

HILLCREST HIGH SCHOOL



ACCOUNTING EXAMINATION

GRADE 12

JUNE 2013

TIME: 2 HOURS

MARKS: 200

EXAMINER: MRS D KENNY

MODERATOR: MRS C EDY

QUESTION	TOPIC	MARKS	TIME
1	Manufacturing	60	36 mins
2	Financial statements and audit report	70	42 mins
3	Cash flow statement and ratio analysis	70	42 mins
TOTAL		200	120 mins

Instructions to candidates:

- 1) Answer all the questions and only on the answer booklet.
- 2) The use of calculators is permitted.
- 3) Do NOT use Tippex. If you make a mistake, cross out neatly and rewrite the correct answer.
- 4) Use only blue or black ink or a dark pencil.
- 5) Non-programmable calculators may be used.
- 6) **Show workings so part marks can be awarded.**
- 7) Marks may be deducted for foreign entries.
- 8) Try to comply with the suggested time allocations.

QUESTION 1**MANUFACTURING****(60 marks)****1.1 MULTIPLE-CHOICE QUESTIONS**

Four options are provided as possible answers to the following questions. Choose the most correct answer and write only the letter (A-D) next to the question number (1.1.1- 1.1.5) in the ANSWER BOOK, for example 3.1.6 D

1.1.1 The wages paid to a factory cleaner will be classified as.....

- A direct labour cost.
- B factory overhead
- C administration cost
- D selling cost

1.1.2 Fixed costs are calculated as follows:

- A Prime costs ÷ number of units produced
- B Total costs of production ÷ number of units produced
- C Total fixed costs ÷ number of units produced
- D Total fixed costs × number of units produced

1.1.3 Which ONE of the following items will NOT be regarded as an administration cost?

- A Packing material
- B Insurance
- C Telephone
- D Stationery

1.1.4 In order to calculate the break-even point, the following calculation will be used:

A	$\frac{\text{Fixed costs}}{\text{Number of units produced}}$
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B	$\frac{\text{Variable costs}}{\text{Selling price per unit} - \text{Fixed cost per unit}}$
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C	$\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$
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D	$\frac{\text{Variable costs}}{\text{Fixed cost per unit}}$
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1.1.5 Cost of sales is the same value as....

- A total prime costs
- B cost of production of finished goods
- C total contribution costs
- D total cost of finished goods sold

[10]

1.2 PRODUCTION COST STATEMENT

Thembi Table Manufacturers produce wooden dining-room tables. The business is owned by Thembi Mabaso.

REQUIRED:

- 1.2.1 Refer to Information 8 below. Calculate the Direct Labour Cost for the **month**. (7)
- 1.2.2 Prepare the Production Cost Statement for the **month ended 31 July 2012**, with a separate note for Factory Overhead Cost. Show ALL other workings in brackets. (27)
- 1.2.3 Calculate the unit cost of the production of 410 completed tables (finished goods) for July 2012. (4)
- 1.2.4 Thembi feels that the power cuts have had a significantly negative effect on his business. Name TWO points from the question which indicate that he is correct. Quote figures/calculations from the question to support your answer. (4)
- 1.2.5 Thembi is concerned about the control over certain costs. Direct materials account for more than 40% of the cost of one table, while direct labour accounts for more than 30%. Thembi wants your advice.
- Make TWO suggestions on how to improve efficiency in the use of direct materials.
 - Make TWO suggestions on how to improve the efficiency of the direct labourers.

(8)

[50]

INFORMATION FOR JULY 2012:

1. Stocks on hand at the beginning and end of the month.

	1 July 2012	31 July 2012
Raw materials stock	40 000	65 000
Work-in-progress	55 000	40 000
Finished goods	Nil	Nil
Indirect materials	6 000	Nil

2. Raw materials purchased on credit, R180 000
3. Depreciation is as follows:
- Factory plant, R7 400
 - Office equipment, R2 400

4. Factory maintenance paid in July, R8 000. A further amount of R3 500 is owed for repairs to a machine.
5. Electricity and water paid amount to R4 600 for July. The administration office uses 10% of this and the factory uses the rest.
6. Rent and insurance are allocated between the factory and the administration office on the basis of floor area. The factory comprises 630 square metres, while the office comprises 270 square metres. The monthly rent for the entire premises is R30 000. The annual insurance premium is R43 200.
7. Indirect materials bought for cash, R20 000. There was no stock of indirect materials on hand at the end of the month. The factory uses 75% of these materials, while the office uses the rest.
8. Direct labour and production:
The 15 factory workers who make the tables each work 9 hours per day. The normal rate is R36 per hour per person.
There were normally 20 working days in a month. However, due to power cuts, the factory could operate for only 14 week days in July 2012.
In order to make up for lost time, the 15 factory workers each worked 45 hours overtime on weekends. The overtime rate is double the normal rate. However, they were unable to meet their target production of 450 tables per month. They managed to complete 410 tables. The break-even point is 320 tables.
9. Other salaries and wages comprise:
 - The factory cleaner earns R2 600 per month
 - The factory foreman earns R15 000 per month. The bookkeeper had forgotten to process the foreman's pension. The employees' pension deduction is 7% and the employer's contribution is 10%. The contributions are added to the salaries account.
 - The administration staff earn R13 000 per month in total.
10. The selling price of each table is set at cost of production plus R500 gross profit per table.
11. The two salespersons work from home on a commission basis. The business incurs no fixed costs in this regard.

[60]

INFORMATION:

1. Note to the Balance Sheet on 30 June 2012:

FIXED/TANGIBLE ASSETS	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value – 1 July 2011	R 930 000	R 220 000	R 519 200
Cost	930 000	561 000	814 000
Accumulated depreciation	0	(341 000)	(294 800)
Movements			
Additions at cost	*	*	0
Disposal at carrying value	0	0	*
Depreciation	0	*	(98 890)
Carrying value – 30 June 2012	1 580 000	*	*
Cost	1 580 000	616 000	*
Accumulated depreciation	0	*	*

2. Details of fixed assets

- Land and buildings were bought during the year and are not depreciated.
- New equipment was bought for R55 000 halfway through the financial year. This transaction has been correctly recorded.
- Provide for depreciation on equipment at 10% p.a. on cost price.
- A vehicle was sold for cash at carrying value on 31 March 2012. This has been properly recorded. The details of the asset sold from the Fixed Asset Register were as follows:
 - Cost price, R165 000
 - Accumulated depreciation at beginning of financial year, R66 000
 - Depreciation rate of 20% p.a. on the diminishing-balance method
 - Depreciation on all the vehicles is R98 890 for the year.

3. The following figures were extracted from the accounting records at the end of the financial year on 30 June 2012:

Ordinary share capital (730 000 shares)	R 1 825 000
Retained income (1 July 2011)	39 000
Fixed deposit (see Information 4)	203 000
Mortgage loan from Hills Bank	306 240
Fixed/Tangible assets	?
Debtors' control	68 000
Creditors' control	77 500
Provision for bad debts	1 450
SARS (Income tax – provisional tax payments)	175 000
Expenses accrued/payable	18 300
Bank (Dr)	61 340
Petty cash and cash float	3 200
Trading inventory	118 000
Consumable stores on hand	4 000
Shareholders for dividends	219 000

4. There are two fixed deposits at Shongweni Bank. A fixed deposit of R98 000 matures on 30 December 2012. The rest matures on 31 May 2014.
 5. The following relates to the mortgage loan from Hills Bank:
 - Interest is capitalised.
 - Interest for the year has not been entered, R63 360.
 - The loan will be reduced by R52 800 over the next financial year.
 6. Shares and dividends:
 - 100 000 new shares were issued on 1 January 2012. This has been recorded.
 - Interim dividends of 20 cents per share were paid on 31 December 2011.
 - Final dividends of R219 000 were declared on 30 June 2012.
 7. The Income Statement reflects:
 - Net profit before tax, R560 000
 - Income tax for the year, R168 000.
- [70]**

QUESTION 3 CASH-FLOW STATEMENT & RATIO ANALYSIS (70 Marks)

Manchester Ltd, distributors of exquisite perfumes.

REQUIRED:

3.1 Prepare the following:

- 3.1.1 Complete the note for reconciliation between profit before taxation and cash generated from operations. (8)
 - 3.1.2 Prepare the Cash-Flow Statement for the year ended 28 February 2013. (28)
- All workings must be shown in brackets to earn part-marks.

3.2 Calculate the following for 2013:

- 3.2.1 Current ratio (3)
- 3.2.2 Acid-test ratio (4)
- 3.2.3 Net asset value per share (4)
- 3.2.4 Debt/Equity ratio (Gearing ratio) (3)

- 3.3 Explain why the directors decided to reduce the long-term loan significantly during the current financial year. In your opinion, was this a wise decision? Explain, quoting evidence (figures/financial indicators) from the question. (6)
- 3.4 Comment on the return on shareholders' equity, earnings and dividends earned by the shareholders. Quote evidence (figures/financial indicators) from the question. (6)
- 3.5 Calculate the premium at which the new shares were issued. (5)
- 3.6 The existing shareholders are unhappy with the price at which the Additional shares were sold. Discuss, quoting ONE figure or financial indicator to support your answer. (3)

1. INFORMATION:

A. Additional new shares were issued at a premium halfway through the year on 31 August 2012. These shares did not qualify for interim dividends.

B. Fixed assets were sold for R100 000 cash at carrying value.

C. Earnings and dividends per share were as follows:

	2013	2012
Earnings per share	189cents per share	135cents per share
Total dividends	72cents per share	105cents per share
Interim dividends	40cents per share	80cents per share
Final dividends	32cents per share	25cents per share

D. You are also provided with the following financial indicators:

	2013	2012
% return on shareholders' equity	26%	21%
% return on capital employed (after tax)	24%	10%
Net asset value per share	?	687cents

E. The price of the shares on the Johannesburg Securities Exchange (JSE) has fluctuated between 680 cents and 780 cents over the past year.

INFORMATION:

2.	Extract from the Income Statement	R
	Depreciation	33 500
	Interest expense	164 450
	Net profit before tax	844 300
	Income tax (rate 30% of net profit)	?

3.	BALANCE SHEET	28 February 2013	29 February 2012
	ASSETS		
	Non-current Assets	3 490 885	3 017 500
	Fixed/tangible assets at carrying value	3 440 885	2 967 500
	Fixed deposits at PDV Bank	50 000	50 000
	Current Assets	320 000	231 250
	Inventories	251 250	110 250
	Trade debtors	60 000	76 000
	Cash and cash equivalents	1 250	45 000
	SARS- Income tax	7 500	0
	TOTAL ASSETS	3 810 885	3 248 750
	EQUITY AND LIABILITIES		
	Capital and reserves	3 120 000	1 443 000
	Ordinary share capital (par value R5)	2 085 000	1 050 500
	Share Premium	268 970	0
	Retained Income	766 030	392 500
	Non-current Liabilities	300 000	1 525 000
	Loan: Enid Bank at 15% p.a.	300 000	1 525 000
	Current Liabilities	390 885	280 750
	Trade creditors	209 945	220 475
	Bank overdraft	47 500	0
	Shareholders for dividends	133 440	52 525
	SARS-Income tax	0	7 750
	TOTAL EQUITY AND LIABILITIES	3 810 885	3 248 750

[70]

