GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2015

MEMORANDUM

SUBJECT:	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 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 workings 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

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

ACCOUNTING

MEMORANDUM

QUESTION 1

1.1.1 List TWO reasons for preparing the Bank Reconciliation Statement as an internal control process.

Two reasons ✓ ✓

- To ensure that all entries relating to cash transactions are accurately recorded.
- Fraudulent transactions can be detected.
- Errors or omissions can be detected.

2

1.1.2 State the adjustment that would be made to the figures on the financial statements on 30 June 2015 in respect of the post-dated cheques issued. Refer to the Bank Reconciliation Statement for June 2015. Include actual figures in your answer.

- Creditors' control ✓ balance would be increased by R10 400 ✓
- Bank ✓ balance would be increased by R10 400 (to R12 400) ✓

4

1.1.3

ITEM	CRJ	CPJ	NO ENTRY
Item 1			**21 370**
Item 2			X ✓
Item 3			X ✓
Item 4	5 300 ✓		
Item		1 450 ✓	
Item 6		720 ✓	
Item 7	2 100 ✓	2 500 ✓	
Item 8			X ✓
Item 9			X ✓

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1.1.4 Bank reconciliation statement on 31 July 2015

	Debit	Credit
Dr balance of Bank statement	✓ 21 370	
Cr outstanding deposit		✓ 20 500
Dr outstanding cheques		
Nr 1640	✓ 2 500	
Nr 3220	✓ 6 100	
Nr 1596	✓ 7 000	
(for ☑ check operations) Cr balance of Bank account		✓☑ 16 470
	36 970	36 970

7

1.1.5 In August 2015 the internal auditor discovered that the outstanding deposit of R20 500 on the Bank Reconciliation Statement on 31 July 2015 appeared as R5 500 on the Bank Statement. (Item 3) The amount on the Bank Statement is correct. List ONE concern that you have as internal auditor. Provide ONE suitable control measure to prevent this from happening in future. Explain fully.

ONE concern ✓ and ONE solution ✓✓

CONCERN	CONTROL MEASURE
The money could be stolen Fraud could take place / rolling of cash	• Compare receipts of cash to the deposit slips on a daily basis to see whether all cash received was deposited. • Put internal control processes in place – division of duties. The deposit must be checked by an assistant. • Arrange for SMS notifications from the bank and check against the CRJ. For one mark: • Scrutinize the deposit slip for errors. • Division of duties.

3

1.2.1 Why should the balance of the Creditors' control account correspond with the total of the Creditors' list?

Any acceptable answer ✓✓

- It is an internal control measure – figures in the journals are posted to the Creditors' control account and the Creditors' ledger.
- The Creditors' control account is a summary of all the transactions related to creditors and the list is a total of all the Creditors' balances.

1.2.2 Calculate the correct balances of the Creditors' control account and the Creditors list.

	Creditors Control	Creditors list
Incorrect total/balance	**49 560**	**36 410**
(a)		- 520 ✓
(b)	+ 3 160✓	+ 3 160 ✓
(c)		+ 270 ✓✓
(d)	- 13 400✓✓	
Balance / Total ☑	39 320	39 320

8

35

QUESTION 2

2.1 **Match the description in COLUMN B to the concept in COLUMN A. Write only the letter (A–E) next to the question number (2.1.1–2.1.4) in the ANSWER BOOK**

2.1.1	E	✓
2.1.2	C	✓
2.1.3	D	✓
2.1.4	B	✓

4

2.2 **Calculate the correct Factory Overhead Cost.**

FACTORY OVERHEAD COST	
Incorrect Factory Overhead Cost	**362 790**
Depreciation	✓ 84 030
Indirect Materials	✓ (3 500)
Advertising	✓(12 790)
Utilities (operation if any one part correct) ✓ ✓ ✓ ☑ ✓ (10 290 / 2 x 4) = R20 580 / 7 x 4 = R11 760 – 10 290	☑ 1 470
Factory Overhead Cost for the Year	☑432 000

10

2.3 **WASTE TRADERS**
PRODUCTION COST STATEMENT FOR YEAR-ENDED 30 JUNE 2015

Prime costs	☑ 1 620 000
Direct material cost 78 900 ✓+ 553 500 ✓ - 92 400 ✓ (if one part correct)	☑ 540 000
Direct labour cost	✓✓ 1 080 000
Factory overhead cost (see 2.2)	☑ 432 000
	2 052 000
Work-in-process (beginning of the year)	✓175 000
Total manufacturing costs (check operation)	☑2 227 000
Work-in process (end of the year) (check operation)	☑(355 000)
Cost of production of finished goods	✓1 872 000

12

2.4 Calculate the following:

2.4.1 SELLING PRICE PER UNIT:

R3 564 000✓ ÷ 396 000✓ = R9☑ (if one part correct)

3

2.4.2 COST OF SALES:

R3 564 000✓ X $\frac{100}{200}$✓ = R1 782 000☑ (if one part correct)

3

2.4.3 VARIABLE COSTS PER UNIT

R2 059 200✓ ÷ 374 400✓ = R5,50☑ (if one part correct)

3

2.4.4 BREAK-EVEN POINT

$$\frac{\text{R682 500}\ \checkmark}{\text{(R9 ☑(See 2.3.1) - R5,50(See 2.3.3) ☑}} = \frac{\text{R682 500}}{\text{R3,50}}$$

= 195 000 Units ☑ (if one part correct)

4

2.5 Waste Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.

2.5.1 Explain what you understand by the term 'break-even point'.

Valid explanation✓✓

The number of units that must be sold✓ in order to cover the Fixed Costs. Thereafter, the manufacturer will make a profit. ✓

2

2.5.2	**Explain the effect the above decision will have on the fixed costs per unit and the break-even point.**

FIXED COST:

As more units are produced the Fixed Costs per unit will decline. ✓✓

BREAK-EVEN POINT:

If Variable Cost increases/decreases – BEP will also increase or decrease✓✓

4

45

QUESTION 3

3.1	**Calculate the following**	
3.1.1	**Cost of vehicles sold.** (900 000 + 200 000 – 810 000)	✓✓290 000
3.1.2	**Accumulated depreciation on vehicles sold.** 290 000 X 20% = R58 000✓ 232 000 X 20% x $^{6}/_{12}$ = R23 200✓✓	☑81 200 (if one part correct)
3.1.3	**Carrying value of vehicles sold.** 290 000✓ - 81 200✓	☑208 800 (if one part correct)

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3.2 INCOME STATEMENT FOR THE YEAR-ENDED 30 JUNE 2015	
Sales 2 892 200 – 52 000	✓✓2 840 200
Cost of sales	**(1 492 200)**
Gross profit	☑ 1 348 000
Other income *Inspection*	☑ 338 335
Service fee income 145 235 – 900	✓✓ 144 335
Rent income 172 500 ✓ + 16 500 ✓	☑ 189 000
Profit on sale of asset	✓5 000
Do not accept Interest here	
Gross operating income	☑1 686 335
Operating expenses *Inspection, brackets not essential*	☑ (905 855)
Salaries and wages (288 090 - 25 000 ✓- 2 625✓ - 250✓)	☑ 260 215
Audit fees (52 000 + 23 000)	✓✓ 75 000
Directors' fees	✓ 375 000
Consumable stores (104 100✓ – 4 000 ✓)	☑ 100 100
Bank charges	✓ 6 740
Trading stock deficit	✓✓ 10 000
Depreciation (23 200 ☑ (see 3.1.2) + 55 600 ✓)	☑ 78 800
Operating profit	775 480
Interest income	✓3 500
Profit before interest expense	☑ 778 980
Interest expense	✓✓ (89 600)
Net profit before tax *Inspection, inspect operations applied*	☑ 694 380
Income tax	☑ (206 814)
Net profit after tax *Inspection – if tax deducted*	☑ 487 566

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If pre-adjustment figure is shown as the final answer, the relevant mark is still given
If final figures are correct award full marks - if incorrect, mark workings – if no workings in this case no marks
For ☑ inspect operations
Foreign items i.e. Balance Sheet items – 1 each (max -2)
If interest is shown at top & bottom, apply –1 max for placement if marks are earned

3.3.1	TANGIBLE (FIXED) ASSET NOTE	Land and buildings	Vehicles
	Carrying value (beginning of the year)	**11 000 000**	✓510 000
	Cost	**11 000 000**	**900 000**
	Accumulated depreciation	**0**	**(390 000)**
	Movements		
	Additions at cost		✓200 000
	Disposals at carrying value (See 3.1.3)	✓ (800 000)	☑ (208 800)
	Depreciation (see Income statement)		☑ (78 800)
	Carrying value at the end of the year	**10 200 000**	✓422 400
	Cost	**10 200 000**	**810 000**
	Accumulated depreciation	**0**	✓ (387 600)

7

3.3.2 ORDINARY SHARE CAPITAL

Authorized Shares		
1 000 000	**Ordinary shares**	
Issued Shares		
550 000✓	**Shares in issue**	**3 025 000**
50 000✓	Shares issued during the year at R11,50	✓ 575 000
40 000✓	Shares repurchased at an average price of R6	✓ (240 000)
560 000☑	Shares in issue on 30 June 2015 (check operation if one part is correct)	☑3 360 000

7

3.3.3	RETAINED INCOME	
	Balance on 30 June 2014	**255 274**
	Net income for year (see 3.2)	☑ 482 566
	Repurchases of shares (40 000 x 2,50✓)	☑(100 000)
	Ordinary share dividends	✓ (255 000)
	Paid	✓ 45 000
	Declared	✓ 210 000
	Balance on 30 June 2015 (check operation)	☑ 382 840

7

65

QUESTION 4

4.1	**Choose one word/term from the following to complete the sentences given below:**		
4.1.1	Limited liability ✓		
4.1.2	Shareholders ✓		
4.1.3	Independent ✓		
4.1.4	Qualified ✓		
			4

4.2 XOLISE TRADERS LIMITED

4.2.1	**Reconciliation of net profit before taxation and cash generated by operations**	
	Net profit before tax	**1 283 100**
	Adjustments i.r.o.	
	Depreciation (42 000 + 23 000)	**65 000**
	Interest paid	**42 600**
	Operating profit before change in working capital	**1 390 700**
	Change in working capital (check operation)	☑ (84 600)
	Increase in inventory	**(139 600)**
	Decrease in Debtors (530 000✓ + 8 000✓ - 475 000✓ - 14 000✓) (538 000 - 489 000) (if one part correct)	☑49 000
	Increase in creditors (89 500✓ + 7 300✓ - 81 700✓ - 9 100✓) (96 800 - 90 800) (if one part correct)	☑6 000
	Cash generated by operations (check operation)	☑1 306 100
		12

4.2.2	**Calculate the total tangible assets purchased during 2015**
	3 002 000✓ - 2 330 200✓ - 103 000✓ - 65 000✓ = 839 800☑ Method mark if any one part correct.
	5

4.2.3 Cash Flow Statement on 28 February 2015	
Cash Flow from Operating Activity (check operation)	☑ 130 200
Cash Generated from Operations	**1 306 100**
Interest Paid	**(42 600)**
Taxation paid (296 100✓ – 2 200✓ – 3 600✓) (if one part correct)	☑ (290 300)
Dividends paid	**(843 000)**
Cash Flow from Investing Activities (check operation)	☑ (736 800)
Purchase of tangible assets (see 4.2.2)	☑ (839 800)
Proceeds from disposal of tangible assets	✓ 103 000
Cash Flows from Financing Activities (check operation)	☑ 530 000
Proceeds from the issue of new shares	✓ 560 000
Repayment of loan	**(30 000)**
Net Change in Cash and Cash Equivalents (if one part correct)	☑ (76 600)
Cash and cash equivalents at the beginning of the year	**38 600**
Cash and cash equivalents at the end of the year	✓ (38 000)

12	

4.2.4	Calculate the following on 28 February 2015

Earnings per share (EPS)

$$\frac{987\,000\checkmark}{470\,000\checkmark}$$

= 210c per share☑ accept R2,10 do not accept 2,1 (if one part correct)

3

Dividends per share (DPS)

$$\frac{(893\,000)}{329\,000\checkmark + 564\,000\checkmark} \times 100$$
$$470\,000\checkmark$$

= 190 cents☑ accept R1,90 do not accept 1,9 (if one part correct)

4

Net Asset Value per share (NAV)

$$\frac{3\ 534\ 000\checkmark}{470\ 000\checkmark} \times 100$$

= 751,9 cents or 752c per share ☑ do not accept 7,52 (if one part correct)

3

The Return on average capital employed (ROTCE)

$$\frac{(1\ 325\ 700)\quad 1\ 283\ \checkmark\ 42\ 600\ \checkmark}{\text{½}\ \checkmark(3\ 534\ 000\ \checkmark + 340\ 000\checkmark + 2\ 880\ 000\checkmark + 370\ 000\checkmark)\quad (3\ 562\ 000)} \times 100$$

= 37,22 %

= 37,2 % ☑ do not accept 37,2 (if one part correct)

8

Debt - equity ratio

340 000✓ : 3 534 000✓

0,1 : 1 ☑ accept 0,09 : 1 (if one part correct)

3

4.2.5	**Briefly comment on the liquidity of the company. Quote TWO financial indicators to support your answer.**

Any TWO

Financial indicator ✓ ✓ Trend with figures ✓ ✓

- Current ratio: decreased from 3,45 : 1 to 2,83 : 1
- Acid test ratio: decreased from 1,56 : 1 to 1,04 : 1
- Rate of stock turnover: improved from 3 to 5 times per annum

4

4.2.6	**What major decisions by the directors are reflected in the Cash Flow Statement? State TWO decisions and quote the relevant figures. Also explain how EACH of these decisions would benefit the company in future.**

Decision and figures ✓✓ ✓✓	**Benefit for company ✓ ✓**
Dividends were paid, R843 000	This will attract new shareholders; Price on the JSE could increase; Current shareholders will be satisfied with their dividends.
Fixed/tangible assets purchased, R839 800 Fixed/tangible assets sold, R103 000	New assets will increase the efficiency of the company. This will lead to an increase in profits. Money received from asset disposals will improve cash flow – could be used to finance new assets purchased.
New share issued, R560 000	Improves cash flow of the company; Money was used to purchase new tangible/fixed assets

6

4.2.7	**The company is slow in repaying the loan. Explain why this is a good decision. Quote TWO financial indicators with figures to support your answer.**

Financial indicators✓✓ Figures ✓✓ Explanation ✓✓

- ROTCE
- Improved from 25,4% to 37,2%.
- There is positive gearing of profits by 20,2% against the interest rate of 17% p.a.

- Debt/Equity ration
- Is 0,1 : 1
- Shows low risk (low geared)

6

70

QUESTION 5

5.1.1	Why is it necessary to prepare a cash budget?	
It is a financial plan indicating projected receipts and payments to ensure that there is sufficient cash to meet payments ✓		1

5.1.2	Why does depreciation and profit on sale of asset not appear in the Cash Budget?	
They are non-cash items. ✓		1

5.1.3	Name TWO items other than depreciation and profit or loss on sale of asset which will appear in the Projected Income Statement but will not be included in the Cash Budget.	
Cost of sales, Discount received, Discount allowed, Trading Stock deficit, Bad debts. Any two correct answers ✓ ✓		2

5.1.4 Debtors' Collection Schedule for February 2015.

CREDIT SALES PER MONTH		JANUARY	FEBRUARY
November	**57 000**	**8 550**	
December (57 500 X 15%) ✓	**57 500**	**17 250**	8 625 ✓
January (56 000 X 30%) ✓	**56 000**	**26 600**	16 800 ✓
February (54 600 X 50%) ✓ – 5%✓	**54 600**	**-**	(if one part correct) 25 935 ☑
TOTAL RECEIVED		**52 400**	(check operation) 51 360 ☑

8

5.1.5 CASH BUDGET OF VARIA TRADERS FOR JANUARY AND FEBRUARY 2015

CASH RECEIPTS	JANUARY	FEBRUARY
Cash sales (54 600 x75/25)	**168 000**	✓✓163 800
Cash received from Debtors	**52 400**	☑ 51 360
Rent income (Jan: # 27500✓ – 12 000✓)	☑15 500	# ☑ 27 500
Fixed deposit		✓ 123 600
Interest on bank account (42 000 x 6% / 12)		✓✓ 210
TOTAL RECEIPTS	235 900	366 470
CASH PAYMENTS		
Payments to creditors	✓ 70 000	**81 000**
Sundry expenses	✓ 17 700	✓ 18 400
New assets purchased	**25 315**	
Salaries and wages 61 600 + ½ (30 800)	**61 600**	✓✓ 77 000
Interest on bank account (19 000 x 18% / 12)	✓✓285	
TOTAL PAYMENTS	174 900	176 400
CASH SURPLUS (SHORTFALL) ☑	(61 000)	190 070
Bank (opening balance)	**(19 000)**	✓ 42 000
Bank (closing balance) ☑	42 000	232 070

20

(check operation for method marks)

5.2.1	**Briefly explain how the preparation of a Debtors' collection schedule and a Debtors' age analysis could help Gary to control the accounts of Debtors.**

How the preparation of a Debtors' collection schedule could help to control the accounts of Debtors:

Any valid answer ✓✓

- It will ensure that Debtors keep to the credit terms of 30 days.
- Measures could be taken if debtors do not keep to the credit terms.
- Plan receipts from debtors in advance.

How the preparation of a Debtors' age analysis could help to control the accounts of Debtors:

Any valid answer ✓✓

- It is an effective measure of credit control.
- Action can be taken against debtors who do not comply by charging their accounts with interest / taking legal action.
- Bad debts can be reduced.

4

5.2.2 (i)	**Average Debtors' collection period (in days) for the financial year ending 30 June 2015.**

(220 000)✓

½ ✓ (38 900 + 71 100) x 365

640 000 x 75%

(480 000)✓

= 41,8 days

= 42 days ☑ (if one part correct)

4

5.2.2 (ii)	**Briefly explain whether Lu would be satisfied with the collection period. Provide a reason for your answer.**

Valid **reason** depending on 5.2.2.(i)

Lu would not be satisfied. ✓

Possible reason: ✓

- Debtors do not comply with the credit terms of 30 days.
- Control over debtors is not good, since debtors take longer than 30 days to pay.

2

5.2.3 **Refer to information C and D below.**
From the information, identify ONE problem the owner is faced with from the Debtors' Age Analysis and ONE from the Debtors' control account. Quote information and figures to support your answer. Provide ONE solution to each of the problems.

DEBTORS' AGE ANALYSIS	
PROBLEM	**SOLUTION**
Any ONE Problem ✓ Figure ✓ *Two debtors exceed their credit limits: Meebos (R28 000) and Ntombi (R13 800) *Debtors do not adhere to the credit terms of 30 days. The accounts of Meebos (60 days+), Pieters (60 days) and Ntombi (60 days) are in arrears.	*Any acceptable solution ✓✓* *Increase control over debtors by limiting their purchases to the credit limit. *Charge overdue accounts with interest. *Send accounts regularly to press for payment
DEBTORS' CONTROL ACCOUNT	
PROBLEM	**SOLUTION**
Any ONE Problem ✓ Figure ✓ *There are too many dishonoured cheques (R6 700) compared to the payments received from debtors (R58 500) *The bad debts are high (R4 900). *The returns by debtors are high (16% of the sales are returned - R8 000)	*Any acceptable solution ✓✓* *Limit cheque receipts by asking debtors to pay by debit card. *Scrutinize the credit history of potential debtors before allowing them credit. Limit their purchases. *Follow up on the reasons for goods being returned. If the quality of the products is problematic, change to other suppliers.

8

50

QUESTION 6:

6.1.1	**Calculate the stock values that will appear in the Balance Sheet. Show all workings using the number of units and the appropriate unit value.**	
	Leather jackets (use the weighted average method) $\frac{44\,000\checkmark + 372\,000\checkmark + 13\,000\checkmark}{80 + 600\checkmark}$ = 630,88c Balance Sheet: 630,88 x 200 ✓ = R126 176☑ (if any one part correct)	5
	Handbags (use the FIFO method) 100 X (55 X 11,90) = 65 450 ✓ 140 X (50 X 11,50) = 80 500 ✓ 240 X 20 (carriage) = 4 800 ✓ 240 X 30 (import duty) = 7 200 ✓ TOTAL = 157 950 ☑ (if any one part correct)	5

6.1.2 Calculate the following for the handbags:

Cost of sales

Opening stock	51 750	✓
Purchases	235 950	✓
Carriage on purchases (20 X 400)	8 000	✓✓
Customs Duty	12 000	✓
Less: Closing stock (See 6.2)	(157 950)	☑
COST OF SALES	R149 750	☑

(check operation)

7

Gross profit

211 500✓ – 149 750 (See 2.3) ☑ = R61 750☑ (if any one part correct)

3

Mark-up % achieved

$$\frac{61\,750☑}{149\,750\ ☑} \times \frac{100}{1}$$

= 41 % ☑ (41,24%) (if any one part correct)

3

6.1.3 Skin suspects that a number of handbags have been shop-lifted. Calculate the number of bags stolen.

Calculated cost of sales stock 100 + 400 – 240 = 260 ✓
Actual bags sold (235) ✓
STOLEN 25 Bags ☑
(if any one part correct)

3

6.2	**Identify ONE problem in relation to each branch, quoting figures/amounts to support the problem. In each case, offer the owner advice on how to solve the problem.**

Branch	Comment and figures ✓✓ ✓✓ ✓✓	Advice ✓ ✓ ✓
Soweto **Thembi**	Theft occurring. There are 40 cameras missing (380 – 340) Value of shortage of R320 000 (8 000 x 40)	Improve internal control Do regular physical stock takings and stock checks
Kagiso **Diane**	Too much stock on hand. Only 300 out of 1 600 have been sold. Stock will become obsolete / out of date, 1 280 left over	Restrict amount of stock on hand as this could lead to theft or out of date stock. Instead of paying Diane a set monthly income he should pay her on commission based on sales.
Hillbrow **Karabo**	R640 000 cash was stolen	Improve internal control Division of duties

9

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TOTAL: 300 marks