



Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

PREPARATORY EXAMINATION

SEPTEMBER 2014

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 300

TIME: 3 HOURS

N.B. This question paper consists of 19 pages and an 21-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. You are provided with a question paper and an ANSWER BOOK 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 book 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 in the next page as a guide when answering the question paper. Try NOT to deviate from it.

Question 1: 25 Marks; 15 Minutes

Main topic of the question	This question integrates:
Bank reconciliation and interpretation	Financial accounting CRJ&CPJ and Bank Reconciliation Statement Managing resources Internal control

QUESTION 2: 80 Marks; 48 Minutes

Main topic of the question	This question integrates:
Financial statement	Financial accounting Balance sheet and Audit report Managing resources Corporate governance

QUESTION 3: 48 Marks; 29 Minutes

Main topic of the question	This question integrates:
Cash Budget	Managerial accounting Analyse and interpret a cash budget Managing resources Internal control and internal audit

QUESTION 4: 57 Marks; 34 Minutes

Main topic of the question	This question integrates:
Cash Flow and interpretation of financial information	Financial accounting Cash Flow Statement Calculations and financial indicators Analysis and interpretation

QUESTION 5: 30 Marks; 18 Minutes

Main topic of the question	This question integrates:
Stock valuation	Managing resources Inventory valuation: FIFO and internal control problem-solving

QUESTION 6: 60 Marks; 36 Minutes

Main topic of the question	This question integrates:
Manufacturing	Managerial accounting Direct material cost Factory overheads Production cost statement Analysis and interpretation of unit costs and break-even point Managing resources Internal control

QUESTION 1**(25 Marks; 15 Minutes)****BANK RECONCILIATION AND INTERPRETATION**

You are provided with information related to Gerald Traders.

REQUIRED:

1. 1 You are the internal auditor of Gerald Traders. A new bookkeeper, James, has recently been appointed following the unexpected disappearance of the previous bookkeeper, Brian.
 - 1.1.1 Briefly explain to James what your job as internal auditor requires you to do. (2)
 - 1.1.2 Briefly explain to James why it is important that he prepare the Bank Reconciliation Statement at the end of each month. (2)
1. 2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for May 2014. (11)
1. 3 Prepare the Bank Reconciliation Statement on 31 May 2014. (8)
1. 4 Refer to the outstanding deposit of R50 000 in Information E below. Explain why the owner and internal auditor should be very concerned about this outstanding deposit. (2)

INFORMATION:

- A. The following items appeared in the Bank Reconciliation Statement on 30 April 2014:

Favourable balance on the bank statement	962
Outstanding deposit (1 January 2013)	50 000
Outstanding deposit (30 April 2014)	1 340
Outstanding cheques:	
No. 215 (1 November 2013)	180
No. 667 (25 April 2014)	2 200
No. 668 (2 July 2014)	660
Favourable Balance as per Bank account in the General Ledger	49 262

QUESTION 2**(80 Marks; 48 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:

- 2.1 Prepare the following notes to the financial statements:
- | | | |
|-------|------------------------|------|
| 2.1.1 | Ordinary share capital | (10) |
| 2.1.2 | Retained income | (12) |
- 2.2 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) Debit	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	?

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 at 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.

2.3 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

- 2.3.1 Explain why the above – mentioned report will be regarded and an unqualified report. (2)
- 2.3.2 Explain **TWO** major consequences for John and Sydwell should they be negligent in performing their duties. (4)
- 2.3.3 Provide **TWO** actions that John and Sydwell will have to take to verify the Fixed/ Tangible Assets figure in the Balance Sheet? (4)
- 2.3.4 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)
- 2.3.5 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 3

(48 Marks; 29 Minutes)

CASH BUDGET

You are provided with the Cash Budget and related information of Pinetown Furnishers for the three months ended 30 June 2014. The business is owned by Marco Swallows.

REQUIRED:

- 3.1 Complete the debtors' collection schedule for the three months ended 30 June 2014. (10)
- 3.2 Calculate the figures indicated by A—F in the Cash Budget. (16)
- 3.3 Debtors collection:
- Calculate the debtors average collection period (in days) for the financial year ending 31 March 2014 (calculate to one decimal place). (5)
 - Explain whether Marco Swallows should be satisfied with this collection period. Give **ONE** reason for your opinion. (3)
- 3.4 Calculate the amount owing on the loan on 30 June 2014.
The interest rate on the existing loan from Mangwe Bank is 18% p.a. The repayment on the loan is due at the beginning of each month. (4)
- 3.5 Marco Swallows is thinking of purchasing the business premises rather than renting it. Provide **TWO** separate **advantages** and **TWO** separate **disadvantages** of this option. **Note:** the business has no financial investments. (4)
- 3.6 As the internal auditor you are provided with the following actual figures for May 2014. With regard to each expense, explain what you would include in your internal auditors report.

	Actual May 2014
Telephone	R2 200
Water and electricity	R1 900
Advertising	R1 000

(6)

INFORMATION:

- A. Sales, cost of sales and purchases:
- The total sales for the past financial year amounted to, R890 000.
 - The total expected sales are:
April R60 000 May R80 000 June R90 000.
 - 80% of monthly sales are on credit, the rest are for cash.
 - The business uses a mark-up of 60% on cost at all times.
 - Stock is replaced on a monthly basis.
 - 50% of all purchases are for cash, the rest are on credit.
 - Creditors are paid in full the month after purchase to receive a 2% discount.
- B. Debtors are expected to pay as follows:
- 40% pay in the month of sale and receive a 5% settlement discount.
 - 50% pay in the first month after the date of sale.
 - 8% pay in the second month after the date of sale.
- C. The balance in the Debtors Control Account was R 52 000 at the beginning of the year and R64 000 at the end of the financial year.

D. Cash Budget for the three months ended 30 June 2014

	APRIL 2014	MAY 2014	JUNE 2014
RECEIPTS			
Cash sales	12 000	16 000	A
Collection from debtors	41 440	?	?
Fee-income	1 000	1 000	1 000
Interest on bank current account	310	280	0
PAYMENTS			
Purchase of stock for cash	18 750	B	28 125
Payment to creditors	19 000	18 375	C
Repayment of loan	10 000	10 000	10 000
Interest on loan	750	600	450
Interest on overdraft	0	0	430
Rent expense	11 000	11 000	11 000
Bank charges	560	560	560
Telephone	1 500	1 500	D
Salaries and wages	E	17 850	17 850
Water and electricity	3 000	3 000	3 000
Advertising	3 000	F	4 500
Sundry expenses	14 000	14 000	15 000
Drawings	1 200	1 200	1 300

- E. Telephone is expected to decrease by 8% on 1 June 2014.
- F. Salaries and wages is expected to increase by 5% on 1 May 2014.
- G. Advertising is calculated at a fixed percentage of total sales.

QUESTION 4

(57 Marks; 34 Minutes)

CASH FLOW AND INTERPRETATION

You are provided with information relating to UTHUKELA LIMITED, a public company. The financial year-end is 31 August 2014. The authorised share capital of the company is 800 000 shares.

REQUIRED:

- 4.1 Complete the Cash Flow Statement for the year ended 31 August 2014 (certain amounts have already been entered in the ANSWER BOOK). (22)
- 4.2 The Cash Flow Statement reflects some significant decisions that have been taken by the directors.
- Explain **THREE** of the most significant decisions; quote figures to support your answer and explain how each decision has benefited the company. (9)
- 4.3 Calculate the following financial indicators on 31 August 2014.
- 4.3.1 Stock turnover rate (4)
- 4.3.2 Return on average shareholders' equity (4)
- 4.4 Refer to information E and answer the following questions. In each case, you must support your comments as follows:
- Quote the relevant financial indicators (actual figures, ratios or percentages) and their trends from one year to the next.
 - Provide an additional relevant comment.
- 4.4.1 The directors are very happy with the liquidity position for 2014. Quote **FOUR** financial indicators to support their opinion. (8)
- 4.4.2 The shareholders are not happy with the price at which the new shares were issued. Comment on the price at which the 200 000 new shares were issued and quote **TWO** financial indicators to support your comment. (4)
- 4.4.3 Comment on the % return, earnings per share and dividends per share. Quote **THREE** financial indicators to support your comment. (6)

INFORMATION:**A. Extract from Income Statement for the year ended 31 August 2014**

Cost of sales	2 502 000
Depreciation	124 280
Interest on loan (capitalised)	60 000
Income tax	300 000
Profit before tax	1 000 000

B. Information extracted from the Post closing trial balance on 31 August 2014

	2014	2013
Ordinary shareholders equity	2 864 600	2 028 000
Ordinary share capital	2 240 000	1 590 000
Retained income	624 600	438 000
Long-term liabilities (15% p.a)	100 000	760 000
Fixed assets/ Tangible assets	3 164 420	1 078 840
Trading stock	206 900	126 700
Cash and cash equivalents	500 000	5 000
SARS (income tax)	CR 5 220	CR 8 280
Bank overdraft	-	650 640

C. Fixed assets

- Land and buildings were purchased for cash.
- A vehicle was sold at carrying value for R80 000. No vehicles were purchased.

D. Ordinary shares**Details of shares authorised:**

- 800 000 shares

Details of shares issued:

- 500 000 ordinary shares were in issue at the end of the previous financial year, 31 August 2013.
- 200 000 ordinary shares were issued at R4.30 on 1 September 2013.
- 60 000 ordinary shares were bought back on 31 January 2014. The shares were repurchased at R2,00 above the average issue price.

E. Market price on JSE:

- Market price on JSE was 560 cents on 1 May 2014. It increased by 30 cents during the financial year.

F. Financial indicators

The following financial indicators were calculated for the past two years:

	2014	2013
Solvency	5,6:1	3,9:1
Debtors collection period	28 days	32 days
Creditors payment period	20 days	43 days
Stock turnover rate	?	11 times
Current ratio	2,4:1	1,4:1
Acid-test ratio	1,7:1	0,6:1
Debt-equity ratio	0.03 : 1	0.44 : 1
% return on average shareholders' equity	?	19%
% return on total capital employed	45%	33%
Net asset value per share	420 cents	406 cents
Dividends per share	92 cents	112 cents
Earnings per share	106 cents	101 cents

QUESTION 5**(30 Marks; 18 Minutes)****STOCK VALUATION AND INTERNAL CONTROL**

5.1 Sisonke Traders sells one type of laptop to major retail stores around South Africa. They make use of the FIFO method for stock valuation and use the periodic inventory system. The business is owned by Sizwe Smith.

REQUIRED:

- 5.1.1 What do the letters FIFO stand for? (2)
- 5.1.2 Calculate the value per laptop on hand on 1 April 2013. (2)
- 5.1.3 Calculate the value of the closing stock on 31 May 2014 according to the FIFO method. (4)
- 5.1.4 Calculate the gross profit for the year ended 31 May 2014. (6)
- 5.1.5 The owner and the accountant disagree on the method of stock valuation. Sizwe, the owner, wants to continue using the FIFO method, because he says it is easier to calculate. Mbali the accountant wants to use the weighted-average method, because she says the profit will be lower, and therefore the income tax will be lower.

As internal auditor, what would you say to Sizwe and Mbali? State **TWO** points. (4)

INFORMATION:

The information below appeared in the records of Sisonke Traders for the year ended 31 May 2014. The business uses a fixed selling price of R6 750 per laptop.

INFORMATION ON STOCK	NUMBER OF LAPTOPS	VALUE PER LAPTOP	TOTAL VALUE
Laptops on hand on 1 April 2013	60	?	R240 000
Laptops bought during the year	630		R2 606 000
June 2013	250	R3 800	R950 000
November 2013	200	R4 500	R900 000
February 2014	180	R4 200	R756 000
Laptops returned from November purchases	5	R4 500	R22 500
Laptops sold during the year	450	R6 750	R3 037 500
Laptops on hand on 31 May 2014	235	?	?

5.2 INTERNAL CONTROL

Siyaluka sells one brand of Televisions. The owner, Donald Naidoo, has three branches operating in Pinetown, Ulundi and Newcastle. The three branches are managed by Joe, Ben and Jack, respectively.

Donald Naidoo has obtained the annual figures from the three branches for the financial year ending 30 April 2014.

REQUIRED:

Identify ONE problem in relation to each branch. Quote figures relating to the problem. In each case, offer Donald Naidoo advice on how to solve the problem. (12)

INFORMATION:

	PINETOWN (JOE)	ULUNDI (BEN)	NEWCASTLE (JACK)
Number of TV's available for sale	470	300	190
Number of TV's sold during the year	380	75	190
Physical count on 30 April 2014	72	225	Nil
Cost price per TV	R7 500	R7 500	R7 500
Selling price per TV	R11 500	R11 500	R11 500
Sales revenue deposited in bank	R4 120 000	R862 500	R2 185 000
Advertising per TV	R15 000	R40 000	R60 000
Salary of manager	R30 000 per month	R30 000 per month	R30 000 per month

QUESTION 6**(60 Marks; 36 Minutes)****MANUFACTURING****6.1 EKUVUKENI MANUFACTURING**

You are provided with information related to Ekuvukeni Manufacturing for the financial year ended 28 February 2014.

REQUIRED:

6.1.1 Prepare the following notes to the Production Cost Statement:

6.1.1.1 Direct /raw material cost (7)

6.1.1.2 Factory overheads cost (20)

6.1.2 Prepare the Production Cost Statement for the year ended 28 February 2014. (9)

INFORMATION

1. The following balances appeared amongst others in the General Ledger on 1 March 2013:

• Direct raw material stock	R 98 000
• Work-in process stock	R 15 000
• Finished goods stock	R116 000
• Indirect material (all used in factory)	R 66 000

2. Additional information:

A. Water and electricity of R36 000 must be apportioned in the ratio of 3:1 between factory and the administrative section respectively.

B. Expenses in respect of rates and insurance must be distributed equally between the factory and administrative section.

- Insurance of R27 000 was paid for the current year.
- Rates on property amounting to R41 600 were paid for the period 1 March 2013 to 31 March 2014.

C. Depreciation for the year is as follows:

• Factory plant	R31 780
• Office equipment	R 3 800
• Vehicles for the factory	R11 820

D. Salaries and contributions for the year are as follows:

• Factory foreman	R70 000
• Administrative staff	R80 000
• Sales staff	R90 000
• Factory workers	R190 000

Note: The business contributes 1% of UIF for all employees (not included in figures above).

E. The following purchases were made during the year:

• Raw material	R670 800
• Indirect material	R31 500
• Office stationery	R 5 100

F. Carriage on purchases for the following materials amounted to:

• Raw material	R17 200
• Indirect material	R1 400

G. Raw materials costing R16 000, were returned to the supplier.

H. Sales for the year amounted to R1 200 000. The business uses a fixed mark-up of 50% on cost.

I. Inventories on hand on 28 February 2014

Work-in process	R ?
Finished goods	R200 000
Raw material	R 85 500
Indirect material	R 1 800

6.2 NEW STYLE MANUFACTURERS

This business is owned by Ben Msane. He produced and sold 5 000 tracksuits during the year ended 28 February 2014.

REQUIRED:

Refer to the Information below to answer the following questions:

- 6.2.1 Calculate the number of metres of raw material fabric that has been wasted during the production process. (6)
- 6.2.2 Give **TWO** separate reasons on how the wastage could have occurred and in each case give advice on how to correct this problem. (4)
- 6.2.3 Calculate break-even point for the current financial year (4)
- 6.2.4 Should the business be satisfied with the number of units that they are currently producing? Briefly explain. (3)
- 6.2.5 The Direct Material Cost per unit for 2014 amounted to R326.40. All the raw material is locally produced.

Ben is considering importing the raw material. He has been provided with the following quotation from a supplier in the USA. They will transport the raw materials for free.

Cost per metre in US Dollars	\$6,00
Exchange rate	R11,00 = \$1,00
Cost per metre in Rands	R66,00
Customs duty	20%

- If Ben goes ahead with his plan to import the raw material, what effect will this have on the cost of production of the tracksuits? Provide a calculation to support your answer. (5)
- What other factor should Ben consider before deciding to import the raw material? Explain. (2)

INFORMATION:**1. Production and sales:**

5 000 tracksuits were produced and sold.

2. Raw materials:

A study shows that 3.4 metres of fabric is required to produce ONE tracksuit.

	NUMBER OF METRES OF FABRIC
Opening stock	1 210 metres
Purchases	19 750 metres
Raw materials issued to factory	? metres
Closing stock	3 160 metres

3. Unit costs:

	TOTAL	PER UNIT
Sales	R5 950 000	R1 190
Variable cost	R2 030 000	R406
Fixed cost	R1 370 000	R274

60

TOTAL MARKS: [300]