



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

JUNE 2018

ACCOUNTING

MARKS: 300

TIME: 3 hours



This question paper consists of 16 pages and a 13 page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or black/blue ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. A breakdown of the questions is provided below. You must attempt to comply with the suggested time allocation for each question.

QUESTION 1: 50 marks; 30 minutes	
Topic:	This question integrates:
Inventory valuation	Managing resources <ul style="list-style-type: none"> • Concepts, Calculating and interpreting stock information • Internal controls

QUESTION 2: 25 marks; 15 minutes	
Topic:	This question integrates:
Reconciliations	Financial accounting <ul style="list-style-type: none"> • Creditors' reconciliation and Debtors' age analysis. Managing resources <ul style="list-style-type: none"> • Internal control

QUESTION 3: 70 marks; 45 minutes	
Topic:	This question integrates:
Fixed Assets and Income Statement	Financial accounting <ul style="list-style-type: none"> • Concepts and Income Statement Managing Resources <ul style="list-style-type: none"> • Fixed asset management

QUESTION 4: 70 marks; 40 minutes	
Topic:	This question integrates:
Balance Sheet and Audit Report	Financial accounting <ul style="list-style-type: none"> • Balance Sheet and notes Managing Resources <ul style="list-style-type: none"> • Audit report – concepts and comments

QUESTION 5: 55 marks; 35 minutes	
Topic:	This question integrates:
Cash Flow Statement and Interpretation	Financial Accounting <ul style="list-style-type: none"> • Concepts and calculating Cash Flow amounts • Financial indicators and interpretation

QUESTION 6: 30 marks; 15 minutes	
Topic:	This question integrates:
VAT and Problem-solving	Financial Accounting <ul style="list-style-type: none"> • VAT – concepts and calculations Managing Resources <ul style="list-style-type: none"> • Identifying problems and offering suggestions

QUESTION 1: INVENTORY VALUATION**(50 marks; 30 minutes)**

- 1.1 Choose a concept from the list provided that describes each statement below. Write only the concept next to the question numbers (1.1.1–1.1.4) in the ANSWER BOOK.

periodic inventory system; perpetual inventory system; first-in-first-out; specific identification; weighted average

- 1.1.1 The closing stock is valued at the most recent purchase prices.
- 1.1.2 An annual stock-take must be done in order to determine the value of the stock balance at the end of the year.
- 1.1.3 Large, expensive items are valued at the original invoice price of the individual stock items.
- 1.1.4 A comparison of the stock records with the physical stock-take reveals any stock deficit. (4 x 1) (4)

1.2 **MGIJIMA TRADERS**

Mgijima Traders sells school bags and stationery cases to learners in the Peddie area. School bags are valued using the FIFO method and stationery cases are valued using the weighted average method. The financial year ended on 30 April 2018.

REQUIRED:

- 1.2.1 Calculate the following for school bags on 30 April 2018:
- The value of the closing stock (8)
 - Cost of sales (6)
- 1.2.2 Calculate the following for stationery cases on 30 April 2018:
- The number of units missing (7)
 - The value of the closing stock (9)
- 1.2.3 Suggest TWO internal control measures that the business can use to reduce the incidence of missing stock. (4)
- 1.2.4 **Refer to information C:**
The business decided to sell computer bags from 1 February 2018.
- (i) Calculate the value of the closing stock using the specific identification method. (7)
- (ii) Was the idea of introducing the computer bags successful or not? Explain. Quote figures. (5)

INFORMATION:

A. Stock records of **School Bags** for the financial year ended 30 April 2018:

Stock balance	DATE	UNITS	UNIT COST	TOTAL AMOUNT
	1 May 2017	118		R15 340
	30 April 2018	125	?	?
Purchases:		360		R52 310
	July 2017	98	R140	R13 720
	October 2017	142	R145	R20 590
	January 2018	120	R150	R18 000
Returns:	January 2018	12	R150	?
Sales:		341		

B. Stock records of **stationery cases** for the financial year:

Stock balance	DATE	UNITS	UNIT COST	TOTAL AMOUNT
	1 May 2017	92		R2 760
	30 April 2018	111	?	?
Purchases:		395		R14 135
	June 2017	130	R32	R4 160
	August 2017	125	R35	R4 375
	October 2017	140	R40	R5 600
Returns:	48 damaged units from the August 2017 purchases were returned to the suppliers for a full refund of the unit costs.			
Carriage on purchases:	Total transport cost on stationery cases amounted to R1 467			
Sales:	Total sales amount: R15 550 Stationery cases are sold for R50 each.			

C. Stock records of **computer bags**:

DATE PURCHASED	UNITS PURCHASED	UNIT PRICE	TOTAL AMOUNT	UNITS SOLD FROM EACH BATCH
February 2018	30	R450	R13 500	16
March 2018	20	R540	R10 800	12
April 2018	10	R600	R6 000	2

- Computer bags are sold at a fixed price of R850 each.

QUESTION 2: RECONCILIATIONS**(25 marks; 15 minutes)**

- 2.1 Indicate whether each of the following statements are TRUE or FALSE. Write only TRUE or FALSE next to each number (2.1.1–2.1.4) in the ANSWER BOOK.
- 2.1.1 Preparing a bank reconciliation statement is not necessary as the bank always sends the statement on time every month.
- 2.1.2 A debit balance on the bank statement means that the business has a favourable bank balance.
- 2.1.3 A post-dated cheque received from a debtor will only be recorded in the relevant cash journal on the date on the cheque.
- 2.1.4 Interest on a bank overdraft is recorded as a separate expense item in the Cash Payments Journal. (4 x 1) (4)
- 2.2 **CREDITORS' RECONCILIATION:**

Ayanda Traders purchases goods on credit from Thembi Suppliers. The statement of account received from Thembi Suppliers on 31 May 2018 showed an outstanding balance of **R8 300**. The Creditor's Ledger account of Thembi Suppliers in the books of Ayanda Traders reflects an amount of **R11 570** due.

REQUIRED:

Complete the table provided to show the effect of each error/omission. Indicate whether each amount must be added (+) or subtracted (-). (12)

INFORMATION:

A. **Creditors' Ledger of Ayanda Traders
Thembi Suppliers (CL6)**

DATE	DETAILS	FOL	DEBIT	CREDIT	BALANCE
May 1	Account rendered/Balance	b/d			5 500
5	Invoice No. 154	CJ		2 530	8 030
8	Debit Note No. 43	CAJ		320	8 350
12	Invoice No. 780	CJ		5 830	14 180
16	Cheque No. 887	CPJ	6 000		8 180
	Discount received	CPJ	450		7 730
27	Invoice No. 991	CJ		3 840	11 570

B **Statement of account received from Thembi Suppliers**

THEMBI SUPPLIERS						
To: Ayanda Traders Mdantsane				No: 1267	26 May 2018	
DATE	DETAILS	AMOUNT	BALANCE			
May 1	Balance		5 500			
5	Invoice No. 154	2 530	8 030			
8	Credit Note No. 90	(320)	7 710			
12	Invoice No. 168	8 530	16 240			
16	Receipt No. 6651	(6 000)	10 240			
22	Receipt No. 7119	(2 000)	8 240			
25	Interest on overdue account	60	8 300			
E & O E Statement includes transactions up to 25 May 2018						

ERRORS AND OMISSIONS NOTED:

- (a) An invoice for goods purchased by the manager, R930, did not appear on the May 2018 statement from Thembi Suppliers. It was also not recorded in the creditors' ledger of Ayanda Traders.
- (b) An allowance of R320 granted for damaged goods was recorded as an invoice in the creditor's ledger account of Thembi Suppliers.
- (c) An invoice for R5 830 was incorrectly reflected as R8 530 on the statement received from Thembi Suppliers.
- (d) Ayanda Traders recorded a 7,5% discount when a payment of R6 000 was made. Thembi Suppliers did not grant this discount, stating that the payment was late.
- (e) The statement reflected a receipt of R2 000 on 22 May 2018. This was a cheque that Thembi Suppliers received from some other business.
- (f) An invoice for R3 840 on 28 May 2018 did not appear on the statement. The statement was received on 26 May 2018.
- (g) Interest on overdue account, R60, is only reflected on the statement.

2.3 DEBTORS' AGE ANALYSIS**REQUIRED:**

Identify THREE different problems shown by the Age Analysis and quote evidence from the question to support your answer. In each case suggest an internal control measure to correct the problem.

(9)

INFORMATION:

The Debtors' Age Analysis of Mpots Stores on 31 May 2018:

Credit Policy: Debtors are granted 30 days to settle their accounts.

DEBTORS' AGE ANALYSIS ON 31 MAY 2018:

NAME	CREDIT LIMIT	TOTAL	CURRENT MONTH	30 DAYS	60 DAYS	60 DAYS +
P. Brown	R5 000	R3 950	R1 120	R2 830		
H. Hendry	R3 200	R3 550		R2 800	R 750	
W. Williams	R4 500	R2 600	R1 200	R 900	R 500	
B. Dianna	R1 500	R1 500			R 900	R 600
		R11 600	R2 320	R6 530	R2 150	R 600

25

QUESTION 3: FIXED ASSETS AND INCOME STATEMENT (70 marks; 45 minutes)

3.1 Provide the name of the statement or report for each of the descriptions provided below. Write only the name of the statement or report next to the number (3.1.1–3.1.4) in the ANSWER BOOK.

- 3.1.1 Shows the net profit or loss of the company for the financial year.
- 3.1.2 Shows the cash effects of operating, financing and investing activities of a business.
- 3.1.3 Shows the opinion expressed on the fair presentation of the figures in the financial statements.
- 3.1.4 Shows the financial position of a business in terms of its assets, equity and liabilities. (4 x 1) (4)

3.2 FOUCHE LTD

Information from the records of Fouche Ltd for the year ended 30 April 2018 is provided.

REQUIRED:

- 3.2.1 **Refer to adjustments (a) and (b):**
- Calculate the total depreciation for the financial year ended 30 April 2018. (12)
 - Prepare the Asset Disposal Account to record the sale of vehicle. (9)
- 3.2.2 Complete the Income Statement (Statement of Comprehensive Income) for the year ended 30 April 2018. Show workings. (45)

INFORMATION:**A. Information from the pre-adjustment trial balance on 30 April 2018:**

Vehicles (1 May 2017)	620 000
Equipment	482 000
Accumulated depreciation on vehicles (1 May 2017)	345 000
Accumulated depreciation on equipment (1 May 2017)	246 000
Trading stock	765 000
Debtors' control	214 340
Provision for bad debts	9 800
Sales	9 786 540
Debtors' allowances	87 540
Cost of sales	5 699 000
Rent income	88 500
Bad debts recovered	13 350
Directors' fees	539 200
Audit fees	43 200
Salaries and wages	575 400
Packing material	32 800
Municipal services	303 400
Sundry expenses	?
Bad debts	9 660

B. Adjustments and additional information:

- (a) A vehicle was sold for R50 000 cash on 1 March 2018. Details of the vehicle are as follows:

	R
Cost price	175 000
Accumulated depreciation on 1 May 2017	78 750

This transaction has not yet been recorded by the bookkeeper.

- (b) Make provision for depreciation as follows:
- Vehicles at 15% p.a. on cost price
 - Equipment at 10% p.a. on the diminishing balance method
- NOTE:** New equipment, cost price, R62 000 was purchased on 1 November 2017. This has been correctly recorded.
- (c) A physical stock-taking on 30 April 2018 revealed the following inventories on hand:
- Trading stock R752 400
 - Packing material R3 800
- (d) $\frac{1}{4}$ of the audit fees must still be paid.
- (e) The company has two directors on equal fees. A third director was appointed on 1 November 2017 on the same fee structure. He has taken his fees for May and June 2018.
- (f) A debtor with an outstanding balance of R12 400 was declared insolvent. A cheque for 65% of this amount was received from the insolvent estate and recorded in the books. The balance must still be written off as a bad debt.
- (g) Provision for bad debts must be adjusted to 4% of debtors.
- (h) Extra storage space was rented out from 1 August 2017 at R7 250 per month. The tenant paid the rent for 12 months, taking into account an increase of R500 per month from 1 May 2018.
- (i) Interest capitalised, as per loan statement amounted to R76 300.
- (j) After all the adjustments, the **operating profit on sales was 24%** and the **income tax for year at 32%** of the net profit amounted to R742 080.

QUESTION 4: BALANCE SHEET AND AUDIT REPORT**(70 marks; 40 minutes)**

You are presented with information from the records of Pheswa Ltd. The financial year-end was 28 February 2018.

REQUIRED:

- 4.1 Prepare the following notes to the Balance Sheet:
- 4.1.1 Ordinary share capital (11)
- 4.1.2 Retained income (14)
- 4.1.3 Trade and other payables
- NOTE:** As there is insufficient space under Current Liabilities on the Balance Sheet, all items must be shown in this note. (9)
- 4.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2018. (25)

INFORMATION:**A. List of balances extracted on 28 February 2018, unless otherwise stated:**

Ordinary share capital (1 March 2017)	R4 022 000
Retained income (1 March 2017)	413 220
Inventories (Trading Stock)	442 700
Debtors' Control	305 240
Creditors' Control	219 400
Bank overdraft	57 480
Cash float	7 500
Fixed deposit (R60 000 matures on 30 June 2018)	230 000
SARS: Income tax (provisional income tax payments)	147 770
Accrued income	12 560
Accrued expenses	16 490
Income received in advance	8 880

B. Share capital and dividends:

- The authorised share capital comprised 1 200 000 ordinary shares.
- On 1 March 2017, 60% of the shares were in issue.
- On 30 June 2017, the directors issued a further 200 000 at R6,80 each.
- On 31 August 2017, an interim dividend of 13 cents per share was paid to all shareholders on the share register.
- On 31 October 2017, 100 000 ordinary shares were repurchased at R7,00 per share. These shareholders did not qualify for final dividends.
- A final dividend of 27 cents per share was declared on 28 February 2018.

C. Net profit and income tax:

- The net profit before tax amounted to R535 000.
- The provisional tax payments did not cover the total income tax for the year. An amount of R12 730 was still due to SARS.

D. Loan: Fraser Bank

The loan statement received on 28 February 2018 showed the following:

Balance on 1 March 2017	1 020 000
Repayments including interest	204 000
Interest capitalised	130 500

- 20% of the outstanding balance is expected to be paid during the next financial year.

4.3 AUDIT REPORT

The following questions are based on an extract of the external auditors of Pheswa Ltd:

REQUIRED:

- 4.3.1 Briefly explain the role of an independent auditor. (2)
- 4.3.2 What type of audit did the company receive? Explain. (3)
- 4.3.3 Further investigation of the marketing expense on the Income Statement revealed that an amount of R210 000 relates to a holiday for the CEO and his family. It covered accommodation and air tickets. The bookkeeper was instructed to debit marketing expenses with the R210 000 and the independent auditor was requested to ignore this as it had been recorded in the financial statements.
- Briefly explain why the independent auditor was not willing to follow the request of the CEO. Give ONE point. (2)
 - Provide TWO possible consequences for the auditor if he agrees to this request. (4)

INFORMATION:**EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS**

We have audited the annual financial statements of Pheswa Ltd for the year ended 28 February 2018. Financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion based on our audit.

International Standards on Auditing require that we perform the audit to obtain reasonable assurance that the financial statements are free of misstatement.

Audit opinion

The financial statements fairly represent the financial position of the company on 28 February 2018, except for the marketing expense in the Income Statement which could not be verified, as no documentation existed for this expenditure.

Pauw and Gordon
Chartered Accountants (SA)

15 May 2018

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION**(55 marks; 35 minutes)**

- 5.1 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 (5.1.1–5.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
5.1.1	Assets are recorded at the amount originally paid for them	A	Materiality concept
5.1.2	Expenses and income are recorded in the appropriate financial period	B	Historical cost
5.1.3	Significant amounts are disclosed separately in the financial statements	C	Going concern
5.1.4	Financial statements are prepared with the assumption that the business will continue for the foreseeable future	D	Matching concept

(4 x 1) (4)

5.2 FLORENT LTD

The information relates to the financial year ended 31 December 2017.

REQUIRED:

- 5.2.1 Calculate only the missing figures indicated by **(a)** to **(e)** in the Cash Flow Statement on 31 December 2017. (19)
- 5.2.2 Calculate the following financial indicators on 31 December 2017:
- Percentage operating expenses on sales (3)
 - Solvency ratio (5)
 - Debt/equity ratio (3)
- 5.2.3 Comment on the operating efficiency of the company for the year ended 31 December 2017. Quote TWO financial indicators (with figures) to support your comments. (6)
- 5.2.4 Should the shareholders be happy with their returns and dividends for the year ended 31 December 2017? Explain. Quote THREE financial indicators (with figures) to support your comments. (9)
- 5.2.5 The Chief Executive Officer (CEO) feels that it would be a good idea to increase the loans next year. Quote TWO financial indicators (with figures) to support his opinion. (6)

INFORMATION:**A. Extract from the Income Statement (Statement of Comprehensive Income) for the year ended 31 December 2017:**

Sales	R 8 764 000
Operating expenses	2 015 720
Operating income	3 597 000
Depreciation	214 500
Interest expense	148 500
Income tax	916 550

B. Balance Sheet (Statement of Financial Position) on 31 December:

	2017	2016
Tangible/Fixed assets	5 953 000	5 692 500
Inventories	660 000	?
Trade and other receivables	?	681 000
Cash and cash equivalents	?	-
Shareholders' equity	6 673 000	5 148 000
Ordinary share capital	5 478 000	4 620 000
Retained income	1 195 000	528 000
Mortgage loan: Bea Bank (13% p.a.)	600 000	1 039 500
Current liabilities	758 000	915 750
Bank overdraft	-	198 000

C. Share Capital:

2 310 000 ordinary shares on 1 January 2017	R4 620 000
390 000 ordinary shares issued on 1 January 2017	858 000
2 700 000 ordinary shares on 31 December 2017	<u><u>R5 478 000</u></u>

D. Dividends:

- Interim dividends of 33 cents per share was paid on 30 June 2017.
- Final dividends were declared on 31 December 2017.

E. Tangible/Fixed assets:

- Vehicles sold at carrying value during the year were correctly recorded. The cost price of these vehicles was R350 000 and the accumulated depreciation was R247 500 on the date of disposal.
- Land and buildings were extended during the financial year.

F. Trade and other payables include the following:

	2017	2016
Shareholders for dividends	540 000	485 100
SARS (Income tax)	?	33 000

G. Financial indicators calculated on 31 December:

	2017	2016
Operating expenses on sales	?	18%
Operating profit on sales	11,3%	14%
Net profit after tax on sales	21,3%	26,8%
Debt-equity ratio	?	0,2 : 1
Return on average shareholders' equity	35,5%	37%
Earnings per share	78 cents	85 cents
Dividends per share	53 cents	60 cents
Return on capital employed	47,0%	44,2%
Solvency ratio	?	3,4 : 1
Current ratio	1,7 : 1	1,3 : 1
Acid-test ratio	1,1 : 1	0,6 : 1

H. CASH FLOW STATEMENT ON 31 DECEMBER 2017

Cash effects of operating activities	542 250
Cash generated from operations	
Interest paid	(148 500)
Dividends paid	(a)
Income tax paid	
Cash effects of investing activities	(631 750)
Proceeds on sale of fixed assets	(b)
Purchase of fixed assets	(c)
Change in financial assets	
Cash effects of financing activities	385 500
Proceeds from shares issued	825 000
Repayment of loan	(439 500)
Net change in cash equivalents	(d)
Cash equivalents – beginning of year	(198 000)
Cash equivalents – end of year	(e)

QUESTION 6: VAT AND PROBLEM-SOLVING**(30 marks; 15 minutes)**

6.1 Choose the correct word/s from the alternatives within brackets. Write only the word/s next to the question number (6.1.1–6.1.4) in the ANSWER BOOK.

6.1.1 VAT paid by a business on goods purchased is referred to as (Output VAT / Input VAT).

6.1.2 It is compulsory for all businesses with an annual turnover of (less than R50 000 / more than R1 000 000) to register for VAT.

6.1.3 VAT returns are submitted after (every six months / every two months) of trading activities.

6.1.4 VAT returns are collected by (SARS / SARB). (4 x 1) (4)

6.2 PLEASURE PATIOS

Pleasure Patios owned by Phillip, is a registered VAT vendor, using the invoice method.

REQUIRED:

6.2.1 Calculate the amount payable to/receivable from the tax office for VAT on 30 April 2018. Indicate receivable or payable. Do all VAT calculations at 15%. (13)

6.2.2 Phillip wants to register for e-filing. He is concerned about doing financial transactions over the internet.

- Provide TWO benefits of doing taxes through e-filing. (2)
- Give ONE point of advice to Phillip. (1)

INFORMATION:

A. On 1 April 2018 the VAT control account had a credit balance of R8 300.

B. The following information was taken from the cash journals for April 2018:

CASH RECEIPTS JOURNAL			
SALES	VAT	COST OF SALES	DEBTORS' CONTROL
R320 200	R48 030	R256 160	R98 300

CASH PAYMENTS JOURNAL			
TRADING STOCK	VAT	WAGES	CREDITORS' CONTROL
R294 500	R ?	R25 600	R163 750

C. Additional information:

- VAT on credit purchases, R24 360
- Total credit sales, including VAT, R163 760
- VAT on credit notes issued, R945
- Bad debts written off during the month, R2 990
- VAT on drawings of trading stock, R270

6.3 PROBLEM-SOLVING

Information of three bike shops in Bisho. Each shop has a floor space of 500 m².

REQUIRED:

- 6.3.1 Identify ONE problem in Shop 1 and ONE problem in Shop 2. Quote figures. In EACH case, give ONE point of advice. (6)
- 6.3.2 Explain TWO good decisions that Veli has taken in respect of Shop 3. Quote figures. (4)

Information for May 2018:

	SHOP 1	SHOP 2	SHOP 3
Managers	Piet	Beauty	Veli
Sales	R260 000	R160 000	R760 000
Returns from customers	R6 500	R24 000	R15 200
Mark-up percentage	85%	50%	60%
Stock-holding period	165 days	30 days	30 days
Advertising	R10 400	R6 400	R53 200
Rent expense	R23 400	R14 400	R95 000
Days worked per week	6	5	7
Shop assistants	4	2	6

30

TOTAL: 300