GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2017

10710

ACCOUNTING

TIME: **3 hours**

MARKS: **300**

21 pages

ACCOUNTING
1071E

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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 ALL workings in order to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 20 minutes	
Topic of the question:	**This question integrates:**
Reconciliation	**Financial accounting** Bank and Debtors' Reconciliation **Managing resources** Internal control processes Ethics

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Manufacturing	**Managerial accounting** Concepts Production Cost Statement Break-even Point

QUESTION 3: 65 marks; 40 minutes	
Topic of the question:	**This question integrates:**
Company Financial Statement and Audit Report	**Financial accounting** Concepts Income Statement Balance Sheet Managerial Accounting Fixed Assets

QUESTION 4: 70 marks; 45 minutes	
Topic of the question:	**This question integrates:**
Cash Flow Statement and Interpretation	**Financial accounting** Concepts Cash Flow Statement Interpretation of financial information **Managing resources** Internal control

QUESTION 5: 45 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Inventory valuation	**Financial Accounting** VAT **Managing Resources** Inventory valuation Internal control

QUESTION 6: 45 marks; 25 minutes	
Topic of the question:	**This question integrates:**
VAT and Budgets	**Managerial Accounting** **Cash Budget** **Calculations** **Managing resources** Internal control processes and Ethics

QUESTION 1: RECONCILIATION (35 marks; 20 minutes)

Zoxolo Traders does reconciliation each month as part of the internal control process.

REQUIRED:

1.1 **BANK RECONCILIATION**

1.1.1 Provide ONE reason why Bank Reconciliation is important for a business. (2)

1.1.2 **Refer to Information A.**

- Identify the cheque that is incorrectly entered in the Bank Reconciliation Statement for August 2017. Provide ONE reason for your choice. (2)
- Show the correction of the error by completing the table in the answer book. This cheque was issued to a creditor. (4)
- Calculate the correct balance as per the Bank Account in the General Ledger after taking the error into account. Indicate whether it is a favourable or an unfavourable balance. (7)

1.2 **DEBTORS' RECONCILIATION AND AGE ANALYSIS**

Refer to Information B, C and D.

1.2.1 Show the corrections that must be made to the Debtors' Control Account and the Debtors' List to reconcile the differences noted. (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. (5)
- State TWO actions that Zoxolo Traders could take in order to encourage debtors to settle their accounts according to the terms. (2)

1.3 **ETHICS AND INTERNAL CONTROL**

You are provided with information on the following invoices:

(a) Invoice BT101 was for goods that one of the staff members ordered for personal use. The goods were paid for using a business cheque.

(b) Invoice BT109 was for goods that were ordered on behalf of the owner for personal use.

1.3.1 Explain ONE measure that the business must put in place to avoid the unethical practice that occurred with Invoice BT 101. (2)

1.3.2 Refer to Invoice BT109. State ONE case when the transaction will constitute ethical behaviour and ONE case when it will constitute unethical behaviour. (4)

INFORMATION:

A.

BANK RECONCILIATION ON 31 AUGUST 2017	
	R
Favourable Balance as per Bank Statement	12 000
Outstanding deposits	7 300
Amount incorrectly debited by bank	1 400
Outstanding cheques:	
No: 900 (dated 7 February 2017)	1 980
No: 1421 (dated 28 August 2017)	10 200
No: 1425 (dated 10 September 2017)	7 354
Balance as per Bank account in General Ledger	?

B.

INFORMATION BEFORE THE DIFFERENCES WERE NOTED ON 31 AUGUST 2017	
	R
Balance as per Debtors' Control Account	83 750
Balance as per Debtors' Ledger:	88 550
Dali – credit limit R15 000	23 250
Derek – credit limit R35 000	33 700
Divya – credit limit R40 000	31 600
Difference	?

C. ADDITIONAL INFORMATION

A reconciliation of the Debtors' Control Account with the Debtors' List revealed the following:

(i) An allowance on damaged goods to Derek, R2 400, was entered on the wrong side of his account.

(ii) Interest of R150, was charged to Divya on her overdue account.

(iii) A cheque for R10 000 received from Dali was returned by the bank due to insufficient funds. No entries were made.

D. DEBTORS' AGE ANALYSIS

Debtors' Age Analysis for August 2017 after the above transactions have been taken into account.

TOTAL	CURRENT	30 DAYS	60 DAYS	90 DAYS
R98 750	R16 850	R18 150	R36 300	R27 450

Debtors' credit terms: 30 days.

35

QUESTION 2: MANUFACTURING **(40 marks; 25 minutes)**

CONCEPTS

REQUIRED:

2.1 Choose a cost category from the list provided for each of the expenses listed below. Write only your answer next to the question number (2.1.1 – 2.1.4) in the ANSWER BOOK.

Factory overhead cost; Administration cost; Direct labour cost; Direct material cost; Selling and distribution cost

2.1.1 Wages paid to employees in the production process

2.1.2 The wages paid to staff for the cleaning of the factory

2.1.3 The telephone and fax used in the office

2.1.4 Transport cost of raw materials delivered to the factory (4)

2.2 **THE NUTTY DELIGHT FACTORY SHOP**

The Nutty Delight Factory Shop manufactures nutty snacks. The business is owned and managed by Romi Goni.

REQUIRED:

2.2.1 Calculate the value of the raw materials that were issued to the factory for the year ended 30 June 2017. (9)

2.2.2 Prepare the Production Cost Statement for the year ended 30 June 2017. (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. (2)

2.2.4 Romi Goni plans to increase profits by reducing 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? Explain ONE valid reason for your decision. (3)

INFORMATION:

A. Balances

	30 June 2017	30 June 2016
Raw materials stock	R310 000	R325 000
Work-in-progress	R94 000	?
Finished goods	R201 000	R285 000

B. Unit costs for the year

	2017	2016
Cost price of each finished unit manufactured during the financial year	R21,25	
Number of units produced and sold	80 000	60 000

C. The following totals appeared in the General Ledger:

- Factory Overhead Costs, R280 750
- Administration Costs, R296 000
- Selling and Distribution Costs, R280 000
- Sales, R3 200 000

D. Raw Materials

Raw materials were bought during the year on credit for R1 093 400.

Cashew nuts are imported. An invoice for the purchases was not recorded. The details are as follows:

- Cost of cashew nuts is $1 375. One US dollar is equivalent to R16,00.
- Import duty is 10 %.
- Transport costs paid, R7 400

E. Salaries and Wages

Salaries and wages amount to R400 000 for the financial year. 65% is for wages paid to employees who work directly on the manufacturing of the nutty snacks.

F. Electricity

Payments for electricity, R50 000, is split between the factory, administration and the sales and distribution departments in the ratio of 5 : 1 : 2. The amount allocated for electricity has not been recorded.

2.3 **JADEN STORES**

Jaden Stores manufactures and packs gift packs. The financial year ends on 28 February.

REQUIRED:

2.3.1 Calculate the break-even point for 2017. (5)

2.3.2 Explain whether the owner should be concerned. Provide figures. (3)

INFORMATION:

A. The business produced and sold 4 600 gift packs during the year.

B. The selling price of each gift pack is R693,00

C. The following costs were identified for 2017:

Cost	Total	Unit Cost
	R	R
Prime cost	3 726 000	207,00
Direct material cost	2 214 000	123,00
Direct labour cost	1 512 000	84,00
Factory overhead cost	1 026 000	57,00
Selling and distribution cost	1 733 400	96,30
Administration cost	594 000	49,50

40

QUESTION 3: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT

(65 marks; 40 minutes)

3.1 CONCEPTS

Match the concepts in Column A with the descriptions in Column B. Write only the letter (A – E) next to the question number (3.1.1 – 3.1.5) in the ANSWER BOOK. (5)

COLUMN A		COLUMN B	
3.1.1	Income Statement	A	This is an annual document which explains the performance of the company and the major decisions that were taken.
3.1.2	Balance Sheet	B	This reflects the funds which have come into a company (or have been utilised by it) through its operating, investing or financing activities.
3.1.3	Cash Flow Statement	C	This reflects the profit or loss earned as a result of the operations of the company for a year.
3.1.4	Directors' Report	D	This is an opinion issued on whether or not the financial statements can be relied upon.
3.1.5	Independent Auditors' Report	E	This reflects the assets, liabilities and net worth (equity) of the company.

3.2 AMARA LIMITED

The following information relates to Amara Limited. The financial year ended on 28 February 2017.

REQUIRED:

3.2.1 Refer to Information B.
Calculate the Net Profit after Tax. (10)

3.2.2 Prepare the following notes to the Balance Sheet (Statement of Financial Position) for the year ended 28 February 2017.

- Ordinary Share Capital (9)
- Retained Income (10)

3.2.3 Prepare the Balance Sheet (Statement of Financial Position) for the year ended 28 February 2017. (31)

INFORMATION:

A. Extract of a list of Balances/Totals on 28 February 2017

Balance Sheet Accounts Section	**R**
Ordinary share capital	?
Retained income (1 March 2016)	540 000
Land and Buildings	6 002 000
Equipment (1 March 2016)	700 000
Accumulated depreciation on equipment (1 March 2016)	263 750
Fixed Deposit: GP Bank	260 000
Trade and other receivables	696 000
Cash float	12 000
Loan: GP Bank	1 140 000
Creditors' Control	294 600
Bank Overdraft	52 000
SARS: Income Tax	300 000
Nominal Accounts Section	
Rent income	177 600
Dividends on ordinary shares	96 000

B. Net Profit for the year

The Internal Auditor found that the following adjustments were NOT taken into account when the Net Profit before Tax, R1 024 400 was calculated.

- The telephone account, R3 000 for February 2017 was not yet paid.
- Insurance amount of R4 500 was prepaid.
- Rent Income for March and April 2017 was already received. The rent was increased on 1 September 2016 by 10%. The Rent Income account showed an amount of R177 600 in the General Ledger.
- Stationery of R500 was on hand on 28 February 2017.
- The Income Tax for the year is calculated at 28% of net profit before tax.

C. Shares and Dividends

(i) Authorised share capital comprises 400 000 ordinary shares.

(ii) On 1 March 2016: 160 000 shares for R4 000 000 were in issue.

(iii) On 31 August 2016: The directors decided to buy back 50 000 shares from the family of a deceased shareholder, at R30 per share. These shares are NOT entitled to final dividends.

(iv) On 1 January 2017: 100 000 shares were issued at R17,50 each.

(v) The directors declared a final dividend of 80 cents per share on 28 February 2017.

D. Fixed Assets

(i) Equipment, R250 000 was purchased on 1 December 2016. No equipment was sold during the year.

(ii) The depreciation account was debited with a total amount of R76 250 for the year.

E. Non-current Liabilities

The loan statement from GP Bank reflected the following:

Balance at beginning of financial year	R1 500 000
Repayments during the year	R?
Interest capitalised	R157 500
Balance at end of financial year	R1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

65

QUESTION 4: CASH FLOW STATEMENT AND RATIO ANALYSIS

(70 marks; 45 minutes)

4.1 CONCEPTS

Choose the correct answer from the options given to match the statements. Write down only the answer next to the question number (4.1.1 – 4.1.3) in the ANSWER BOOK.

Solvency;	Gearing;	Liquidity;	Profitability

4.1.1 The ability of the business to meet its short term obligations (debts) (1)

4.1.2 Total assets : total liabilities (1)

4.1.3 The extent to which the business is making use of loans (borrowed capital) (1)

4.2 **NKOSI LIMITED**

Nkosi Limited provided you with extracts from their financial records for the year ended 28 February 2017.

REQUIRED:

Prepare the Cash Flow Statement for the year ended 28 February 2017. (Where applicable, show calculations/workings in brackets to earn part marks.) (32)

INFORMATION:

A. Extract from the Income Statement

	R
Depreciation	**19 974**
Income Tax	**198 240**

B. Extract from the Balance Sheet (Statement of Financial Position) on 28 February 2017

	28 Feb 2017	**29 Feb 2016**
ASSETS		
Non-current Assets	**1 331 328**	**1 205 760**
Fixed/Tangible Assets	1 175 328	977 760
Financial Assets	156 000	228 000
Cash and cash equivalent	985 390	30
Equity and Liabilities		
Shareholders' Equity	**2 999 880**	**1 302 120**
Ordinary Share Capital	2 850 000	1 200 000
Retained Income	149 880	102 120
Non-current Liabilities	420 000	1 284 000
Bank overdraft	0	80 130
Shareholders for Dividends	312 000	16 800
SARS Income Tax	12 450	4 800

C. Loan and interest on loan

The loan statement from Invest Bank on 28 February 2017 reflected:

Balance at the beginning of the financial year	R 1 284 000
Repayments during the year (including interest)	1 008 000
Interest capitalised	?
Balance at the end of the financial year	420 000

D. Share Capital and Dividends

- On 1 March 2016 the business had 100 000 shares in issue at an average price of R12 per share.
- The business paid interim dividends of 120 cents per share on 31 May 2016.
- On 1 September 2016 the business issued new shares.
- On 28 February 2017 the business repurchased 10 000 shares at R23 per share. This was R3 above the average share price.
- A final dividend was declared on 28 February 2017.

E. Fixed Assets

- Equipment was sold at carrying value. The details for this equipment is as follows:

Cost price	R48 000
Accumulated depreciation to date sold	R24 684
Date Sold	1 April 2016
Selling price	?

4.3 FINANCIAL INDICATORS OF TWO COMPANIES

Your friend is an existing shareholder of two companies that sell cellphones and data. She presents you with information of both companies.

REQUIRED:

4.3.1 Calculate the following financial indicators:

- Net Asset Value of Talk Ltd. (3)
- Debt-Equity Ratio of Data Ltd. (3)

4.3.2 Your friend is of the opinion that the liquidity position of Talk Ltd. is better than that of Data Ltd. Quote TWO financial indicators (with figures) to support her opinion. (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. (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. (6)

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

- Calculate the dividends that she earned from each company. (2)
- Compare and comment on the dividend pay-out policies of the two companies. Provide calculations in your explanation. (4)
- Explain ONE reason for the dividend pay-out of each company. (4)

INFORMATION:

A. Extract from the Balance Sheet (Statement of Financial Position) on 28 February 2017

	DATA LTD.	TALK LTD.
Shareholders' Equity	1 011 150	2 116 800
Ordinary Share Capital	808 000	1 593 000
Retained Income	203 150	523 800
Non-current Liabilities	202 230	1 270 080

B. Financial indicators

	DATA LTD.	TALK LTD.
Current ratio	3,6 : 1	2,4 : 1
Acid-test ratio	0,6 : 1	1,2 : 1
Stock turnover rate	4 times	8 times
Debt-equity ratio	?	0,6 : 1
% return on average shareholders' equity	25,4%	14,5%
% return on total capital employed	18,4%	10,2%
% interest rate on loans	10,5%	10,5%
Market price per share on JSE	710 cents	910 cents
Net asset value per share	535 cents	?
Dividends per share	230 cents	245 cents
Earnings per share	350 cents	285 cents

C. Both companies have the same number of shares in issue at the end of the current financial year; 189 000 shares.

D. Additional information

- **Data LTD.** issued additional shares at **450 cents** per share.
- **Talk LTD.** issued additional shares at **1 200 cents** per share.

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QUESTION 5: INVENTORY VALUATION AND PROBLEM-SOLVING

(45 marks; 25 minutes)

5.1 HAT ACCESSORIES

Hat Accessories sells fashionable hats.

REQUIRED:

5.1.1 Calculate the number of hats on-hand on 28 February 2017. (3)

5.1.2 Calculate the following using the **weighted-average method**:

- Value of the final stock on-hand on 28 February 2017 (7)
- Gross profit (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 profit.

- Calculate the following using the **FIFO method:**
  - Value of the final stock on-hand on 28 February 2017 (5)
  - Gross profit percentage on cost of sales (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). (4)

INFORMATION:

A.

Details	Stock on hand and Purchases for the year			Sales for the year		
	No. of items	Unit Price	Total R	No. of items	Unit Price	Total R
Opening stock						
1 March 2016	100	R40	4 000	100	R150	15 000
Purchases	500		38 000	410		61 500
April 2016	100	R50	5 000	100	R150	15 000
July 2016	150	R60	9 000	150	R150	22 500
November 2016	200	R90	18 000	160	R150	24 000
February 2017	50	R120	6 000	0	R150	0

B. The order for hats to be received in March 2017 is 250 hats at R140 each. The business intends to sell all hats at R200 each.

5.2 **GYM TRIM**

Gym Trim is an outlet of Vitality Sports Wholesalers. Stock is valued using the FIFO method. The following figures have been given to the owner of Gym Trim but he is not happy as the actual figures as per stocktaking and the figures of the Trading Stock records in the books do not agree.

REQUIRED:

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. (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. (9)

ITEMS OF STOCK	Sweatbands	Towels	Gym Bags
Opening stock in unit	120	80	150
Purchases in units	5 600	960	1 200
Sales in units for the year	4 800	840	930
Closing stock in units	810	200	420
Selling price per unit	R45	R125	R350
Period of stock on hand	50 days	70 days	?
Cash deposited for the year	R216 000	100 000	R325 500

QUESTION 6: VAT AND BUDGETS (45 marks; 25 minutes)

6.1 **VAT**

Complete the following sentences by writing down only the missing words or figures next to the question number (6.1.1 – 6.1.4) in the ANSWER BOOK.

6.1.1 The VAT charged by a vendor when it sells goods or renders services is known as ... tax. (1)

6.1.2 A credit balance in the VAT Control Account indicates that VAT is ... SARS by the vendor. (1)

6.1.3 Goods are purchased for R36 900 excluding VAT. The amount of VAT on these goods is R... . (2)

6.1.4 Goods are sold for R7 410 including VAT. The amount of VAT included in the selling price of these goods is R_____ . (2)

6.2 **CASH BUDGET**

You are provided with an incomplete Cash Budget and additional information in respect of Soweto Traders. The financial year ends on 31 December.

REQUIRED:

6.2.1 Provide ONE reason why it is essential for the business to prepare a Cash Budget. (2)

6.2.2 Complete the Debtors' Collection Schedule. (7)

6.2.3 Calculate the missing figures for cash surplus / deficit and bank balances (A – E) on the Cash Budget. (16)

6.2.4
- Comment briefly on the bank balances. Quote figures.
- Explain TWO significant measures they have used to improve the cash flow. Quote figures. (8)

6.2.5 **Refer to Information F.**

The owner feels that there is a problem regarding some of the income and expense items. In each case suggest how to improve the internal control of the items concerned.

(6)

INFORMATION:

A. Debtors and sales

- The owner decided to start selling goods on credit with effect from 1 November 2017.
- Credit sales are expected to comprise 40% of total sales.
- Debtors are expected to settle their accounts as follows:
    - 25% in the same month as the credit sale, subject to a 5% discount.
    - 68% in the month following the credit sale.
    - 7% of debtors' accounts are expected to comprise bad debts.

B. Purchase of stock and mark-up

- All goods are sold at a mark-up of 50% on cost.
- Goods are replaced monthly to maintain a fixed stock level.
- Goods are purchased as follows: 25% for cash and 75% on credit.
- All credit purchases are settled during the following calendar month.

C. Salaries

Monthly salaries for all 11 staff members will be increased with effect from 1 November 2017. The increase will be as follows:

- The manager will receive an increase of 35% on his present monthly salary of R12 000 from 1 November 2017.
- The ten shop assistants, who receive an equal salary, will each receive an increase of R520 per month from 1 November 2017.
- An additional shop assistant will be employed from 1 December 2017 at the same increased salary as the other shop assistants.

D. Loan and interest

- A short-term loan of R800 000 was received on 31 August 2017.
- This is to be repaid in four equal instalments every three months. The first instalment must be paid on 30 November 2017.
- Interest (15%p.a.) is paid monthly by cheque.

E.

CASH BUDGET FOR THE PERIOD 1 OCTOBER 2017 TO 31 DECEMBER 2017			
	OCT	**NOV**	**DEC**
RECEIPTS	**R**	**R**	**R**
Cash sales	288 000	216 000	252 000
Collections from debtors	0	34 200	?
Rent income	8 400	10 080	0
Sale of part of shop premises		1 000 000	
Capital contribution	370 000		
TOTAL RECEIPTS	**666 400**	**1 260 280**	**?**
PAYMENTS			
Payments to creditors	135 000	**A**	180 000
Cash purchases	48 000	60 000	70 000
Salaries	64 000	**B**	79 120
Drawings	40 000	60 000	60 000
Advertising	2 880	3 600	8 400
Water and electricity	15 000	15 000	15 000
Telkom and cell phone costs	26 000	28 000	30 000
Vehicle instalment		100 000	15 000
Repayment of loan		200 000	
Interest on loan	10 000	10 000	**C**
Delivery vehicle expenses	8 940	9 208	9 484
Sundry operating expenses	40 000	40 000	40 000
TOTAL PAYMENTS	**389 820**	**743 208**	**?**
Cash Surplus (Deficit)	276 500	517 072	(124 684)
Bank : Opening balance	(195 308)	81 192	**D**
Bank: Closing balance	**81 192**	**598 264**	**E**

F.

OCTOBER 2017	**BUDGETED**	**ACTUAL**
Cash Sales	288 000	260 000
Rent Income	8 400	2 000
Delivery expenses	8 940	17 600

45

TOTAL: 300

END