



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2016

ACCOUNTING

MARKS: 300

TIME: 3 hours



This question paper consists of 16 pages and a 15-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. A breakdown of the questions is provided. You must attempt to comply with the suggested time allocation for each question.

QUESTION 1: 45 marks; 25 minutes	
Main topic of the question:	This question integrates:
Cost Accounting	Managerial accounting <ul style="list-style-type: none"> • Concepts, Production Cost Statement • Unit cost and break-even analysis
QUESTION 2: 40 marks; 25 minutes	
Main topic of the question:	This question integrates:
Reconciliations	Financial accounting <ul style="list-style-type: none"> • Bank and Creditors Reconciliation. Managing resources <ul style="list-style-type: none"> • Internal controls and Ethics
QUESTION 3: 70 marks; 40 minutes	
Main topic of the question:	This question integrates:
Fixed assets and Companies Financial Statements	Financial accounting <ul style="list-style-type: none"> • Concepts, Income Statement, Balance Sheet and notes. Managing resources <ul style="list-style-type: none"> • Depreciation, calculations and fixed assets management
QUESTION 4: 70 marks; 40 minutes	
Main topic of the question:	This question integrates:
Financial statements, Cash flow and Interpretation	Financial accounting <ul style="list-style-type: none"> • Concepts, Cash Flow Statement, ratio analysis and interpretation of financial information.
QUESTION 5: 40 marks; 25 minutes	
Main topic of the question:	This question integrates:
Inventory valuation, VAT and Problem Solving	Managing Resources <ul style="list-style-type: none"> • Calculating and interpreting stock information Financial accounting <ul style="list-style-type: none"> • VAT calculations
QUESTION 6: 35 marks; 25 minutes	
Main topic of the question:	This question integrates:
Budgeting	Managerial accounting <ul style="list-style-type: none"> • Concepts, calculations and analysis of budget information Managing resources <ul style="list-style-type: none"> • Internal control processes and corporate governance.

QUESTION 1: COST ACCOUNTING**(45 marks; 25 minutes)**

- 1.1 Match the terms in COLUMN A with an appropriate example/explanation from COLUMN B. Write only the letter (A–E) next to the numbers (1.1.1–1.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Fixed cost	A	Cost of raw materials used in the production process
1.1.2	Indirect labour	B	Completely manufactured goods ready for distribution to retailers
1.1.3	Selling and distribution cost	C	Debit order payment for the monthly factory rent and insurance
1.1.4	Variable cost	D	Wages paid to factory maintenance and cleaning staff
1.1.5	Finished goods	E	Cheque paid to the <i>Daily Dispatch</i> for a three month advertising contract

(5)

1.2 **SIDDHI BASKETS INC**

Siddhi Baskets Inc. manufactures baskets used for floral arrangements. The bookkeeper prepared a Production Cost Statement for the financial year ended 29 February 2016. Some information were not taken into account.

REQUIRED:

- 1.2.1 Prepare the following for the financial year ended 29 February 2016:

- Factory Overhead Cost Note (9)
- The Production Cost Statement. (14)

INFORMATION:**A. Stocks on hand:**

	1 March 2015	29 February 2016
Raw materials	42 400	37 600
Work in process	27 600	36 800

- B.** Direct/raw material purchased during the financial year was R745 500. Carriage on raw material purchased amounted to R38 500.

C. Factory Overheads:

Foreman's salary	198 000
Depreciation on factory equipment	86 560
Rent expense	107 240
Water and electricity	118 520
Insurance	34 845
Sundry expenses	22 600

- The rent expense must be shared between the factory, sales department and office in the ratio 5 : 1 : 1.
 - 75% of the water and electricity expense relates to the factory.
 - $\frac{2}{3}$ of the insurance expense must be allocated to the factory.
 - The sundry expenses must be split as follows:
10% to the office section, 25% to the sales section and the balance to the factory
- D.** 18 400 baskets were produced during the financial year at a cost of R87 per basket.
- E.** The direct labour cost is the balancing figure.

1.3 KUNAL'S SECURITY GATES

Kunal's Security Gates, owned by Sbu Kunal, makes security gates according to orders received.

The information below is for the financial year ended 31 August 2016.

REQUIRED:

- 1.3.1 Calculate the break-even point for the period ended 31 August 2016. (6)
- 1.3.2 Compare and comment on the break-even point and the level of production achieved over the last two years. Quote figures. (6)
- 1.3.3 Provide TWO reasons for the increase in direct material cost and suggest ONE way in which Kunal can control this cost. (5)

INFORMATION:

A. Cost information for the year ended 31 August:

		2016		2015
		TOTAL AMOUNT	UNIT COST	UNIT COST
Direct material cost	Variable cost	86 400	R180	R156
Direct labour cost	Variable cost	122 400	R255	R242
Factory overhead cost	Fixed cost	76 800	R160	R156
Selling and distribution cost	Variable cost	74 400	R155	R152
Administration cost	Fixed cost	60 000	R125	R129

B. Additional information for the financial year ended 31 August:

	2016	2015
Total sales	R412 800	R459 000
Selling price per unit	R860	R850
Number of units produced and sold	480 units	540 units
Break-even point	?	508 units

QUESTION 2: RECONCILIATIONS**(40 marks; 25 minutes)**

2.1 Indicate whether the following statements are **TRUE** or **FALSE**:

2.1.1 Post-dated cheques issued must be recorded in the Cash Payments Journal on the date of issue.

2.1.2 A business must record cash losses immediately when suspected, according to the materiality concept of GAAP.

2.1.3 A debit balance on the bank statement indicates a bank overdraft. (3)

2.2 **Bank Reconciliation**

Lucky Jimmy, the cashier of Franco's Deli, is in charge of collecting, receipting and banking all cash receipts and issuing cheques. He feels that there is no need to prepare a bank reconciliation statement because the bank keeps accurate records of all transactions as reflected on the bank statement.

REQUIRED:

2.2.1 Calculate the correct bank account balance in the General Ledger on 31 July 2016. (9)

2.2.2 Prepare a Bank Reconciliation Statement on 31 July 2016. (7)

2.2.3 Provide ONE reason why the internal auditor expressed concern about Lucky's job description. (2)

2.2.4 Explain to Lucky why it was necessary to prepare a bank reconciliation statement each month. Provide TWO points. (4)

INFORMATION:

- A.
- Favourable balance as per Bank account on 31 July 2016 was R11 743 before receipt of the bank statement from Money Bank.
 - Balance as per bank statement on 31 July 2016, R?
- B. Items on the July bank statement but not shown in the Cash Journals:

Service fees	R45
Cash deposit fees	R132
Interest income	R23
Debit order payment for insurance to X! Insurers This amount appeared twice on the statement, in error.	R325
A dishonoured cheque – from a debtor, Y. Knot	R475
Commission income from LUVLI Pastries	R522

C. Cheque No. 1226 issued on 24 July 2016 to Nosy Tom for delivery appeared as R576 on the statement. The journal had the incorrect amount of R765.

D. Cheques No. 1287 and No. 1299 for R675 and R2 010 respectively, issued during July 2016, were not on the bank statement.

E. Deposit on 28 July 2016 for R4 410 was not on the bank statement.

2.3 Creditors Reconciliation

Port Traders buys goods on credit from Salt Suppliers.

REQUIRED:

2.3.1 Show the changes to the Creditors Ledger account balance and the Statement balance for each of the differences listed below. Indicate whether the amount must be added (+) or subtracted (-) to the given balance. Use the table provided in the ANSWER BOOK. (12)

2.3.2 **Refer to information vi):**

An investigation revealed that these goods were ordered by the owner for his personal use.

As an internal auditor, what advice would you offer the owner regarding the purchase of goods through the business accounts? Make reference to a GAAP principle in your explanation. (3)

INFORMATION:

A.	Balance due to Salt Suppliers on 30 June 2016 as per Creditors Ledger account in the books of Port Traders.	87 320 (Cr)
	Balance due by Port Traders on 26 June 2016 as per the statement of account received from Salt Suppliers.	95 400 (Dr)

B. Differences noted:

- (i) A payment of R6 500 by Port Traders was omitted in the Creditors Ledger Account of Salt Suppliers and on the Statement received.
- (ii) An invoice for R14 300 received from Salt Suppliers was recorded correctly by Port Traders. The statement of account reflected R13 400.
- (iii) Port Traders correctly recorded a discount of R800 for early payment. This was not shown on the statement.
- (iv) Port Traders recorded a debit note for R1 250 in the creditors' ledger account of Salt Suppliers in error. This was for goods returned to another supplier.
- (v) A credit note for R2 000 received from Salt Suppliers for an allowance granted, was incorrectly recorded as an invoice by Port Traders.
- (vi) The statement of account showed the following items that were not recorded by Port Traders :
 - Delivery charges for the month, R3 530.
 - Invoice for goods purchased, R2 400.
- (vii) A payment of R5 000 made on 28 June 2016 by Port Traders was recorded in the Creditors Ledger account of Salt Suppliers. The statement was dated 26 June 2016.

**QUESTION 3: FIXED ASSETS AND FINANCIAL STATEMENTS
OF COMPANIES**

(70 marks; 40 minutes)

Micaila Ltd is a listed company with an authorised share capital of 1 000 000 ordinary shares. The information is for the financial year ended 29 February 2016.

REQUIRED:

- 3.1 Refer to information (i):
- 3.1.1 Prepare the **Asset Disposal** account on 31 December 2015. (6)
- 3.1.2 Calculate the total depreciation on equipment for the year ended 29 February 2016. (5)
- 3.1.3 Calculate the carrying value of equipment on 29 February 2016. (5)
- 3.2 Complete the **Income Statement** for the year ended 29 February 2016. (38)
- 3.3 Prepare the **TRADE AND OTHER RECEIVABLES** note to the Balance Sheet. (8)
- 3.4 Complete the **CURRENT ASSETS** section of the Balance Sheet. (8)

INFORMATION:

A. Information from the pre-adjustment trial balance on 29 February 2016.

Land and buildings	2 870 000
Equipment	966 200
Accumulated depreciation on equipment (1 March 2015)	549 600
Fixed deposit (8,5% p.a. interest)	220 000
Trading stock	415 400
Debtors control	280 200
Provision for bad debts	9 025
Bank	34 172 Dr
Loan: Shark Bank	975 400
Creditors control	420 180
SARS: Income tax (provisional payments)	50 340
Sales	3 402 000
Cost of sales	?
Audit fees	27 500
Sundry expenses	76 120
Municipal fees	215 800
Salaries and wages	235 820
Directors fees	316 100
Consumable stores	24 770
Rent income	98 523
Asset disposal	15 000
Commission income	60 281
Interest on fixed deposit	9 350
Discount allowed	6 330
Dividends on ordinary shares	326 250

B. Additional information and adjustments:

- (a) Goods are sold at a profit mark-up of 50% on cost. The sales amount includes R27 000 for old stock sold to cash customers at 10% below cost.
- (b) Transactions relating to debtors not taken into account:
- A cheque received in settlement of an outstanding balance of R3 600 less 5% discount was dishonoured due to insufficient funds.
 - A debtor with a credit balance of R1 200 must be transferred to her account in the creditors' ledger.
 - The provision for bad debts must be adjusted to 2,5% of debtors control.
- (c) The stock-take on 29 February 2016 revealed that R2 540 worth of stock could not be accounted for. Consumable stores valued at R1 970 was not used.
- (d) The rent for February 2016 was outstanding. Note that rent increased by 7% on 1 January 2016.
- (e) Commission income of R5 577 for March 2016 was received and deposited.
- (f) The company had two directors on equal pay from 1 March 2015. A third director was appointed on 1 September 2015 on the same fee structure. This director's fee for February 2016 was not yet paid.
- (g) Outstanding interest on fixed deposit must be taken into account. The fixed deposit was invested on 1 June 2015. Interest on fixed deposit is not capitalised.
- (h) Interest on loan is capitalised. The loan statement on 29 February 2016 showed a closing balance of R1 064 000. A fixed monthly instalment including interest is paid. This was recorded.
- (i) The asset disposal amount represents the cash received for the sale of equipment on 31 December 2015 as recorded in the Cash Receipts Journal. Apart from this entry, no other entries were made. The cost price of the equipment sold was R66 200. Accumulated depreciation on the equipment sold was R43 225 on 1 March 2015. Equipment is depreciated at 15% p.a. on cost.
- (j) The income tax for the year amounted to R46 770.

**QUESTION 4: FINANCIAL STATEMENTS, CASH FLOW
AND INTERPRETATION**

(70 marks; 40 minutes)

Information from the records of Sazi Ltd for the financial year ended 30 June 2016 is provided. The company is listed on the stock exchange with an authorised share capital of 1 200 000 ordinary shares.

REQUIRED:

- 4.1 Prepare the **Share Capital** note to the Balance Sheet on 30 June 2016. (7)
- 4.2 Fill in the missing amounts on the **Cash Flow Statement**. Show all workings. (22)
- 4.3 Calculate the following: (Show calculations to one decimal point.)
- 4.3.1 Percentage operating profit on total sales (3)
- 4.3.2 Average debtors collection period (in days) (5)
- 4.3.3 Net asset value per share (4)
- 4.3.4 Debt/equity ratio (3)
- 4.4 Comment on the liquidity position of the business. Quote **THREE** financial indicators (with figures) in your explanation. (8)
- 4.5 Some shareholders feel that the company paid back too much of the loan. What would you say to them? Make reference to **TWO** financial indicators with relevant figures to motivate your response. (6)
- 4.6 Comment on the dividend policy of the business and explain the effect of this on the business. Quote **TWO** financial indicators in your answer. (6)
- 4.7 A shareholder complained about the issue price of the new shares on 1 April 2016. Why do you think she complained? Quote **TWO** financial indicators with figures in your explanation. (6)

INFORMATION:

- A. **Information extracted from the Statement of Comprehensive Income (Income Statement) for the financial year ended 30 June 2016:**

Cash sales	7 392 000
Credit sales	7 392 000
Cost of sales	9 240 000
Depreciation	1 256 340
Operating profit	2 810 000
Interest expenses	675 000
Net profit before income tax	2 187 000
Income tax	656 100

B. Figures from the Balance Sheet and Notes:

	30 JUNE 2016	30 JUNE 2015
Fixed assets (carrying value)	11 935 460	12 363 550
Fixed deposits	620 000	950 000
Non-current liabilities	4 110 000	5 300 000
Current assets	2 051 300	1 432 400
Current liabilities	1 157 750	1 310 690
Shareholders' equity	9 339 010	8 135 260
Ordinary share capital	?	7 134 000
Retained income	?	1 001 260
Current assets includes:		
Debtors control	892 800	575 500
SARS: Income tax	-	15 500
Cash and cash equivalents	394 300	8 000
Current liabilities includes:		
Bank overdraft	-	56 370
SARS: Income tax	34 600	-
Shareholders for dividends	490 250	369 000

C. Share Capital

- 820 000 shares in issue on 1 July 2015.
- 180 000 shares issued on 1 April 2016 at 920 cents per share.
- 75 000 shares re-purchased on 1 May 2016 at 930 cents per share.

D. Dividends

An interim dividend of 97 cents per share was paid on 31 December 2015.
A final dividend was declared on 30 June 2016.
Only shareholders registered at the time of declaration qualify for dividends.

E. Movements of fixed assets during the current financial year:

Fixed assets to the value of R856 450 were purchased.
Old equipment were disposed at carrying value.

F. Credit sales amounts to 50% of total sales. Credit terms is 30 days.

G. The following financial indicators were calculated:

	30 JUNE 2016	30 JUNE 2015
Current ratio	1,8 : 1	1,1 : 1
Acid test ratio	1,1 : 1	0,5 : 1
Operating profit on sales	?	28%
Average debtors collection period	?	42 days
Average creditors payment period	42 days	54 days
Solvency ratio	2,8 : 1	2,2 : 1
Debt/equity	?	0,7 : 1
Return on average capital employed	21,3%	17%
Return on average shareholders' equity	17,5%	15,8%
Earnings per share	180 cents	164 cents
Dividends per share	150 cents	164 cents
Net asset value per share	?	992 cents
Market price per share on the JSE	1 100 cents	1 000 cents
Interest rate on loans	11%	10,5%

QUESTION 5: INVENTORY VALUATION, VAT AND PROBLEM SOLVING

(40 marks; 25 minutes)

5.1 INVENTORY VALUATION

± 27 Traders sells scientific calculators. The business is owned by Piet Fountain. The information relates to the financial year ended 31 August 2016. The business uses the periodic inventory system and the weighted average method to value the calculators.

REQUIRED:

- 5.1.1 Calculate the following for the financial year ended 31 August 2016:
 - Value of the closing stock (10)
 - Cost of sales (2)
 - Gross profit (4)
- 5.1.2 Piet has experienced problems with stock theft and has installed a security camera. Despite this, he is sure that calculators were stolen.
 - Calculate the number of units missing. (4)
 - Provide another option that Piet can use to solve this problem. (2)
- 5.1.3 The stock holding period for calculators was accurately calculated at 64 days. Comment on whether this is appropriate for this product. Provide ONE suitable point. (2)

INFORMATION:

A.

	UNITS	TOTAL (R)
Stock of calculators on hand on 1 September 2015, inclusive of carriage.	200	30 550
Stock of calculators on 31 August 2016	160	?

B. Purchases of calculators during the year:

MONTH	UNITS	UNIT COST (R)	CARRIAGE (R per unit)	TOTAL (R) (including carriage)
November 2015	265	135	5	37 100
January 2016	380	142	8	57 000
April 2016	190	156	9	31 350
June 2016	170	168	12	30 600
TOTAL	1 005			156 050

- C.** 10 calculators from the November 2015 batch were donated to a local school as prizes for a raffle.
- D.** 5 defective calculators from the January 2016 purchases were returned. These were sent to the suppliers and a refund for the cost price plus carriage was obtained.
- E.** 993 units were sold during the financial year at a fixed selling price of R220 each.

5.2 VALUE ADDED TAX (VAT)

The following information was extracted from the records of Mosco Stores for the VAT period ended 31 July 2016. VAT is applicable on all goods sold, at the standard rate of 14%.

REQUIRED:

Fill in the VAT amounts to the appropriate side of the VAT CONTROL Account. In completing the table, use only positive amounts. Show the amount either payable to or receivable from SARS in the space provided. (10)

INFORMATION:

(a)	Amount due to SARS on 1 July 2016	4 778
(b)	VAT on sales	25 844
(c)	Purchases of stock exclusive of VAT	124 800
(d)	VAT on goods taken by the owner for personal use.	210
(e)	VAT on total discounts received from suppliers.	490
(f)	VAT on debtors' accounts written off.	448
(g)	VAT on equipment purchased.	2 212
(h)	VAT on old equipment sold on credit.	2 310

5.3 PROBLEM SOLVING: MANAGEMENT OF STOCK

Sizi has two stalls selling bags and caps.

REQUIRED:

Identify a different problem in each shop, and provide one solution or advice. Quote relevant figures for each problem identified. (6)

INFORMATION: for October 2016

	SMART STREET		JAMES STREET	
Assistant	Fraser		Andi	
Weekly allowance per assistant	R1 200		R1 200	
	BAGS	CAPS	BAGS	CAPS
Opening stock (units)	80	120	50	120
Stock supplied by Sizi (units)	120	200	120	200
Closing stock (units)	82	60	40	250
Units sold	110	260	130	70
Selling price (per unit)	R45	R20	R45	R20
Cash handed to Sizi (Rands)	R4 950	R5 200	R5 500	R1 400

QUESTION 6: BUDGETING

(35 marks; 25 minutes)

6.1 Explain why:

6.1.1 Bad debts will not appear in a cash budget. (2)

6.1.2 A cash budget is an effective internal control mechanism. (2)

6.2 ALGOA LTD

Algoa Ltd is registered with an authorised share capital of 750 000 ordinary shares. On 1 September 2016, 515 000 ordinary shares were in issue.

REQUIRED:

6.2.1 Refer to Information A.

Calculate the cash expected to be collected from debtors during November 2016. Please note:

- Debtors are not allowed any discounts
- Bad debts are applicable (7)

6.2.2 Calculate the missing amounts denoted by **(a)** to **(e)** on the cash budget provided in **information F**. (13)

6.2.3 Calculate:

(i) The amount of the loan that will be paid back on 1 November 2016 (3)

(ii) The total cost of the new vehicle purchased on 31 July 2016 (4)

6.2.4 A young shareholder is of the opinion that the company should not spend money on staff training – they should employ trained personnel.

- Explain why the company spends money on staff training. Give ONE point. (2)
- What can the business do to ensure that trained personnel remain in the employ of the business? Give ONE point. (2)

INFORMATION:

A. Incomplete Debtors Collection Schedule for the three months in 2016.

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER	NOVEMBER
July	108 000	12 960		
August	104 400	46 980	12 528	
September	93 000	37 200	41 850	?
October	102 000		40 800	?
November	111 600			?
Total collection from debtors				?

B. Cash sales is 40% of total sales.

C. Cost of sales figures:

SEPTEMBER	OCTOBER	NOVEMBER
96 875	106 250	116 250

- D. Cash purchases amounts to 20% of total purchases.
Stock sold in a month is replaced in the same month (the business maintains a base stock).
- E. Creditors for stock purchases are paid in the month following the purchase (30 days) to take advantage of a 5% discount.
- F. Cash Budget for the two months ending November 2016

	OCTOBER	NOVEMBER
Receipts		
Cash Sales	68 000	74 400
Cash from Debtors	95 178	6.2.1
Rent Income	(a)	16 985
Interest on investment		
Additional shares issued	513 000	
Total receipts		
Payments		
Cash purchases of stock	21 250	(b)
Payment to creditors	73 625	(c)
Salaries and wages	126 400	133 984
Interest on loan	2 000	1 750
Staff training programme	-	18 000
Advertising	8 160	(d)
Ordinary share dividends	-	(e)
Vehicle instalment	4 750	4 750
Sundry expenses		
Total payments		

- G. The rent will increase by 7,5% on 1 November 2016.
- H. Advertising is a fixed percentage of cash sales.
- I. A new vehicle was purchased on 31 July 2016. A deposit of R40 000 was paid and the balance is to be settled by a fixed monthly instalment over four years.
- J. Additional shares were issued on 1 October 2016 at R5,40 per share. An interim dividend of 15 cents per share will be paid on 30 November 2016. The new shareholders qualify for interim dividends.
- K. Part of the loan will be re-paid on 1 November 2016. Interest on loan at 10% p.a. is payable on the last day of each month. Interest on loan is not capitalised.