



# HILLCREST HIGH SCHOOL

## ACCOUNTING EXAM

JUNE 2015

GRADE 12

**EXAMINER: MRS SUTTON**

**MODERATOR: MRS EDY**

**TIME: 3 HOURS**

**MARKS: 300**

### **INSTRUCTIONS:**

- Read through all the questions carefully and then answer each question to the best of your ability.
- Write only in black, blue pen or dark pencil.
- Answer ALL the questions in the special answer book provided.
- This paper consists of 5 (five) questions
- Remember to write your name and your Accounting teacher's name on your answer booklet.
- Where applicable, workings must be shown in order to achieve part-marks.
- Non-programmable calculators may be used

<b>Topic</b>	<b>Time</b>	<b>Mark</b>
Balance Sheet	44	74
Income Statement	38	63
Companies and Ratios	28	47
Manufacturing	45	75
Ethics and Corporate Governance	25	41
Total	180 minutes	300

**QUESTION 1****(74 marks; 44 minutes)****BALANCE SHEET AND AUDIT REPORT**

You are provided with information relating to Zodwa Limited. The financial year-end is 28 February 2014. The authorised share capital comprises 1 000 000 ordinary shares.

**REQUIRED:**

1.1 Prepare the following notes to the financial statements:

1.1.1 Ordinary Share capital (10)

1.1.2 Retained income (12)

1.2 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2014 (40)

**INFORMATION:****A. Ordinary share capital**

- The ordinary share capital account had a balance of R2 100 000 on 1 March 2013. The number of shares in issue on this date was 700 000.
- On the 1 June 2013, the company's board of directors authorised the buy-back of 30 000 of the company's shares from existing shareholders. A repurchased price was set at R9 each. An electronic transfer of funds was made to shareholders for shares repurchased. This was recorded on 1 June 2013.
- 100 000 new shares were issued on 1 November 2013 at R7,00 each.

**B. Dividends**

- Interim dividends of R134 000 were paid on 31 August 2013.
- Final dividends of 35 cents per share were declared on 28 February 2014 and will be paid after the AGM in April 2014.

**C. Net profit and tax**

The correct net profit before tax for the year ended 28 February 2014 was calculated to be R1 250 000 after making all the adjustments below. No entry has been made for income tax at the rate of 30 % of the net profit.

D. The following balances appeared in the books on 28 February 2014:

- |  |          |
|--|----------|
| • Creditors control                              | R720 000 |
| • Debtors control                                | R530 000 |
| • Creditors for salaries                         | R 35 500 |
| • Income receivable                              | R 24 000 |
| • Cash at bank                                   | R 66 000 |
| • SARS-Income tax (provisional tax) <b>Debit</b> | R400 000 |

**E. Fixed deposits**

One of the fixed deposits, R175 000, matures on 30 September 2014. The rest matures in 2016.

**F. The following relates to the mortgage loan from Zola bank:**

- |   |          |
|---|----------|
| • Mortgage loan at the beginning                    | R300 000 |
| • Interest is capitalised                           | R 8 000  |
| • Repayment of loan and interest for the year       | R 56 000 |
| • Capital repayment of the loan will be the same in |          |
| • The next financial year                           | R ?      |

**G. Fixed assets**

- Land and buildings amounted to R1 800 000 on 28 February 2014
- Vehicles at book value amounted to R800 000 on 1 March 2013, depreciation is calculated at 10 % p.a. on the diminishing balance method
- All equipment was bought on 1 September 2010 and R600 000, depreciation is calculated at 15% p.a. on cost price.

**H. Rent income**

Rent income, R115 500 included the rent for March and April 2014. Rent was increased by R500 per month on 1 October 2013.

**I. Financial indicators**

- The net asset value was 455,80 cents per share on 28 February 2014.
- The current ratio is 1,5:1 on 28 February 2014.

**1.3 CORPORATE GOVERNANCE AND INTERNAL CONTROL**

You are provided with an extract from the report of the independent auditors for Zodwa Ltd for the financial year ending 28 February 2014.

**Audit opinion – To the shareholders**

We have examined the financial statements set out on pages 10 to 30.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 28 February 2014 and results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

**John & Sydwell**  
**Chartered Accountants (SA)**  
**Registered Accountants and Auditors**  
**Melmoth 1 January 2007**

- 1.3.1 Explain why the above – mentioned report will be regarded and an unqualified report. (2)
- 1.3.2 Explain **TWO** major consequences for John and Sydwell should they be negligent in performing their duties. (4)

- 1.3.3 Provide **TWO** actions that John and Sydwell will have to take to verify the Fixed/Tangible Assets figure in the Balance Sheet? (4)
- 1.3.4 The financial director was given a new laptop by Brats Computers on 31 March 2014. Brats Computers have tendered to supply computers to Zodwa Ltd next year. Comment on whether or not this will affect the audit report next year. Explain. (4)
- 1.3.5 Some of the stocks comprise chemicals that will reach their sell-by date on 31 May 2014. The storeroom manager says that he will pour these into a nearby river so that they can be washed away. Comment and also offer advice to the directors. (4)

**QUESTION 2****(63 Marks; 38 minutes)**

You are provided with the Pre-adjustment Trial Balance of Zola Limited for the year ended 30 April 2015.

**REQUIRED:**

- 2.1 Prepare Asset Disposal Account. (10)  
 2.2 Prepare the Income Statement for the year ended 30 April 2015. (42)  
 2.3 Prepare the following note: (11)
- 2.3.1 Trade and other receivables

**INFORMATION**

1.

**ZOLA LTD**  
**PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 APRIL 2015**

	DEBIT	CREDIT
<b>Balance Sheet Accounts Section</b>		
Ordinary share capital		1 404 030
Retained income		342 230
Mortgage loan: Zip Bank		402 250
Land and buildings	1 048 500	
Vehicles	407 000	
Equipment	308 000	
Accumulated depreciation on vehicles		147 400
Accumulated depreciation on equipment		170 500
Trading stock	477 500	
Consumable stores on hand	7 500	
Bank	156 550	
Petty cash	1 650	
Debtors control	198 000	
Creditors control		268 610
SARS (Income tax)	150 900	
Provision for bad debts		10 050
Fixed deposit: Lobola Bank (9 % p.a.)	247 500	
<b>Nominal Account Section</b>		
Sales		5 250 000
Debtors allowances	72 600	
Cost of sales	3 743 500	
Rent income		88 400
Interest income (on fixed deposit)		13 315
Bad debts recovered		1 150
Directors fees	420 000	
Audit fees	36 900	
Packing material	11 550	
Salaries and wages	330 000	
Marketing expenses	240 000	
Bad debts	6 000	
Sundry expenses	31 885	
Ordinary share dividends	202 400	
	<b>8 097 935</b>	<b>8 097 935</b>

2. **ADJUSTMENTS:**

- A. The company has two directors. They all received the same monthly remuneration. One director took his May 2015 fee on 15 April 2015. This has been recorded.
- B. The account of debtor, G. Zondi, R1 000 must be written off as irrecoverable.
- C. N. Ngubo credit balance of R2 000 in the debtors ledger must be transferred to his account in the creditors ledger.
- D. The provision for bad debts must be adjusted to 5 % of the good book debtors.
- E. A physical stock-taking on 30 April 2015 revealed the following inventories on hand:
- |                    |          |
|--------------------|----------|
| • Trading stock    | R470 000 |
| • Packing material | R 450    |
- F. A vehicle was sold for cash for R120 000 on 28 February 2015. The fixed asset register revealed the following regarding this vehicle:
- |  |          |
|--|----------|
| • Cost price                             | R210 000 |
| • Accumulated depreciation on 1 May 2014 | R106 000 |
- A. Make provision for depreciation as follows:
- Vehicles at 10 % p.a. on cost price
  - Equipment at 15 % p.a. on the diminishing balance method
- NOTE:** New equipment costing R80 000 was purchased on 1 November 2014. This has been correctly recorded.
- B. Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- C. The rent decreased by R1 300 on 1 April 2015. The tenant has paid rent until the end of May 2015.
- D. The loan statement received from Stanley Bank on 30 April 2015 reflected the following:
- |                          |          |
|--------------------------|----------|
| Balance at the beginning | R402 250 |
| Interest capitalised     | R?       |
| Repayment                | R417 250 |
| Balance at the end       | R0.00    |
- E. A final dividend of 50 cents was declared
- F. Income tax for the year amounted to R140 000.

**QUESTION 3****(47 Marks; 28 minutes)****COMPANIES**

3.1 State whether each of the following items is TRUE or FALSE.  
Write only the answer next to the question number, e.g. 3.1.6 False.

3.1.1 The Current portion of a loan is a non-current liability.

3.1.2 A debit balance of SARS (income tax) form part of trade and other payables.

3.1.3 The Balance Sheet reflects the Net worth of the company.

3.1.4 The Directors' report reflects whether the shareholders can rely on the financial statements or not.

3.1.5 Total assets:Total liabilities is the correct formula to calculate current ratio. (5)

3.2 **ALWANDE LIMITED**

You are provided with information relating to Alwande Limited, a public company. The financial year end on 28 February 2014.

**REQUIRED:**

3.2.1 Complete the note for the reconciliation of net profit before tax and cash generated from operations for the year ended on 28 February 2015. (8)

3.2.2 Complete the Cash Flow Statement for the year ended 28 February 2015. Some of the figures have been entered in the answer book. (Calculations must be shown in brackets.) (20)

3.2.3 Calculate the following for 2015

3.2.3.1 Debt/equity ratio (3)

3.2.3.2 % return on average shareholders' equity (after tax) (5)

3.2.3.3 % return on total capital employed (6)

**INFORMATION RELATING TO ALWANDE LTD**

	<b>2015</b>	<b>2014</b>
Sales	1 862 000	1 120 000
Interest expenses	19 500	28 000
Depreciation	56 000	41 000
Net profit after tax	522 900	310 000
Ordinary share capital	2 400 000	1 600 000
Retained income	200 000	168 000
Non-current liabilities	130 000	940 000
Fixed/tangible assets	1 928 600	2 937 600
Creditors	145 000	85 500
Debtors	141 000	113 000
Inventory	220 000	185 000
SARS – income tax	DR 47 000	CR 18 000
Shareholders for dividends	320 000	175 000
Cash and cash equivalent	1 033 000	-
Fixed deposit	715 900	753 000
Bank overdraft	-	87 500

- Certain assets were sold at book value for R1 100 000 cash
- Income tax is calculated at 30 % of the profit.
- 320 000 shares have been issued, at the beginning of the year, at R5.
- On the 1 April 2014, the company's board of directors authorised the buy-back of 20 000 of the company's shares from existing shareholders. A repurchased price was set at R8,50 each. An electronic transfer of funds was made to shareholders for shares repurchased.
- 100 000 shares were issued at R9 on 1 September 2014.

**QUESTION 4****(75 Marks; 45 minutes)****MANUFACTURING**

## 4.1 Multiple choice questions

Four options are provided as possible answers to the following questions. Choose one answer and write only the letter (A-D) next to the question number (3.1.1 – 4.1.5) in the **ANSWER BOOK**, for example 4.1.6 A

4.1.1 Direct wages are calculated as follows:

- A. (Number of factory employees x overtime hours) + (overtime rate x normal hours).
- B. (Number of factory employees x number of normal hours worked by each employee x overtime wage rate) + employers contributions towards factory workers
- C. Number of factory employees x normal wage rate.
- D. (Number of factory employees x normal hours worked x normal wage rate) + (overtime hours of all factory workers x overtime wage rate) + employers contributions towards factory workers. (2)

4.1.2 Break-even point refers to ...

- A. total amount which the business will receive in future.
- B. Total number of units produced by the business in the particular period to make profit.
- C. Total number of units that must be produced to recover all costs in the particular period.
- D. Profit that generated by the business in the particular period. (2)

4.1.3 Fixed costs per unit are calculated as follows:

- A. Total fixed costs ÷ number of units produced
- B. Number of units produced ÷ total fixed cost
- C. Total fixed costs ÷ Direct labour
- D. Direct labour ÷ Total fixed costs (2)

4.1.4 Which of the following item will be regarded as a factory overhead cost?

- A. Indirect material
- B. Salaries of salesman
- C. Advertising of finished product

D. Depreciation on office equipment (2)

4.1.5 Total manufacturing costs will be calculated as follows: [Assume that there is no work in progress at the beginning and end of the financial year]

- A. Direct material cost + Selling and distribution cost + Cost of sales
- B. Direct materials cost + direct labour cost + factory overhead cost
- C. Raw materials issued for production + Administration cost
- D. Sales – Cost of Sales (2)

#### 4.2 NQUTU MANUFACTURERS

You are provided with information relating to Nqutu Manufacturers for the year ended 29 February 2015.

The business makes and sells only one type of product, namely bicycles.

##### REQUIRED:

4.2.1 Prepare the following notes to the Production Cost Statement for the year ended 29 February 2015

4.2.1.1 Direct labour cost (9)

4.2.1.2 Factory overheads cost (24)

4.2.2 Prepare the Production Cost Statement for the year ended 29 February 2015. (6)

##### INFORMATION:

1. Opening balance on 1 March 2014

Raw materials stock	R180 000
Work-in-progress stock	R160 000
Finished goods stock	R110 000
Indirect materials	R10 000
Factory plant and equipment at cost	R1 800 000
Accumulated depreciation on factory plant and equipment	R1 200 000

2. Nqutu Manufacturers employs the following individuals:

Details	Number of employees	Basic MONTHLY salary /wages per employee	Overtime hours PER employee	Overtime rate per hour
Employees in the production process	19	R7 000	1 000	R40
Factory foreman	2	R8 500	400	R45
Sales man	3	R5 600	-	-
Cleaner	1	R3 000	-	-

3. Employment benefits:

- All employees in the production process work overtime.
  - Employment benefits are allocated to the cost account applicable to the salaries/wages of the specific employees.
  - All employees, except the factory cleaner, are registered with the business pension fund and the U.I.F. Deductions are made from the basic salary for the pension fund (7%) and the UIF (1%). The employer contributes 8 % of the basic salary towards the pension fund and 1 % of the basic salary to the UIF.
  - Cleaner spend 75% of his time cleaning the factory and 25% of his time cleaning the offices.
4. Factory maintenance paid to date amounted to R70 000. A further amount of R2 000 is owed for February 2015 for repairs completed on a machine.
5. Electricity and water paid for the financial year amounted to R60 000. 10 % must be allocated to the administration office. The factory used the rest.
6. Rent and insurance are allocated between the factory and the administration office on the basis of floor area. The factory comprises 690 square metres while the office comprises 310 square meters. The MONTHLY rent for the entire premises is R12 000. The annual insurance premium is R40 000.
7. Indirect material bought for cash, R30 000. The factory uses 70 % of all material, while the office uses the rest.
8. Raw material issued for manufacturing amounted to R1 700 000.
9. Depreciation on factory plant and equipment must be brought into account to 20 % per annum, according to the cost method.
10. Closing balance on 29 February 2015.

Raw materials stock	R260 000
Work-in-progress stock	R275 460
Finished goods stock	R150 000
Indirect materials	R15 000

**4.3 NEW STYLE MANUFACTURERS**

This business produced and sold 5 000 tracksuits for the year ended 29 February 2015.

**REQUIRED:****REFER TO INFORMATION 1:**

- 4.3.1 Calculate the number of meters of raw material fabric that has been wasted during the production process. Use information 1 given. (7)
- 4.3.2 Give **TWO** examples of how the wastage could have occurred and in each case give advice. (4)

**REFER TO INFORMATION 2:**

- 4.3.3 Calculate the administration cost per unit for 2015. (3)
- 4.3.4 Calculate break-even point for the current financial year. (4)
- 4.3.5 Should the business be satisfied with the number of units that they are currently producing? Briefly explain (3)
- 4.3.6 The direct material cost per unit for 2015 amounted to R96 as it is imported from the UK. The owner feels that, in order to make more profit, he will have to purchase the raw material locally.

The cost per unit will drop, but keeping the selling price the same. Should he carry on with his plan?

Give **TWO** reasons how this plan will benefit the business and **TWO** reasons how the country will benefit. (5)

**INFORMATION:**

## 1. Raw material

	<b>Number of metres of fabric</b>	<b>Total cost</b>
Opening stock	1 210 meters	R30 000
Purchases	19 750 meters	R510 380
Raw materials issued to factory	18 110 meters	R480 210
Closing stock	3 160 meters	R90 170

- 5000 tracksuits were produced and sold.
- A study shows that 3.4 meters of fabric is required to produce ONE tracksuit.

## 2.

	<b>TOTAL</b>	<b>PER UNIT</b>
Sales	R2 500 000	R500
Total variable cost	R800 000	R160
Total fixed cost	R1 350 000	R270
Administration cost	R400 000	?

- 5000 tracksuits were produced and sold.

**QUESTION 5****(41 Marks; 37 minutes)****FINANCIAL INDICATORS OF TWO COMPANIES**

Your friend, Mr Mathebula, wants to buy shares in a company which sells stationery. He asks you for advice and presents you with the following financial indicators of two companies he is considering. Both companies have the same number of shares.

	<b>Mkhabela LTD</b>	<b>Nyembe LTD</b>
Market price per share on the JSE	710 cents	920 cents
Net asset value per share	535 cents	1120 cents
Earnings per share	350 cents	285 cents
Dividends per share	230 cents	160 cents
% return on shareholder's equity	25,4 %	14,5 %
% return on total capital employed	33,4 %	16,8 %
% on interest rate on loans	17 %	17 %
Debt/Equity ratio	0,2:1	3,1:1
Current ratio	5,1:1	2:1
Acid-test ratio	0,8:1	1:1
Stock turnover rate	6 times	10 times
Average debtors collection period	30 days	35 days
Average creditors payment period	41 days	45 days

- 189 ordinary shares for both companies were issued at the end of the accounting period, Mkhabela LTD issued same shares at 450 cents while Nyembe LTD issued same shares at 1 200 cents.

**REQUIRED:**

Answer the following questions. In each case, you must support your answer by:

- Quoting the relevant financial indicators (actual figures, ratios or percentages).
- Indicating the trends from one year to the next.
- Provide an additional relevant comment.

5.1.1 Comment on the price at which the new shares were issued for both companies. Will the directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question in each company. (5 x 2) (10)

5.1.2 Consider the use of loans by the two companies:

- Which company is making more use of loans? Quote a financial indicator for each company to indicate this.
- Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator to indicate this. (6)

5.1.3 Mr Mathebula is of the opinion that the directors of Nyembe are generally happy with the handling of its working capital more effectively and are in a better liquidity situation than Mkhabela LTD. Explain and quote THREE financial indicators to support his opinion. (9)

**5.2 CORPORATE GOVERNANCE ETHICS AND AUDITING**

- 5.2.1 What is the name of the code that listed companies are expected follow in order to adhere to good corporate governance? (2)
- 5.2.2 Briefly explain the difference in the duties performed by the internal auditor and the independent (external) auditor. (4)
- 5.2.3 The director intends to value the assets at replacement cost in the financial statements. He feels this will make the business appear to be worth more. It will also improve the solvency ratio. Advise the director as to whether or not he may do this. (3)
- 5.2.4 Briefly explain how an auditor should check that the figures shown for fixed assets in the financial statements are reasonable. Give **TWO** ways. (4)
- 5.2.5 What should the independent auditor do if he feels that the value for equipment, as the directors insist it appears in the financial statements, is not reasonable? (3)

**TOTAL MARKS: 300**