

ACCOUNTING
GRADE 12 EXAMINATIONS

300 MARKS

3 HOURS

11 June 2014

INSTRUCTIONS

1. Answer all the questions.
2. A separate answer book is provided in which to answer all the questions.
3. Show all workings for part marks to be allocated.
4. Read the instructions carefully and follow them precisely.
5. You will lose marks if you:
 - leave out important dates
 - use non standardised abbreviations
 - over write on figures
 - use foreign entries
6. Non programmable calculators may be used.
7. Do not remove any pages from the answer book.
8. Use the information below as a guide when answering the questions and try not to deviate from it.

Number	Topic	Marks	Minutes
Question 1	DEBTORS' RECONCILIATION AND INTERNAL CONTROL	30	20
Question 2	BANK RECONCILIATION AND INTERNAL CONTROL	40	20
Question 3	COMPANY CONCEPTS, FIXED ASSETS AND FINANCIAL STATEMENTS	80	50
Question 4	REPURCHASE OF SHARES AND INTERPRETATION	50	30
Question 5	CASH FLOW AND INTERPRETATION	70	40
Question 6	CREDITORS' RECONCILIATION AND INTERNAL CONTROL	30	20
Totals		300	180

QUESTION 1: DEBTORS' RECONCILIATION AND INTERNAL CONTROL
(30 marks; 20 minutes)

You are provided with information relating to Dixy Traders. The inexperienced bookkeeper had made some errors when reconciling the Debtors' Control account to the Debtors' List.

REQUIRED:

1.1 Explain to the bookkeeper why the balance of the Debtors' Control account should always be equal to the total of the Debtors' List. (4)

1.2 Prepare the correct Debtors' List on 31 July 2013 and show how the Debtors' Control account would be adjusted using the format provided. (26)

INFORMATION:

- A. The Debtors' Control account differed from the Debtors' List by R12 940.
- B. The following is a summary prepared on 31 July 2013:

Balance on the Debtors' Control account	R141 326
<i>Total of the Debtors' List</i>	<i>154 266</i>
Cogill Suppliers	110 946
Woodman Traders	35 200
Chetty Stores	1 320
Phumlazi Traders	6 800
Difference	<u>R12 940</u>

C. Errors and additional information

- Cogill Suppliers claim they paid R13 200 last month, but this is not reflected on their statement. Investigations revealed that Cogill Suppliers payment had incorrectly been posted to the account of another debtor, Woodman Traders.
- A credit note of R6 160 was incorrectly reflected in the Debtors' Ledger account of Cogill Suppliers as a debit entry. The General Ledger is correct.
- Cogill Suppliers issued a cheque for R5 500 in settlement of their account of R6 200. This had been dishonoured by the bank. The cancellation of the discount was not reflected in the Debtors' Ledger account. The Debtors' Control account is correct.
- Interest had been incorrectly calculated on the account of Woodman Traders. Adjust for an additional amount of R330 for interest.
- VAT at 14% was omitted on an invoice issued to Woodman Traders, dated 30 June 2013. Total sales, excluding VAT, amounted to R33 000.
- Phumlazi Traders appears in both the Debtors' and Creditors' Ledger. Their credit balance of R4 248 in the Creditors' Ledger must be offset against their account in the Debtors' Ledger.
- The debt of a debtor, Chetty Stores. R1 320 had been written off as irrecoverable. The amount was posted to the Debtors' Control account but not to the debtors' personal account.

(30)

QUESTION 2: BANK RECONCILIATION AND INTERNAL CONTROL

(40 marks; 20 minutes)

Top Dog Traders employs Joe Cryme to write up the books, do the bank deposits and issue cheques. You are required to assist as internal auditor.

REQUIRED:

2.1. Why does a business prepare a Bank Reconciliation Statement each month? (4)

2.2. Calculate the correct totals in the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for October 2013. (12)

2.3. Prepare the Bank Reconciliation Statement on 31 October 2013. (12)

2.4. Refer to Information numbers 4 and 8 below.

2.4.1. It appears that Top Dog Traders will not be able to recover all amounts, or part of the amounts, lost due to the fraudulent activities of Joe Cryme. If you were the owner of this business, what steps would you take against Joe Cryme? Provide TWO steps. (4)

2.4.2. Explain why the rule of prudence will be used in accounting for the fraudulent activities in the books and the financial statements. (4)

2.4.3. Explain what was wrong with the procedures in the accounting department which led to this type of fraudulent activity. (4)

INFORMATION:

1. At the end of the previous month, 30 September 2013, the following items appeared in the Bank Reconciliation Statement:

Balance per Bank Statement	17 000
Outstanding deposits for cash sales:	
• Dated 28 September 2013	30 000
• Dated 30 September 2013	12 400
Outstanding cheques:	
• 502 (dated 19 April 2013)	6 200
• 613 (dated 24 September 2013)	13 400
• 614 (dated 27 September 2013)	9100
Balance per bank account	30 700

2. The balance on the Bank Statement is R40 092 (favourable) on 31 October 2013.

3. The provisional totals in the journals for October 2013 before reconciling to the bank statement are: CRJ – R510 000 and CPJ – R463 600.

4. From the bank reconciliation for September 2013 only the outstanding deposit of R12 400 and cheque No. 614 appeared on the October Bank Statement. The R30 000 reflected on the deposit slip, dated 28 September, was never deposited into the bank account by Joe Cryme. He cannot account for the whereabouts of the cash.

5. The October Bank Statement reflected bank charges of R1 310 and interest of R102 on the favourable bank balance.

6. A dishonoured cheque was reflected on the Bank Statement, R1 700. This was originally received from a debtor in payment of his account.

7. A direct deposit of R5 500 from a tenant was reflected on the Bank Statement.

8. As internal auditor you also detected that cheque No. 642 for R18 000 appeared on the Bank Statement, but not in the CPJ. The bookkeeper, Joe Cryme, forged the signatures and used the funds for personal benefit.

9. Cheque No. 633 was reflected in the CPJ as R2 630, but on the Bank Statement it was reflected as R6 230. The amount on the Bank Statement is correct.

10. The following items appeared in the October CRJ and CPJ, but not on the Bank Statement:

- No. 652 – R3 800 (dated 15 November 2013)
- No. 655 – R1 300
- A deposit of R12 700 for cash sales.

(40)

QUESTION 3: COMPANY CONCEPTS, FIXED ASSETS AND FINANCIAL STATEMENTS (80 marks; 50 minutes)

3.1 Choose a GAAP principle from COLUMN B to match the description in COLUMN A. Write only the letter (A–D) next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 In preparing financial statements, assets are recorded at the amount that was originally paid for them.	A Matching concept
3.1.2 Expenses and income must be recorded in the appropriate financial period.	B Materiality concept
3.1.3 In preparing the financial statements the accountant will assume that the business will continue for the foreseeable future.	C Historical cost
3.1.4 Any amount which is significant to the decisions made by the reader of the financial statements should be disclosed separately in the financial statements	D Going concern concept

(8)

3.2 You are provided with information related to Global Ltd on 28 February 2013. Global Ltd has authorised share capital of 600 000 shares of R2 each.

REQUIRED:

3.2.1 Complete the Fixed/Tangible Asset Note on 28 February 2013. (18)

3.2.2 Complete the Income Statement for the year ended 28 February 2013. (45)

3.2.3 Prepare the Retained Income Note on 28 February 2013. (9)

INFORMATION:**1. GLOBAL LTD PRE-ADJUSTMENT TRIAL BALANCE AS AT 28 FEBRUARY 2013**

	Debit	Credit
<u>Balance Sheet Accounts Section</u>		
Ordinary share capital (par value 200 cents)		950 000
Retained income (1 March 2012)		69 840
Mortgage loan: Pride Bank		326 700
Land and buildings	810 000	
Vehicles	513 000	
Equipment	235 600	
Accumulated depreciation on vehicles		178 600
Accumulated depreciation on equipment		73 940
Debtors' control	71 820	
Creditors' control		16 680
Trading stock	69 730	
Bank	90 040	
Cash Float	1 000	
SARS (Income tax)	57 142	
Provision for bad debts		3 800
<u>Nominal Accounts Section</u>		
Sales		1 330 950
Debtors' allowances	950	
Cost of sales	831 250	
Stationery	1 630	
Discount received		2 090
Bad debts	1 350	
Bad debts recovered		550
Insurance	22 800	
Interest on loan	32 300	
Bank charges	5 770	
Rent income		124 032
Salaries and wages	164 430	
Asset disposal		3 100
Audit fees	31 470	
Directors fees	110 000	
Interest on current account		4 000
Ordinary share dividends (interim)	34 000	
	3 084 282	3 084 282

2. ADJUSTMENTS AND ADDITIONAL INFORMATION

A. Depreciation on vehicles is calculated at 30% p.a. on the diminishing- balance method. Take into account that a new vehicle with a cost price of R133 000 was bought on 1 November 2012 and was correctly recorded.

B. The Trial Balance reflects a figure of R3 100 in respect of equipment sold. This relates to a computer which was sold for R3 100 cash on 31 October 2012. No other entries in respect of this sale have been made. The cost price of the computer was R6 000 and the **book value** at the date of sale was R2 700.

Depreciation on equipment is calculated to be R35 040 after taking all of the above into account.

C. Interest is capitalised on the mortgage loan. The annual loan statement from Pride Bank reflected the following:

PRIDE BANK LOAN STATEMENT ON 28 FEBRUARY 2012	
Balance on 1 March 2012	304 000
Interest capitalised for the year	?
Repayments, including interest	(R6 500 x 12) 78 000
Balance on 28 February 2013	288 700

D. The account of R Kingful, who owes R1 520, must be written off. Adjust the provision for bad debts to 4% of outstanding debts.

E. A debtor, L Ndlovu, whose debt had previously been written off, paid R120. The bookkeeper incorrectly credited the amount to the Bad Debts account. Correct the error.

F. Stationery on hand on 28 February 2013 is estimated at R190.

G. A physical stocktaking on 28 February 2013 revealed the value of stock on hand as R67 240.

H. An annual insurance premium of R11 400 was paid on 1 January 2013.

I. The rent received from the tenant included the rent for March 2013. The rent was increased by R912 per month on 1 October 2012.

J. A final dividend of 5 cents per share was declared on 28 February 2013. All shares issued to date qualify for this dividend.

K. Income tax for the year amounts to R35 264.

(80)

QUESTION 4: REPURCHASE OF SHARES AND INTERPRETATION

(50 marks; 30 minutes)

You are provided with information relating to Prospectus Limited for the year ended 31 March 2013. The CEO, R. Potgieter, together with his children, owns 150 000 shares in the company.

Where explanations or comments are required, you are required to quote figures or financial indicators to support your explanations.

REQUIRED:

4.1 Shareholders' equity section of the Balance Sheet on 31 March 2013. (6)

4.2 Notes to:

- Ordinary share capital (13)
- Retained income (15)

4.3 Calculate the net asset value per share on 31 March 2013 after the repurchase of the shares from the Gallop family. (4)

4.4 The Gallop family were keen to sell their shares because they were unhappy with the low pay-out policy that the directors were following in deciding on dividends. In your opinion, are their complaints valid, or not? Explain. (4)

4.5 Have the Gallop family been offered a fair value for their shares? Explain. (3)

4.6 In your opinion, will the repurchase of the shares from the Gallop family benefit the remaining shareholders, or not? Explain. (5)

INFORMATION:

1. The ordinary share capital on 1 April 2012 consisted of:

- 250 000 ordinary shares issued in the 2010 financial year at R5,00 per share
- 150 000 ordinary shares issued in the 2011 financial year at R7,00 per share.

2. Retained income on 1 April 2012 amounted to R1 960 000.

3. The following changes occurred to share capital during the 2013 financial year:

- On 1 October 2012, 100 000 new ordinary shares were issued at R9,00 per share. These shareholders are not entitled to interim dividends.
- On 31 March 2013, the directors decided to repurchase 220 000 ordinary shares from members of the Gallop family who were no longer interested in being shareholders. These shareholders had originally bought most of their shares on the JSE at different prices and at different times. The repurchase price was R10,70 per share. These shareholders are entitled to all dividends for the 2013 financial year.

4. Additional information for the past two financial years:

	FINANCIAL YEAR ENDED: 31 March 2013	FINANCIAL YEAR ENDED: 31 March 2012
Net income after tax	R1 600 000	R2 200 000
Ordinary shareholders' equity at year-end	?	R4 260 000
Number of shares in issue at year-end	?	400 000 shares
Market price per share on the JSE	1 040 cents	1 040 cents
Net asset value per share	?	1 065 cents
Earnings per share	356,6 cents	488,9 cents
Interim dividends	70 cents	90 cents
Final dividends	102 cents	140 cents

(50)

QUESTION 5: CASH FLOW AND INTERPRETATION

(70 marks; 40 minutes)

You are provided with information relating to Bellco Limited for the year ended 31 August 2013.

5.1 A company's published annual report comprises five main parts. Choose a description from COLUMN B that matches a component in COLUMN A. Write only the letter (A–E) next to the question number (5.1.1–5.1.5) in the ANSWER BOOK

COLUMN A (Components of the annual report)	COLUMN B (Description)
5.1.1. Income Statement	A written verbal explanation of operations of the company during a financial year B reflects whether or not the shareholders can rely on the financial statements C reflects the profit/loss of the company D reflects the effect of the operating, financial and investing activities on the cash resources E reflects the net worth of the company
5.1.2. Balance Sheet	
5.1.3. Cash Flow Statement	
5.1.4. Directors' report	
5.1.5. Independent auditor's report	
	(5 x 1) (5)

5.2 Complete the Cash Flow Statement for the year. Show workings in brackets. (22)

5.3 Calculate the following financial indicators for 2013:

5.3.1 Acid-test ratio (4)

5.3.2 % return on average shareholders' equity (4)

5.3.3 Debt-equity ratio (3)

5.3.4 % return on average capital employed (use net income before tax) (4)

5.4. The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion. (4)

5.5 According to the Companies Act (Act 61 of 1973), the directors may repurchase shares only if the liquidity of the business is acceptable. Quote and explain THREE financial indicators that provide evidence that they have complied with the Act. (6)

5.6 The directors want to establish another branch in a different area next year. They will need finance of R1, 5 million to do this. One of the directors has suggested that they finance the expansion by increasing loans instead of issuing new shares.

- Quote and explain TWO financial indicators to support his opinion.
- Explain TWO other factors, with advice, that the directors should consider before embarking on this expansion. (10)

5.7 Refer to the extract of the independent auditor's report under Information 6:

- Explain in your own words why it is necessary for the independent auditors to mention internal controls under the section on Directors' Responsibility. (2)
- Under the section on Independent Auditor's Responsibility, they mention something about 'ethical requirements'. Give a practical example of this. (2)
- Is their final opinion good, or not? Explain. (2)
- Why is it necessary for the independent auditor to have the qualification CA (SA) behind his name? Explain. (2)

INFORMATION:

1. Extract from the Balance Sheet for the year ended 31 August:

	2013	2012
Fixed assets	12 138 000	12 357 000
Investments (4% p.a.)	250 000	600 000
Current assets	3 465 000	3 200 000
Trading stock	1 720 000	2 250 000
SARS (Income tax)	65 000	0
Trade and other receivables (excluding SARS)	1 140 000	940 000
Cash and cash equivalents	540 000	10 000
TOTAL ASSETS	15 853 000	16 157 000
Shareholders' equity	11 011 400	8 595 000
Share capital	8 960 000	6 360 000
Retained income	2 051 400	2 235 000
Loan from Unity Bank (11% p.a.)	3 000 000	5 400 000
Current liabilities	1 841 600	2 162 000
Trade and other payables (excluding SARS and shareholders)	920 000	1 260 000
SARS (income tax)	0	72 000
Shareholders for dividends	921 600	620 000
Bank overdraft	0	210 000
TOTAL EQUITY AND LIABILITIES	15 853 000	16 157 000

2. Extracts from the Income Statement and Notes for the year ended 31 August 2013:

Depreciation	R1 010 000
Operating profit	3 062 000
Interest expense	462 000
Net profit before tax	2 600 000
Net profit after tax	1 820 000
Interim dividends paid	770 000
Final dividends declared	921 600

3. Shares issued and repurchased:

- 1 000 000 ordinary shares were in issue at the end of the previous financial year, 31 August 2012.
- 400 000 ordinary shares were issued on 1 September 2012.
- 120 000 ordinary shares were repurchased on 28 February 2013 from the estate of a shareholder who had died. The shares were repurchased at R2,60 above the average issue price

4. Changes to fixed assets:

New vehicles and equipment were bought during the year for R880 000. Unused vehicles were sold at book value during the year.

5. Financial indicators for the past two years:

	2013	2012
Solvency ratio	3,3:1	2,1 : 1
Current ratio	1,9 : 1	1,5 : 1
Acid-test ratio	?	0,4 : 1
Turnover rate of stock	8,7 times	6,6 times
% return on average shareholders' equity	?	15,6%
Net asset value per share	860,3 cents	859,3 cents
Earnings per share	135,8 cents	114,2 cents
Dividends per share	127 cents	30 cents
Debt-equity ratio	?	0,6:1
% return on average capital employed	?	12,4%
% gross profit on cost of sales	62,2%	58,3%
% operating expenses on sales	37,9%	44,5%
% operating profit on sales	10,1%	7,3%

6. Extract from the independent auditor's report. Note that this is NOT a complete report.

REPORT OF THE INDEPENDENT AUDITOR

We have audited the annual financial statements of Bellco Limited ... as set out on pages 52 to 64.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Bellco Limited as at 31 August 2013, and its financial performance and cash flows for the 52 weeks then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

MSANE & CHARTER

Director: MPJ Msane

Registered Auditor; Chartered Accountant (SA)

15 September 2013

QUESTION 6: CREDITORS' RECONCILIATION AND INTERNAL CONTROL

(30 marks; 20 minutes)

Organic Traders buys and sells organic products. A statement received on 28 July 2013 from a creditor, Aqua Wholesalers, reflects a different amount owing by Organic Traders than the amount in the Creditors' Ledger of Organic Traders.

REQUIRED:

6.1 Make a list of the changes to Aqua Wholesalers' account in the Creditors' Ledger, which the bookkeeper should process to correct the errors or omissions. Give a brief description in the Details column and show the changes to the balances in the Amount column. (12)

6.2 Prepare a Creditor's Reconciliation Statement in respect of Aqua Wholesalers for July 2013. (10)

6.3 The owner of Organic Traders is unhappy with the errors which occurred and resulted in inaccurate records in their books. Briefly explain TWO measures that Organic Traders can implement in order to maintain good control over their creditors and to avoid this from happening in future. (4)

6.4 Organic Traders is experiencing cash problems and is currently in a position where they are not able to pay their creditors on time. Aqua Wholesalers has granted them a credit limit of R40 000. All their current creditors require them to pay within 30 days and they allow their customers credit terms of 60 days.

Suggest TWO ways in which the liquidity position can be improved. (4)

INFORMATION:

CREDITORS' LEDGER OF ORGANIC TRADERS

CL4. AQUA WHOLESALERS				
		Debit	Credit	Balance
2013 July 1	Balance brought forward			Credit 17 680
July 6	Cheque 6321	16 796		884
	Discount	884		Nil
July 8	Invoice 2590		17 932	17 932
July 10	Debit note 89	593		17 339
July 14	Invoice 2810		25 490	42 829
July 16	Journal Voucher 450	1 800		41 029
July 17	Debit note 102	1 482		39 457
July 19	Invoice 1067		420	39 967
July 22	Cheque 6410	18 000		11 967
July 29	Invoice 3056		32 604	44 571

Statement received from Aqua Wholesalers:

Aqua Wholesalers PO Box 453; Stellenbosch 7599; Tel: 021 851 5679				
Organic Traders PO Box 219 Stellenberg, 7550				
Credit limit: R40 000			Date of statement: 25 July 2013	
		Debit	Credit	Amount
2013 July 1	Balance brought forward			17 680
July 6	Receipt 1436		16 796	884
July 8	Invoice 2590	17 932		18 816
July 10	Credit note 1038		539	18 277
July 10	Credit note 1042		3900	14 377
July 16	Invoice 2810	25 904		40 281
July 17	Debit note 102		1 482	38 799
July 19	Credit note 141		420	38 379
July 22	Cheque 6410		18 000	20 379
	Discount		900	19 479

ADDITIONAL INFORMATION:

1. Aqua Wholesalers rejected the discount claimed by Organic Traders on 6 July and indicated that the payment was received too late to qualify for the discount.
2. There is a disagreement over the goods returned by Organic Traders as per debit note DN 89. The error has been made by Organic Traders. Aqua Wholesalers' credit note CN 1038 is correct.
3. Aqua Wholesalers have reflected credit note 1042 on 10 July. This, however, relates to another one of their customers, Orgo Stores, and not to Organic Traders.
4. Invoice 2810 was correctly recorded by Organic Traders.
5. Aqua Wholesalers purchased goods on credit from Organic Traders. The bookkeeper was instructed to transfer their debit balance of R1 800 in the Debtors' Ledger to the Aqua Wholesalers account in the Creditors' Ledger.

However, she did the entry wrong (refer to Journal Voucher 450. Aqua Wholesalers have also forgotten to record this entry.
6. Credit note 141 for R420 received from Aqua Wholesalers was incorrectly recorded as Invoice 141 in the Creditors' Ledger.
7. Organic Traders have forgotten to claim their discount on 22 July. There was also a subtraction error of R10 000 in the Creditors' Ledger account on 22 July.
8. Note that Aqua Wholesalers' statement is prepared on 25 July 2013.

(30)

Total 300