is a favourable or unfavourable balance.
Favourable balance✓

7

1.2 DEBTORS' RECONCILIATION AND AGE ANALYSIS

1.2.1 **Show the corrections that must be made to the Debtors' Control Account and the Debtors' List to reconcile the differences noted.**

No.	Debtors' Control	Debtors' List
	83 750	**88 550**
(i)		✓✓ (4 800)
(ii)	✓150	✓150
(iii)	✓10 000	✓10 000
☑ Both Totals	93 900	93 900

7

1.2.2 Zoxolo feels that the debtors are not effectively controlled.
Provide ONE reason why you think he feels this way.
Do a calculation to support your answer
Calculation ✓✓✓
Explanation ✓✓

- Dali has been allowed to purchase for R23 250 when his credit limit is only R15 000. His account has insufficient funds. Cheque for R10 000 returned by the bank.
- 35% of debtors are complying with the credit terms of 30 days.

Other Possible answers

- 28 % $\left(\frac{\text{R27 450}}{\text{R98 750}}\right)$ owing by debtors is 90 days overdue.
- 65% (R36 300 + R27 450 = $\frac{\text{R63 750}}{\text{R98 750}}$) owing by debtors is more than 60 days overdue.

5

State TWO actions that Zoxolo Traders could take in order to encourage debtors to settle their accounts according to the terms.

ANY TWO ✓ ✓

- Issue monthly statements in good time/timeously.
- Stop selling to debtors until overdue accounts are settled.
- Send reminders through text messages (SMS).
- Offer discounts to debtors for paying within the 30-day period.
- Charge interest on overdue accounts.

2

1.3 ETHICS AND INTERNAL CONTROL

1.3.1 **Explain ONE measure that the business must put in place to avoid the unethical practice that occurred with Invoice BT101.**

Possible answer ✓✓

- Proper authorisation for purchases
- Division of duties where one person orders the goods and another pays for the goods
- Control over stationery (order books) – only authorised persons

2

1.3.2 **Refer to Invoice BT109.**

State ONE case when the above transaction will constitute ethical behaviour.
✓✓

The owner pays for it using a personal cheque.
The owner's withdrawals will be debited to the Drawings account.

State ONE case when the above transaction will constitute unethical behaviour.

Possible answer✓✓

- When the owner expects the business to pay for the goods
- When it is not recorded as drawings
- The VAT is claimed as input tax.

4

TOTAL MARKS
35

QUESTION 2: MANUFACTURING, CONCEPTS AND NOTES
CONCEPTS

2.1 **Choose the cost category.**

2.1.1	Direct labour cost	✓
2.1.2	Factory overhead cost	✓
2.1.3	Administration cost	✓
2.1.4	Direct material cost	✓

4

2.2 THE NUTTY DELIGHT FACTORY SHOP

2.2.1 **Calculate the value of the raw materials that were issued to the factory for the year ended 30 June 2017.**

325 000✓ + 1 093 400✓ + 31 600✓✓✓✓☑ – 310 000✓
(22 000 + 2 200 + 7 400) accuracy and one part correct
(2 marks)
= 1 140 000☑ **one part correct**

9

2.2.2 **Prepare the Production Cost Statement for the year ended 30 June 2017.**

THE NUTTY DELIGHT FACTORY SHOP
PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

	R
Direct material costs see 2.1	☑ 1 140 000
Direct labour costs R400 000✓ x 65%✓	✓ 260 000
Prime Cost operation	☑ 1 400 000
Factory overhead costs R280 750 ✓+ 31 250✓✓ $\left(50\,000 \times \frac{5}{8}\right)$ one part correct	☑ 312 000
Total cost of production operation	☑ 1 712 000
Add: Work-in-process at beginning of the year balancing figure	☑ 82 000
	1 794 000
Less: Work-in-process at end of the year	**(94 000)**
Cost of production of finished goods 80 000✓ x R21,25 ✓	✓ 1 700 000

14

2.2.3 **The Nutty Delight Factory shop buys mainly from overseas suppliers. Upon investigation, it was found that most of the nuts used in the production process can be obtained from local suppliers.**
Explain ONE possible reason why a local supplier should be used.

Any one valid reason e.g. ✓✓

- Support for local business
- No Import Duties
- Lower Transport Costs
- Exchange rate varies – variation in profits

2

2.2.4 **Romi Goni plans to increase profits by decreasing costs. Romi intends to replace the more expensive nuts with peanuts but still sell the snacks at R40 each.**
Should Romi carry out this plan?

No✓

Explain ONE valid reason for your decision.

Any one valid reason e.g. ✓✓

- It is unethical to replace the expensive nuts with peanuts.
- They must not mislead the customers by charging R40 for cheaper nuts.
- The customers will notice the difference and stop buying from her – loss of goodwill.
- Quality will be compromised.

3

2.3 JADEN STORES

2.3.1 **Calculate the break-even point for 2017.**

$$\frac{R1\,620\,000}{R1\,026\,000\checkmark + R594\,000 \quad R693{,}00\checkmark - R303{,}30\checkmark \quad R389{,}70}$$

= 4 158 units ☑ One part correct *accept 4157*

5

2.3.2 **Explain whether the owner should be concerned. Provide figures.**

Yes / No is part of the explanation (No marks)
Comment comparing BEP to level of production ✓✓
Comparative figures ✓(Refer to answer above; must compare BEP to production)

Possible answers:

- The owner should not be concerned as the business produced (4 600 – 4 157) 443 units more than the break-even point.
- The owner should be concerned as the business produced (4 600 – 4 157) only 443 units more than the break-even point.
- Owner should be concerned because they make a profit on only 443 units

3

TOTAL MARKS
40

QUESTION 3: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT

3.1 CONCEPTS

Match the concepts in Column A with the descriptions in Column B.

3.1.1	**C**	✓
3.1.2	**E**	✓
3.1.3	**B**	✓
3.1.4	**A**	✓
3.1.5	**D**	✓

5

3.2 AMARA LIMITED

3.2.1 **Calculate the Net Profit after Tax.**

	R
Incorrect Net Profit before Tax	**1 024 400**
Telephone	✓ (3 000)
Insurance	✓ 4 500
Rent Income $\frac{220}{1\,480} \times \frac{177\,600}{1}$	✓✓✓ (26 400)
Stationery	✓ 500
Net profit before tax one part correct	☑1 000 000
Income Tax NPBT X 0,28	✓☑ (280 000)
Net Profit after tax **tax must be deducted** one part correct	☑720 000

10

3.2.2 **ORDINARY SHARE CAPITAL**

AUTHORISED
Number of authorised ordinary shares: 400 000 shares

ISSUED		**R**
160 000 Ordinary shares at the beginning of the year		**4 000 000**
50 000✓	Ordinary shares repurchased at the average share price *R25✓✓ any one part correct	☑ (1 250 000)
100 000 ✓	Ordinary shares issued during the financial year at @R17,50 each✓ operation	☑1 750 000
210 000☑ one part correct	Ordinary shares in issue at the end of the year operation	☑ 4 500 000
$\frac{4\,000\,000}{160\,000} = R25$		

9

RETAINED INCOME	**R**
Balance at the beginning of the year	**540 000**
Net profit after tax for the year see 3.2.1	☑ 720 000
Repurchase of 50 000 ordinary shares @R5,00 ✓✓ one part correct	☑ (250 000)
Dividends on ordinary shares operation	☑ (264 000)
Paid	✓ 96 000
Recommended $\frac{80}{100}$ ✓ X $\frac{210\,000}{1}$ ✓ one part correct	☑ 168 000
Balance at the end of the year one part correct	☑ 746 000

10

3.2.3 AMARA LIMITED
BALANCE SHEET AS AT 28 FEBRUARY 2017

ASSETS		**R**	
NON-CURRENT ASSETS		✓ 5 872 000	
Fixed/Tangible Assets 5 002 000 ✓+ 700 000 ✓+ 250 000 ✓– 263 750✓ – 76 250✓		✓ 5 612 000	
Financial Assets		✓ 260 000	**(8)**
CURRENT ASSETS	**operation**	☑ 1 058 000	
Inventories	balancing figure	☑325 500	
Trade and other receivables 696 000 + 20 000 + 4 500	see 3.2.1	✓✓☑ 720 500	
Cash and Cash equivalent		✓ 12 000	
TOTAL ASSETS	**calculation**	☑ 6 930 000	**(7)**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	**operation**	☑ 5 246 000	
Ordinary Share Capital	see 3.2.2	☑ 4 500 000	
Retained Income	see 3.2.2	☑ 746 000	**(3)**
NON-CURRENT ASSETS		780 000	
Loan from 1 140 000 ✓ – 360 000 ✓✓ (517 500 – 157 500)		☑ 780 000	**(4)**
CURRENT LIABILITIES	**operation**	☑ 904 000	
Trade and other payables see 3.2.1 see 3.2.2 – SHFD can be shown separately 294 600 ✓ + 3 000 ✓ + 26 400 ☑ + 168 000 ☑	one part correct	☑ 492 000	
Bank overdraft		✓ 52 000	
Current loan portion	see loan above	☑ 360 000	
TOTAL EQUITY AND LIABILITIES	**operation**	☑ 6 930 000	**(9)**

31

TOTAL MARKS
65

QUESTION 4: CASH FLOW STATEMENT AND RATIO ANALYSIS

4.1 CONCEPTS

Write down only the answer next to the question number (4.1.1 – 4.1.3).

4.1.1	Liquidity	✓
4.1.2	Solvency	✓
4.1.3	Gearing	✓

3

4.2 NKOSI LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRAURY 2017		
	R	
Cash effects of operating activities operation	☑ 455 032	
Cash generated from operations	**926 422**	
Interest paid	**(144 000)**	
Dividends paid 120 000✓✓ +16 800✓ one part correct	☑ (136 800)	
Income Tax paid 198 240✓+ 4 800✓– 12 450✓ one part correct	☑ (190 590)	**(9)**
CASH EFFECTS FROM INVESTING ACTIVITIES operation	☑ (145 542)	
Fixed assets purchased 1 175 328 ✓- 23 316 ☑ - 19 974✓- 977 760✓ See proceeds on sale of asset one part correct	☑ (240 858)	
Proceeds from sale of fixed assets 48 000 – 24 684	✓✓ 23 316	
Fixed deposit matured 228 000 – 156 000	✓✓ 72 000	**(10)**
CASH EFFECTS FROM FINANCING ACTIVITIES operation	☑ 756 000	
Proceeds from the sale of shares 2 850 000 ✓ + 200 000 ✓✓ - 1 200 000 ✓ one part correct	☑ 1 850 000	
Repurchase of shares 10 000 X R23	✓✓ (230 000)	
Repayment of loan 1 284 000 – 420 000 / 1 008 000 – 144 000	✓✓ (864 000)	**(10)**
Net change in cash and cash equivalents *operation*	☑1 065 490	
Cash and cash equivalents at the beginning of the year 80 130 - 30	✓✓(80 100)	
Cash and cash equivalents at the end of the year	**985 390**	**(3)**

32

4.3 FINANCIAL INDICATORS OF TWO COMPANIES:

4.3.1 **Calculate the following financial indicators:**

Net Asset Value of Talk Ltd.

$$\frac{2\ 116\ 800\checkmark}{189\ 000\checkmark}$$

= 1 120 cents✓

Debt=Equity Ratio of Data Ltd.

202 230 ✓: 1 011 150✓
0,2 : 1✓

6

4.3.2 Your friend is of the opinion that the liquidity position of Talk Ltd. is better than that of Data Ltd. Quote and explain (with figures) to support her opinion.

Quote TWO financial indicators.

Any two with figures Ratio ✓✓ Figures ✓✓

- Current ratio of Data Ltd is 3,6 : 1 and Talk Ltd. is 2,4 : 1
- Acid-test ratio of Data Ltd is 0,6 :1 and Talk Ltd. is 1,2 : 1
- The stock turnover rate of Data Ltd. is 4 times and Talk Ltd. is 8 times

Explanation ✓✓

- Talk Ltd. has a better current ratio and is able to cover current liabilities whereas Data Ltd's. ratio is too high – funds tied up in stock (current assets)/not used profitably
- Talk Ltd. has a better Acid-Test Ratio than Data Ltd. Data Ltd. has too much stock on hand which resulted in the poor Acid-Test Ratio
- Talk Ltd. is selling its stock faster (8 times) during the year as compared to Data Ltd. (4 times).

6

4.3.3 **Data Ltd. paid off a large portion of its loan during the financial year. Quote TWO financial indicators with relevant figures to show why this was not a good decision taken by the directors.**

Financial indicators and figures ✓✓ ✓✓
Valid comment ✓✓✓

Relevant financial indicators:
Debt: equity is 0,2 : 1 (check 4.3.1)

ROTCE: is 18,4%

Comment
The company is at low risk. Therefore there was no need to pay a large portion of the loan.
It is also positively geared. The ROTCE (18,4%) is higher than the interest rate of 10,5%.

7

4.3.4 Will the shareholders be satisfied with the price at which the new shares were issued for both companies? Explain. Quote relevant financial indicators and figures for each company.

	Data Ltd.	**Talk Ltd.**
Yes/No	**NO ✓**	**YES ✓**
Relevant indicator and comment **Explanation** ✓ ✓ **Figures** ✓ ✓ Must indicate MP & NAV	They sold the shares at 260 cents under the market price (450 cents compared to 710 cents). Selling price is also 85 cents less than the NAV of 535 cents. Existing shareholders are being disadvantaged (260 x 189 000= R491 000). Could have raised more money if they increased the price	They sold the shares at 280 cents above the market price (1200 cents compared to 910 cents). Selling price is also 80 cents more than the NAV of 1 120 cents. Existing shareholders and directors should be happy to raise additional income (280 x 189 000= R529 200).

6

4.3.5 **Your friend owns 30 000 shares in each of the companies.**

	Data Ltd.	**Talk Ltd.**
Calculate the dividends that she earned from each company.	30 000 x R2,30 = R69 000✔	30 000 x R2,45 =R73 500✔
Compare and comment on the dividend pay-out policies of the two companies. Provide calculations in your explanation.	DPS 230 cents EPS 350 cents Distributes 66% ✔✔ (230/350) of earnings OR Data Ltd. decided to retain 34% of its EPS	DPS 245 cents EPS 285 cents Distributes 86% ✔✔ (245/285) of earnings OR Talk Ltd. decide to retain only 14% of its EPS
Explain ONE reason for the dividend pay-out of each company.	Data Ltd. appears to have plans for growth (better long-term benefits) / equalisation of dividends over time. ✔✔	Talk Ltd. appears to keep shareholders satisfied by giving them good dividends.✔✔

10	

TOTAL MARKS
70

QUESTION 5: INVENTORY VALUATION AND PROBLEM-SOLVING

INVENTORY CALCULATIONS

5.1.1 **Calculate the number of hats on-hand on 28 February 2017**, the financial year-end.

(100 + 500) – (100 + 410)
600✓ - 510✓
= 90 hats✓ **two marks or nothing**

3

5.1.2 **Calculate the following using the weighted average method:**
Value of the final stock on-hand on 28 February 2017

$$\frac{R38\,000\checkmark + R4\,000\checkmark}{600\boxtimes}$$

See 5.1.1

$$\frac{R42\,000}{600}$$

= R70,00☑ **one part correct**

R70☑ x 90 ☑
= R6 300☑ **one part correct**

7

Gross profit

(510 X R70) / (4 000 + 38 000 – 6 300)
one part correct
R76 500✓ – R35 700✓✓☑
= R40 800☑ **one part correct**

5

5.1.3 **The owner wants to alternate between using the weighted average method and the First-In-First-Out (FIFO) method, depending on which will result in a higher profits.**

Calculate the following using the FIFO method:
Value of the final stock on-hand-on 28 February 2017

(40 x R90)
R6 000 ✓+ R3 600 ✓✓✓= R9 600✓

5

Gross profit percentage on cost of sales

See above
R76 500 ✓+ R9 600 ☑ – R42 000✓ = R44 100

$\frac{44\ 100☑}{32\ 400✓} X \frac{100}{1} = 136{,}11\%\ or\ 136\%$ ☑ **one part correct**

6

Provide TWO reasons why alternating between the two methods of valuing stock does not comply with the requirements of International Financial Reporting Standards (IFRS).

Two valid reasons ✓✓ ✓✓

The business must stay consistent from one year to the next in order to compare results.

Not ethically correct to manipulate profit by changing policies
Not acceptable practice – SARS will not approve

4

5.2 GYM TRIM

5.2.1 **Calculate the number of days of stock on-hand for Gym Bags. Gym Bags are sold at a mark-up of 25% on cost. The average stock amounted to R153 600.**

$$\frac{R153\ 600\checkmark}{R260\ 400\ \checkmark\checkmark\checkmark} \ X\ \frac{365\checkmark}{1}$$

930 X 350 X $\frac{100}{125}$

= 215,3 ☑ one part correct accept 216 days

6

5.2.2 **Identify ONE different problem in respect of the manner in which each product is managed. Quote figures to support your answer. In each case offer practical advice.**

	Problem ✓ ✓ ✓ figures✓ ✓ ✓	**Possible solution✓ ✓ ✓** One per item
Sweatbands	120 + 5 600 – 4 800 = 920 – 810 = 110 missing	• Internal control measures to safeguard the stock e.g. Security tags, cameras, display close to paying point, physical stock-taking on a continuous basis
Towels	840 X R125 = R105 000 R105 000 – R100 00 = R5 000 cash missing	• Investigate and apply disciplinary measures. • Check at exit that the payment for the towels appears on the pay slip / invoice. • Check money before banking. • Division of duties
Gym Bags	Too much stock on hand - 215 / 216 days **See 5.2.1**	• Revisit sales policy and implement measures to encourage sales. • Discontinue selling gym bags since sales are low even though the mark-up percentage is only 25%.

9

TOTAL MARKS
45

QUESTION 6: VAT AND BUDGETS

6.1 VAT

Complete the following sentences by writing down the missing words or figures.

6.1.1	Output	✓
6.1.2	Owing to / payable to	✓
6.1.3	$\frac{R36\,000}{1}$ x $\frac{14}{100} = R5\,166$	✓✓
6.1.4	$\frac{R7\,410}{1}$ x $\frac{14}{114} = R910$	✓✓

6

6.2 CASH BUDGET

6.2.1 **Provide ONE reason why it is essential for the business to prepare a Cash Budget.**

Any One ✓✓

- To predict cash flows / determine receipts & payments for the future
- To control cash / Calculate bank balance

2

6.2.2 **Complete the Debtors' Collection Schedule.**

MONTH	CREDIT SALES	NOVEMBER	DECEMBER
November	**144 000**	**34 200**	✓✓ 97 920
December	168 000✓✓	Cost of sales X 0,25 X 0,95	✓☑ 39 900
		34 200	☑137 820 One part correct

7

6.2.3 **Calculate the missing figures for cash surplus/deficit and bank balances (A – E) on the Cash Budget.**

	Calculations	Answer
A	$\frac{100}{150}$✓ x $\frac{R288\ 000✓}{1} = R192\ 000$ x 75%✓ one part correct	☑ R144 000
B	R64 000 – R12 000 = R52 000 ÷ 10 = R5 200 + R520 = R5 720 x 10 = R57 200 R12 000 x 1.35 = R16 200 57 200 ✓✓ + 16 200 ✓✓ one part correct	☑ R73 400
C	$R800\ 000$✓ $- R200\ 000$✓ $= R600\ 000$ x $\frac{15}{100}$ x $\frac{1}{12}$✓ one part correct	☑ R7 500
D		✓R598 264
E	(R124 684) + R598 264	✓✓R473 580

16

6.2.4 **Comment briefly on the bank balances. Quote figures.**

Comment ✓
Quote figures.✓

The overdraft (R195 308) has been eliminated / removed and they are now in a positive/favourable situation (R473 580 in December).

Explain TWO significant measures they have used to improve the cash flow. Quote figures.
Measure ✓✓ ✓✓
Quote figures. ✓ ✓

- Additional capital contribution in October, R370 000
- Sale of shop premises for R1 000 000
- Selling goods on credit increased sales to R360 000 in November and to R420 000 in December.

8

6.2.5 **The owner feels that there is a problem regarding some of the income and expense items. Comment on the control of each item and give ONE specific point of advice in each case.**

ITEM	ADVICE ✓✓ ✓✓ ✓✓
Cash sales	▪ Increase advertising / change methods. ▪ Incentives to buyers e.g. discount, clearance sales
Rent income	▪ Investigate if premises were unoccupied. ▪ Investigate why the rent has not been collected. ▪ Obtain a more reliable tenant. ▪ Improve collection / Insist on payment in advance or by debit order
Delivery vehicle expenses	▪ Investigate possible abuse of vehicle e.g. private use. ▪ Charge clients for delivery of goods. ▪ Investigate whether budget is adequate. ▪ Investigate whether vehicles should be replaced. ▪ Improve internal control procedures e.g. log books. ▪ Plan deliveries properly.

6

TOTAL MARKS
45

TOTAL: 300