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

EXAMINATION

June 2018

MARKS: 300

TIME: 3 hours

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

This question paper consists of 15 pages and a15-page answer book.

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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue ink to answer the questions.
6. Calculate to ONE decimal place.
7. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.



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Question	Topic	Marks	Minutes
1	Bank & Creditors Reconciliation & Age analyses	40	25
2	Company transactions, Accounting equation and VAT	40	25
3	Company Financial Statements and Audit reports	85	50
4	Cash flow statement; fixed assets; analysis and interpretation	100	60
5.	Stock and problem solving	35	20
		300	180

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

QUESTION 1: BANK RECONCILIATION, CREDITORS RECONCILIATIONS AND DEBTORS' AGE ANALYSIS (40 marks; 25 minutes)

1.1 **REQUIRED:**

Complete the following sentences in your own words:

1.1.1 It is important to prepare the Bank Reconciliation Statement each month because … (2)

1.1.2 It is important to prepare the Debtors' Age Analysis each month because … (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? (2)

1.2 You are provided with information relating to Cravenby Traders.

REQUIRED:

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. (3)

- The bookkeeper wants to prevent a problem such as this in future. Give TWO possible solutions to improve internal control in this regard. (4)

1.2.2 Calculate the correct bank balance on 31 May 2017. (8)

1.2.3 Prepare the Bank Reconciliation Statement on 31 May 2017. (11)

INFORMATION:

A The following balances appear in the books of the business and the Bank Statements:

	30 APRIL 2017	**31 MAY 2017**
Bank account in Ledger	R11600 (Debit)	**?**
Bank Statement	R23 700	R18 310 (overdraft)

B Provisional totals of the journals on 31 May 2014

	CRJ	**CPJ**
Totals	55 600	43 890

C Items appearing in the Bank Reconciliation Statement on 30 April 2017:

- A deposit of R25 000, dated 2 April 2017, does not appear on any Bank Statement. This money cannot be traced and the cashier has disappeared.
- Cheque No. 912, for R4 340, dated 10 April 2017, appeared on the Bank Statement on 2 May 2017.
- Cheque No. 917, for R5 790, dated 20 April 2017, has still not been presented at the bank by the payee, S Smit.

D Items appearing in the Bank Statement for May 2017:

- Bank charges, R 475
- Interest on an overdraft, R420
- Rent received from a tenant, R12 000
- The bank overcharged on the bank charges for April by R711. The bank has agreed to correct the error during June 2017.

E Items appearing in the Cash Journals but not in the Bank Statement:

- Cheque No. 1222 for R5 656, dated 18 May 2017
- Cheque No. 1329 for R6 540, dated 25 August 2017
- A deposit of R ?, dated 31 May 2017

1.3 You are provided with the Debtors' Age Analysis of Mngomezulu Traders on 31 May 2017.

REQUIRED:

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 the problem. (8)

INFORMATION:

DEBTORS' AGE ANALYSIS ON 31 MAY 2017

Credit Policy: Debtors will be given 30 days in which to settle their debts.

NAME	CREDIT LIMIT	TOTAL	CURRENT MONTH	30 DAYS	60 DAYS	60 DAYS+
G Dreyer	**R5 000**	R1 100		R500	R600	
P Masala	**R3 500**	R4 900		R1 600	R1 400	R1900
M Roos	**R1 500**	R2 350		R750	R1 600	
D Pule	**R1 500**	R1 500			R1 000	R500
L van Zyl	**R2 000**	R2700	R2700			
		R12 550	R2 700	R2 850	R4 600	R2400
		100%	21%	23%	37%	19%

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QUESTION 2: CONCEPTS, ACCOUNTING EQUATION AND VAT

(40 marks; 25 minutes)

2.1 **CONCEPTS**

REQUIRED:

Explain the following concepts:

2.1.1 All companies are "separate legal entities". In your own words, briefly explain the meaning of this concept. (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. (2)

2.1.3 In your own words, briefly explain the terms "Authorised and Issued" share capital. (4)

2.2 **REQUIRED:**

Use the table provided to indicate the following for each transaction:

- Account debited and account credited in the General Ledger
- Effect on the accounting equation

The bank balance is favourable at all times.

Example: Salaries paid, R15 000

No.	Account debited	Account credited	Amount	A	O	L
e.g.	Salaries	Bank	15 000	–	–	0

TRANSACTIONS

2.2.1 The amount owing to SARS – Income Tax at the beginning of the year was paid, R25 700.

2.2.2. Received R230 000 for additional shares issued.

2.2.3 A final dividend of R55 555 was declared by the directors at the end of the current financial year.

2.2.4 The average price per share amounts to R6.50. Buy 20 000 shares back from a shareholder at R8.00 per share. (20)

2.3 **VAT** (Use current VAT rate)

REQUIRED:

Complete the following 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 In South Africa, VAT is levied at …%. (2)

2.3.2 VAT collected by a business on the sale of goods and services is regarded as (VAT input/VAT output). (2)

2.3.3 In the ledger, a (debit/credit) balance on the (VAT Input/ VAT Output/VAT Control) Account reflects the final amount that must be paid to SARS. (4)

2.3.4 Stock is purchased for R66 000, excluding VAT. The amount of VAT on this item is R… (2)

2.3.5 Cash sales amounts to R91 200, including VAT. The amount of VAT on this item is R… (2)

40

QUESTION 3: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT
(85 marks; 50 minutes)

3.1 CONCEPTS

Indicate whether the following statements are TRUE or FALSE:

3.1.1 Shareholders' earnings are equal to net profit before tax. (2)

3.1.2 Net current assets are also referred to as net working capital. (2)

3.1.3 External auditors are appointed by shareholders to give an unbiased opinion on the financial statements. (2)

3.1.4 The independent auditors are responsible for setting up internal control measures of a company. (2)

3.2 You are provided with information relating to King Ltd for the financial year ended 30 June 2017.

REQUIRED:

3.2.1 Complete the Income Statement (Statement of Comprehensive Income). (50)

3.2.2 Prepare the notes for:

A Share capital (10)

B Retained income (11)

INFORMATION:
EXTRACT FROM THE TRIAL BALANCE OF KING LTD ON 30 JUNE 2017:

BALANCE SHEET ACCOUNTS SECTION	**R**
Share capital	?
Retained income (1 July 2016)	910 000
Trading stock	1 840 000
Stock of plastic bags (1 July 2016)	3 300
Debtors' control	476 000
Provision for bad debts	42 000
Creditors' control	695 600
Mortgage loan: Gupta Bank	835 000
Bank (credit)	45 500
SARS: Income tax (Debit)	402 000
Pension fund	15 800
Unemployment Insurance Fund (UIF)	2 700
Savings account: Nadar Bank	470 000
Fixed deposit: Micah Bank	520 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. Goods are sold at a mark-up of 70% on cost price. Trade discount for the year amounts to R450 000 and these transactions was not entered in the books.
2. The auditors are owed a further R41 000.
3. Interest on the overdraft ,R1 700 is included in the bank charges.
4. Buco Builders was paid R104 000 during the year. This was for replacing tiles on the office roof (R34 000) and for the construction of a garage (R70 000). The entire amount was debited to Repairs and maintenance. Correct the error.
5. An amount of R2 800 received from T. Theron had been credited to the Debtors' control account in June 2017. The account of T. Theron was written off as a bad debt during February 2017. Correct the error. The provision for bad debts must be adjusted to 6% of outstanding debtors.
6. The tenant is two months behind on the rent. The monthly rent was increased by 15% on 1 March 2017.
7. The business sells plastic bags to its customers at 40 cents each. The Profit/loss on sale of plastic bags reflects the following:
   - Cost of plastic bags purchased: R42 600.
   - Cash received from sale of plastic bags: R39 500.

   The business uses the periodic stock system for plastic bags. No entries have been made for:
   - Reversal of the stock on hand at the beginning of the year.
   - Bags bought on credit in June 2017, R9 500.
   - Stock on hand at the end of the year, R4 700.

   You are required to calculate the correct profit or loss on the sale of the bags.
8. No entry has been made for stock of the value of R20 000 donated to the local High School.
9. A physical stocktaking on 30 June 2017 reflected that stock to the value of R1 795 500 was on hand.
10. The interest on the mortgage loan has not been entered for the current financial year. This interest is capitalised. At the beginning of the year, the balance on the loan account was R874 000. Monthly repayments of R11 000 were all made on due date. The loan statement from the bank reflects a balance of R835 000 at 30 June 2017.
11. One employee was omitted from the Salaries Journal for June 2017. His salary details are:

Deductions	Employer's contribution	Net salary
R2 020	R3 030	R6 060

12. The missing figure in the Income Statement is that of Sundry expenses.

13. Net profit and tax:
    - After taking all adjustments into account, the **correct** net profit after tax is R1 200 000 and the income tax rate is 25% of net income before tax..

14. **Share capital comprised:**
    - 400 000 shares issued in previous years at R12 per share.
    - 80 000 shares issued on 31 March 2017 at R16.50 per share.

15. **Shares and dividends:**
    - Interim dividends of 26 cents per share were declared and paid on 31 December 2016.
    - Final dividends of 18 cents per share were declared on 30 June 2017.

16. **Repurchase (buy-back of shares):**

    The directors decided to repurchase 30 000 shares at R14.00 per share from the estate of a shareholder who had died. No entry has been made. This shareholder is still entitled to the final dividend.

3.3 **AUDIT REPORT**

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements of Selati Ltd for the year ended 30 June 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion
During the course of our audit we established that bonuses paid to directors amounting to R1,1 million had not been authorised by the Remuneration Committee. Furthermore, no documentation is available for sundry expenses of R125 000.

Audit Opinion
Because of the significance of the matter described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Selati Ltd for the year ended 30 June 2017.

Molly, Wors and Associates, Chartered Accountants (SA)

REQUIRED:

As a shareholder, why would you be concerned about this audit report? Explain. State THREE points. (6)

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QUESTION 4: CASH FLOW AND INTERPRETATION OF FINANCIAL STATEMENTS (100 marks;60 minutes)

You are provided with information relating to Fouche Limited, a company listed on the JSE.

REQUIRED:

4.1 Use the information provided to prepare:

4.1.1 Cash Flow Statement for the year ended 30 April 2018. Where notes are not required, show workings in brackets. (30)

4.1.2 Note for Cash generated from operations. (12)

4.2 Prepare the Appropriation account for the year ended 30 April 2018. (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. (21)

	2018	**2017**
Current ratio	1.1 : 1	1.6 : 1
Acid-test ratio	**(a)**	0.6 : 1
Stock turnover rate	**(b)**	2.3 times
Debtors collection period	24 days	43 days
Debt / equity ratio	**(c)**	0.7 : 1
Net asset value per share	**(d)**	79 cents
Earnings per share	19.9 cents	12.5 cents
Creditors payment period	60 days	45 days
Dividends per share	21 cents	12 cents
Return on shareholders' equity	**(e)**	19.6%
Return on total capital employed	24.5%	17.1%
Interest rate on loans	14%	14%

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. (8)

4.5 Comment on the liquidity of the company. Explain, quoting appropriate financial indicators (ratios / percentages, etc.) to support your answer. (12)

4.6 Comment on the financial gearing of the company. Explain, quoting appropriate financial indicators (ratios / percentages, etc.) to support your answer. (6)

FOUCHE LIMITED
BALANCE SHEET ON 30 APRIL 2018

ASSETS	**2018**	**2017**
Non-current assets	2 237 500	1 714 400
Fixed assets	1 917 500	1 514 400
Financial assets	320 000	200 000
Current assets	854 300	999 600
Inventories	575 000	650 000
Trade & other receivables	269 000	233 000
SARS – Income Tax	7 300	11 600
Cash & cash equivalents	3 000	105 000
TOTAL ASSETS	**3 091 800**	**2 714 000**
EQUITY & LIABILITIES		
Shareholders' equity	1 564 800	1 286 000
Share capital (See information 4 below)	1 344 000	960 000
Retained income	?	326 000
Non-current liabilities	740 000	800 000
Mortgage loan from Buzi Bank	740 000	800 000
Current liabilities	787 000	628 000
Trade & other payables	370 000	400 000
Accrued expense	2 000	4 000
Shareholders for dividends	273 000	224 000
Bank overdraft	142 000	
TOTAL EQUITY & LIABILITIES	**3 091 800**	**2 714 000**

ADDITIONAL INFORMATION:

1. The Income Statement for 2018 reflects the following:
   - Sales, R3 500 000
   - Cost of sales, R2 200 000
   - Interest expense, R104 000 (all interest due has been paid)
   - Depreciation, R207 300
   - Income tax, R151 200
   - Net income after tax, R388 800
2. Unused fixed assets were sold at book value during the year for R145 000.
3. Interim dividends paid on 1 October 2017 were 8 cents per share. Final dividends declared on 30 April 2018 were 13 cents per share.
4. Details of Share capital:

1 600 000 shares in issue on 1 May 2017	R960 000
800 000 shares issued on 1 November 2017	R576 000
300 000 shares repurchased on 28 February 2018 at 95 cents each	?

100

QUESTION 5 INVENTORY VALUATION AND INTERNAL CONTROL
(35 marks; 20 minutes)

You are provided with information relating to Ola 's Jeans for the year ended 28 February 2018. The business is owned by Ola Mashala and use the periodic inventory system.

5.1 **OLA JEANS**

REQUIRED:

5.1.1 Calculate the value of the closing stock using the weighted-average method. (7)

5.1.2 Calculate the number of jeans that appear to be missing. (4)

5.1.3 Calculate the cost of sales and gross profit. You may draft a Trading Account to calculate these figures. (8)

5.1.4 Calculate the mark-up percentage. (3)

5.1.5 Calculate the stock holding period. (4)

INFORMATION:

Ola's Jeans:		**Manager:** Irvin	
	Units	**Rand**	**Amount**
Sales	1 235	R600	?
Opening stock	120	R380	R45 600
Purchases	1 290		R544 200
March 2017	450	R380	R171 000
September 2017	510	R460	R234 600
January 2018	330	R420	R138 600
Defective jeans returned to suppliers (from Sept 2017 order)	10	?	?
Closing stock	150	?	?

5.2 **INTERNAL CONTROL OF INVENTORY**

Apart from TV sets, Motsepe Stores also sell other products. You are provided with information taken from their stock records on 28 February 2018.
The owner Kgosi Motsepe is uncertain if he should be satisfied with control of all of these items.

REQUIRED:

Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Kgosi practical advice for the future. (9)

INFORMATION:

Item	Number of units sold during the year	Number of units on hand per stock records at year-end	Number of units per physical count at year-end	Selling price per unit	Period of stock on hand
TV sets	440	360	360	R16 000	150 days
Cell phones	2 250	150	100	R1 200	15 days
Radios	120	10	10	R100	27 days

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TOTAL: 300 MARKS

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