

QUESTION 1 – BANK RECONCILIATION (26 MARKS – 18 MINUTES)

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

REQUIRED

1.1 BANK RECONCILIATION (4)

1.1.1 Provide two reasons why Bank Reconciliation is important for a business. (4)

1.1.2 Refer to Information A (8)

- Identify the cheque that is **incorrectly entered** in the Bank Reconciliation Statement for August 2018. Provide one reason for your choice. (2)
- What kind of cheque is cheque 1425. How is this cheque treated in the financial statements and complete the Accounting Equation. (6)

INFORMATION A

Bank reconciliation on 31 August 2018	R
Favourable balance as per bank statement	12 000
Outstanding deposits	7 300
Amount incorrectly debited by the bank	1 400
Outstanding cheques	
No 900 (dated 7 February 2018)	1 980
No 1421 (dated 28 August 2018)	10 200
No 1425 (dated 10 September 2018)	7 354
Balance as per Bank account in General Ledger	?

1.2 State whether the following statements below are true or false. Write only True or False next to the question number e.g. 1.2.1 true in the answer book. (4)

1.2.1 A post dated cheque received from a debtor must be entered in the CRJ. (2)

1.2.2 Interest earned on a credit balance is entered into the CPJ. (2)

- 1.3 **Refer to information B** – Draw up the **Bank reconciliation statement** for June 2018. (10)

INFORMATION B

Credit balance as per bank statement on 30 June 2018 is R 174 800.

A comparison of the Bank account of the business with the Bank statement revealed the following:-

The following errors and omissions were noted by the internal auditor:

- (a) the bank statement was debited with bank charges, R1 380.
- (b) the bank statement reflected a credit entry of R123 750 being a fixed deposit that matured on 22 June 2018 plus interest.
- (c) Cheque no 11 for R2 300 issued to K Welfare Society is stale. The society no longer exists.
- (d) Cheque no 72 for R36 590 issued on June 2018 to Six Dealers does not appear in the June Bank Statement.
- (e) Cheque no 65 for R15 870 issued on 31 May 2018 in favour of Jos Wholesalers is dated 30 August 2018.
- (f) A deposit of R45 700 made on 30 June 2018 does not appear in the June bank statement.

QUESTION 2

INCOME STATEMENT (60 MARKS – 40 MINUTES)

You are provided with information relating to Mare Limited. The company sells clothing and sells garments for their customers. Their financial year ends on 29 February 2018.

REQUIRED

2.1 Income Statement for the year ended 29 February 2018. (60)

INFORMATION

Trial balance is Annexure A (at the back of the question paper)

ADJUSTMENTS AND ADDITIONAL INFORMATION

1. An employee was left out in the salaries Journal for February 2018. The details are as follows –

Gross Salary ?
PAYE deduction R4 500
Pension deduction R1 875
UIF deduction R250
Net salary R18 375
The business contributes as follows –
 - Pension fund – 10.5% of the gross salary
 - UIF – rand for rand basisNOTE:- All contributions are debited to the Employer's contribution account.
2. No entries have been made for stock stolen at the beginning of January 2018. Old Mutual Insurance company has informed us that they have transferred R32 000 into Mare Limited's account in respect of the insurance claim. Mare is responsible for 20% of any stock loss.
3. Total depreciation for the year amounted to R93 000.
4. There were two directors at the start of the accounting period. Directors fees have been paid for the first half of the accounting period. On 1 September 2017 the directors fees decreased by 5% p.a. for both directors. On 1 December 2017, one director left the company. Both directors earn the same monthly fee. Provide for the outstanding fees owed by the directors.
5. Provide for outstanding interest on loan. A payment of R200 000 was made towards the loan on 31 August 2017 and this was properly recorded.

6. A debtor who originally owed R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded. The remaining balance must be written off.
7. An amount of R1 700 received from Mars had been credited to the debtors control account in February 2018. The account of Mars was written off during January 2018.
8. Provision for bad debts must be adjusted to 5% of debtors.
9. The physical count on 29 February 2018 reflected the following stock on hand:

Trading stock R650 150
Packing material R21 000
10. Rent income for March 2018 has already been received. The monthly rent was increased by 10% on 1 December 2017.
11. Income tax for the financial year was calculated at R322 000 and this is 28% of the net profit before tax.
12. Final dividends were declared at 35 cents per share. 650 000 ordinary shares were in issue on 29 February 2018.

QUESTION 3 – CASH FLOW STATEMENT AND ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (105 marks – 52 minutes)

Lily Ltd

You are provided with information relating to Lily Ltd, for the financial year ended 28 February 2018. (81)

REQUIRED

- 3.1 Prepare the following notes to the financial statements for the year ended 28 February 2018.
 - Fixed assets (16)
 - Ordinary share capital (7)
 - Retained income (7)

- 3.2 Complete the **CASH GENERATED FROM OPERATIONS NOTE ON 28** February 2018. (9)
- 3.3 Calculate the following amounts that will appear in the Cash Flow Statement on 28 February 2018.
- **Dividends paid** (6)
 - **Tax paid** (4)
- 3.4 Prepare the **CASH EFFECTS OF FINANCING ACTIVITIES** section of the cash flow statement for the year ended 28 February 2018. (6)
- 3.5 The directors have taken significant decisions which will be reflected in the Cash Flow Statement. Identify two of these major decisions and quote figures. In each case, give one consequence of the decision to the business. (6)
- 3.6 Calculate the following financial indicators on 28 February 2018.
- Net asset value per share (NAV) (4)
 - Return on average shareholders' equity (ROSHE) (7)
- 3.7 Provide calculations to show the change in the dividend payout policy and comment on its impact on retained earnings. (4)
- 3.8 Explain why the shareholders should be satisfied with the returns on investment. Quote two financial indicators (with figures) to support your opinion. (5)

INFORMATION

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
<i>Carrying value at the beg of the year</i>	18 686 700	1 080 000	481 600
Cost	18 686 700	1 800 000	600 000
Accumulated depreciation	-	(720 000)	(118 400)
MOVEMENTS			
Additions	*	*	*
Asset disposal	0	0	*
Depreciation	0	*	*
<i>Carrying value at the end of the year</i>	24 120 300	*	*
Cost price	24 120 300	*	700 000
Accumulated depreciation	0	(1 110 000)	*

(a) **Land and buildings**

Extensions to the buildings were done during the current year.

(b) **Vehicles**

- A new vehicle was bought on 1 December 2017. Value is R600 000.
- No vehicles were sold during the year.
- Depreciation is written off on vehicles at 20% p.a. on the cost price method.

© **Equipment**

- A photo copier was bought on 1 March 2017 for R200 000. It was traded in for an upgraded model on 28 February 2018. The accumulated depreciation on this photo copier on the date of trade in was R38 000.
- Depreciation on equipment is written off at 10% p.a. on the diminished value method.

(d) **Shares and dividends**

- Additional shares were issued on 30 August 2017.
- Shares were repurchased from certain shareholders at R9.00 per share during October 2017.
- An interim dividend was paid on 31 July 2017 for R1 200 000.
- A final dividend of 50 cents per share was declared on 28 February 2018. Only shareholders on the current share register are entitled to final dividends.

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C INFORMATION EXTRACTED FROM THE INCOME STATEMENT ON 28 FEBRUARY 2018

Gross profit	R5 300 000
Net profit after tax	3 250 800
Income tax	1 393 200
Depreciation	?
Interest expense	45 000

D EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY

	2018	2017
ASSETS		
NON CURRENT ASSETS		
Fixed assets	?	?
Fixed deposit	1 000 000	1 800 000
CURRENT ASSEETS		
Inventories	784 160	599 500
Trade debtors	297 200	446 900
Accrued income	0	2 400
SARS (income tax)	0	500 000
Cash and cash equivalents	?	642 100
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY	?	?
Share capital	24 510 000	?
Retained income	?	1 370 000
NON CURRENT LIABILITIES		
Mortgage loan	800 000	2 400 000
CURRENT LIABLITIES		
Trade and other payables	122 300	321 700
SARS (income tax)	200 000	0
Shareholders for dividends	?	2 137 500

E INVENTORIES

- No entries were made of defective goods amounting to R4 560 returned to the supplier on 28 February 2018.

F FINANCIAL INDICATORS ON 28 FEBRUARY

	2018	2017
% return on total capital employed	23,4%	19,5%
% return on average shareholders equity	?	13,2%
Net asset value per share	?	580 cents
Earnings per share	95 cents	80 cents
Dividends per share	90 cents	96 cents
Market price	750 cents	645 cents

3.9 COPORATE GOVERNANCE AND INTERNAL CONTROL

You are provided with an extract from the report of the independent auditors for Nelly Ltd for the financial year ending 28 February 2018. (24)

AUDIT OPINION – to the shareholder

We have examined the financial statements set out on pages 10 to 60.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company 28 February 2018 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.

Mary and Arthur

Chartered Accountants (CA)

Registered Accountants and Auditors

GEORGE

1 January 2018

- 3.9.1 Explain why the above-mentioned report will be regarded as an unqualified report. (2)
- 3.9.2 Explain two major consequences for Mary and Arthur should they be negligent in performing their duties. (4)
- 3.9.3 What is the name of the code that listed companies are expected to follow in order to adhere to good corporate governance. (2)
- 3.9.4 Briefly explain the difference in the duties performed by the internal auditor and the independent (external) auditor. (4)
- 3.9.5 Briefly explain how an auditor should check that the figures shown for assets in the financial statements are reasonable. Give two ways. (4)
- 3.9.6 Some of the stocks of the business comprise chemicals that will reach their sell by date on 31 May 2018. The store room manager says that he will pour these chemicals into a nearby river so that they can be washed away. Comment and offer advice to the directors. (4)
- 3.9.7 The financial director was given a new laptop by Silly computers on 31 March 2018. Silly computers have tendered to supply computers to Nelly Limited next year. Comment on whether or not this will affect the audit report next year. Explain (4)

QUESTION 4 (50 marks – 32 minutes)

MANUFACTURING

You are provided with information of Season Manufacturers for the year ended 28 February 2018. The business manufactures a single size security gate.

REQUIRED

- 5.1 Prepare the note for **Factory overhead costs** (21)
- 5.2 Prepare the **Direct material cost account** in the general ledger. (12)
- 5.3 Prepare the **PRODUCTION COST STATEMENT** for the financial year. Some details are already entered in the answer booklet. (14)
- 5.4 The **breakeven point is 190 000 units**. Explain why you feel that the owner should be satisfied with the level of production in 2018. (3)

INFORMATION

A Balances

	28 February 2018	28 February 2017
Raw material	R144 150	87 300
Indirect material on hand	7 305	3 600
Factory equipment (cost)		1 350 000
Accumulated dep on equipment		270 000

B **TRANSACTIONS DURING THE FINANCIAL YEAR**

(i) **Raw materials**

Purchases	885 000
Transport costs	13 500

- A calculation error was made during the stocktaking on 28 February 2018. 10 500 items were recorded at R5 each instead of 50 cents each.
- (ii) Indirect material purchased during the financial year amounted to R16 800.
- (iii) **PRODUCTION WAGES**
- The business employs 20 factory workers. They each earn R2 400 per month.
 - Unemployment insurance fund deduction amounts to 1% on behalf of each employee.
- (iv) **SALARIES (including UIF contributions)** per annum

Factory supervisor	38 400
Receptionist	48 000
Marketing representative	39 600

(v) **FACTORY PLANT AND EQUIPMENT** per annum

Maintenance	18 705
Depreciation	163 800

(vi) **The following costs incurred in the administrative department during the financial year.**

Insurance	4 392
Water and electricity	5 553

Note –

- Insurance is to be split between the factory, admin and sales department in the ratio of 6:3:1
- The admin section uses 30% of the water and electricity. The balance must be allocated to the factory.

(vii) During the financial year 230 000 items were produced and sold.

QUESTION 5 – PROBLEM SOLVING (9 MARKS – 10 MINUTES)

Total Ltd runs a delivery service. As a service to their customers, the business delivers goods within Hillcrest. They charge a flat rate of R250 per delivery. Customers pay cash directly to the drivers.

3 660 deliveries were made during the year. The delivery service operated 260 days during the year.

You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.

Information from the fixed assets register and the accounting records on 29 February 2018.

FIXED ASSETS REGISTER	Delivery vehicle 1	Delivery vehicle 2	Delivery vehicle 3
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NAME OF DRIVER	Millar	Van Wyk	De Villiers
Date purchased	1 April 2018	1 January 2013	1 April 2016
Cost price of vehicle	315 500	144 000	240 000
Accumulated depreciation	94 500	143 999	168 000
Carrying value	220 500	R1	72 000
Number of days worked	200 days	260 days	260 days
Number of deliveries done	300 deliveries	2 080 deliveries	1 500 deliveries
Cash paid in by drivers	75 000	525 000	275 000
Fuel and maintenance costs for the year	36 400	430 500	201 500

REQUIRED

- 5.1 Identify and explain **one** major problem relating to each delivery vehicle or its driver. Quote **figures** from the information to support your answer. Provide a valid solution for each problem.

QUESTION 6 – BUDGETS (50 marks – 28 minutes)

- 6.1 Provide one reason why it is essential for the business to prepare a Cash Budget. (2)
- 6.2 Mention two strategies that the business can use to encourage debtors to pay their accounts on time. (4)
- 6.3 List two items that will not be entered into a Cash Budget. (4)

6.4 Sure Fit Wholesalers

You are provided with an incomplete Cash Budget which had been prepared for three months ended 28 February 2018. The business is owned by S Fit.

6.4.1

- (a) Calculate the figures indicated by A- F in the Cash Budget. (12)
- (b) Calculate total sales for the month of December 2017. (2)
- (c) If the interest on fixed deposit is R6 000 (under receipts) – calculate the Fixed deposit in January 2018 under Payments. (3)

- 6.4.2 The entertainment expenses were increased by 15% with effect from 1 January 2018. Calculate the entertainment expenses for January 2018. (3)
- 6.4.3 The rent income increased from 1 January 2018. Calculate the % increase in the rent income for January 2018. (6)
- 6.4.4 All debtors pay after 30 days less a 5% discount. Calculate the expected receipts from the debtors for January 2018. (5)
- 6.4.5 All stock sold during the month is replaced in the same month. The mark up on goods purchased is 50% on cost price. Calculate the expected payments for the purchase of stock for February 2018. (5)
- 6.4.6 As internal auditor, you discover that the actual entertainment expenses for December 2017, amounted to R35 000. Further investigations revealed that the owner went on a business trip during December. His family accompanied him and part of their expenses was included in the R35 000. State two points that should be included in the internal auditors' report to S Fit. (4)

INFORMATION

Cash budget	2017 December	2018 January	2018 February
EXPECTED RECEIPTS			
Cash sales (80% of total sales)	432 000	420 000	360 000
Collections from debtors	109 250	?	99 750
Rent income	9 000	9 810	9 810
Asset disposal	?		
Capital			?
Interest on fixed deposit		?	?
	625 000	580 000	475 000
EXPECTED PAYMENTS			
Purchases of stock (all for cash)	360 000	350 000	?
Entertainment expenses	10 000	?	?
Salaries and wages	55 000	55 000	?
Telephone	?	?	?
Drawings	15 000		8 000
Repayment of loan	10 000		
Interest on loan	250		
Fixed deposit		(calculate)	
	573 000	625 000	637 000
CASH SURPLUS/DEFICIT	52 000	(45 000)	D
CASH AT THE BEG OF THE MONTH	43 000	B	E
CASH AT THE END OF THE MONTH	A	C	F

Use the information in the table below as a guide when answering the question paper.

Try not to deviate from it.

<p>QUESTION 1 (26 marks – 18 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>Reconciliation</p>	<p>This question integrates:</p> <p>Financial accounting Bank reconciliation statement</p> <p>Managing resources Internal control</p>
<p>QUESTION 2 (60 marks – 40 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>FINANCIAL STATEMENTS</p>	<p>This question integrates:</p> <p>Financial accounting – Income Statement</p>
<p>QUESTION 3 (105 marks – 52 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>CASH FLOW STATEMENT AND INTERPRETATION FIXED ASSETS CORPORATE GOVERNANCE</p>	<p>This question integrates:</p> <p>Financial accounting Cash Flow Statement Interpretation of financial statements</p> <p>Managing resources Fixed assets Audit report</p>
<p>QUESTION 4 (50 marks – 32 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>MANUFACTURING</p>	<p>This question integrates:</p> <p>Managerial accounting Direct material costs Factory overheads Production cost statement and notes Breakeven point</p>
<p>QUESTION 5 (9 marks – 10 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>PROBLEM SOLVING</p>	<p>Managing accounting</p> <p>Internal control and solving</p>
<p>QUESTION 6 (50 marks – 28 min)</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>BUDGETING</p>	<p>Managerial accounting Analysis and interpretation of a budget</p> <p>Managing resources Internal control and internal audit</p>

ACCOUNTING EXAM

GRADE 12

JUNE 2018

3 HOURS/300 MARKS

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. You are provided with a question paper and an ANSWER BOOKLET in which to answer **ALL** the questions.
2. This question paper comprises **six** compulsory questions.

ANSWER ALL THE QUESTIONS

3. Use the format provided in the answer booklet in order to reflect your answers.
4. Where applicable – workings must be shown in order to achieve part marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Use the information in the table on the next page as a guide when answering the question paper. Try not to deviate from it.

Use the information in the table below as a guide when answering the question paper.

Try not to deviate from it.

<p>QUESTION 1</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>Reconciliation</p>	<p>This question integrates:</p> <p>Financial accounting Bank reconciliation statement</p> <p>Managing resources Internal control</p>
<p>QUESTION 2</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>FINANCIAL STATEMENTS</p>	<p>This question integrates:</p> <p>Financial accounting</p>
<p>QUESTION 3</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>CASH FLOW STATEMENT AND INTERPRETATION FIXED ASSETS CORPORATE GOVERNANCE</p>	<p>This question integrates:</p> <p>Financial accounting Cash Flow Statement Interpretation of financial statements</p> <p>Managing resources Fixed assets Audit report</p>
<p>QUESTION 4</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>MANUFACTURING</p>	<p>This question integrates:</p> <p>Managerial accounting</p> <p>Production cost statement and notes Breakeven point</p>
<p>QUESTION 5</p> <p><u>TOPIC OF THE QUESTION</u></p> <p>PROBLEM SOLVING</p>	

ANNEXURE A**INCOME STATEMENT OF MARE LIMITED ON 29 FEBRUARY 2018**

DETAILS	FOL	CR
BALANCE SHEET SECTION		
Ordinary share capital		8 000 000
Retained income		700 000
Mortgage Loan TVM Bank (18 %p.a.)		500 000
Vehicles		?
Equipment		950 000
Accumulated depreciation on Vehicles (1 March 2017)		1 350 000
Accumulated depreciation on Equipment (1 March 2017)		450 000
Fixed deposit TVM Bank (interest rate 12% p.a.)		900 000
Creditors control		660 000
Debtors control		458 500
Trading stock		740 900
Provision for bad debts (1 March 2017)		30 000
Bank		45 200
Pension Fund		45 400
UIF		12 000
SARS (PAYE)		64 100
SARS (Income tax)		100 000
NOMINAL SECTION		
Sales		5 840 000
Cost of sales		2 730 000
Debtors allowances		20 000
Insurance		53 800
Rent income		120 600
Salaries and wages		860 000
Interest on loan		63 000
Interest on fixed deposit		130 000
Packing material		52 000
Bad debts		14 000
Employers contributions		191 000
Bad debts recovered		3 400
Directors fees		300 000
Sundry expenses		?
Ordinary share dividends		185 000

NOTE – The bookkeeper forgot to make the following entry

An invoice issued to a debtor for goods sold on credit for R70 000, upon which a trade discount of 10% was granted and not received. The mark up for this sale was 60%.