



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2010

ACCOUNTING

MARKS: 300

TIME: 3 hours



This question paper consists of 18 pages.

INSTRUCTIONS AND INFORMATION

1. You are provided with a question paper and an answer book.
Use the answer book to answer all the questions.
 2. The paper comprises 6 COMPULSORY questions. Answer ALL these questions.
 3. Use the formats provided in order to reflect your answers.
 4. Workings **MUST** be shown in order to achieve part-marks.
 5. You must attempt to comply with the suggested time allocations.
 6. Non-programmable calculators may be used.
 7. You may use dark pencil or blue/black ink to answer the questions.
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QUESTION 1: 35 marks; 21 minutes

Topic of question:	Learning outcomes covered:
Bank Reconciliations and internal control	LO1 Financial accounting - AS4 Analyse and interpret reconciliations LO3 Managing resources - AS6 Apply internal control processes

QUESTION 2: 35 marks; 21 minutes

The topic of the question is:	The Learning outcomes covered:
Inventory valuation, control, VAT and Ethics	LO1 Financial accounting - AS5 Interpretation of financial information LO3 Managing resources - AS4 Inventory valuation - AS5 Code of ethics - AS6 Apply internal control and audit processes

QUESTION 3: 35 marks; 21 minutes

Topic of question:	Learning outcomes covered:
Manufacturing	LO2 Managerial accounting - AS2 Prepare, analyse and report cost information LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 4: 80 marks; 48 minutes

Topic of question:	Learning outcomes covered:
Company reporting	LO1 Financial accounting - AS5 Prepare financial statements - AS6 Analysing an audit report LO3 Managing resources - AS5 Code of ethics and role of professional bodies - AS6 Apply internal control and audit processes

QUESTION 5: 75 marks; 45 minutes

Topic of question:	Learning outcomes covered:
Cash flow and interpretation of a company	LO1 Financial accounting - AS5 Prepare and interpret financial statements LO3 Managing resources - AS5 Code of ethics

QUESTION 6: 40 marks; 24 minutes

Topic of question:	Learning outcomes covered:
Budgeting	LO2 Managerial accounting - AS3 Analyse and interpret a projected income statement LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 1**BANK RECONCILIATION****(35 marks; 21 minutes)**

The information below refers to All Access Traders, a general dealer store in a residential area.

Refer to the given information and answer the questions that follow.

INFORMATION:**Bank reconciliation Statement of All Access Traders on 30 June 2010**

	R
Unfavourable balance as per Bank Statement	12 300
Outstanding deposit	4 650
Outstanding cheques:	
No. 789 (dated 25 December 2009)	750
No. 1032	1 365
No. 1040 (dated 5 July 2010)	2 355
Credit amount wrongly debited by the bank	1 550
Balance as per bank account	?

REQUIRED:

- 1.1 What is the purpose of a Bank reconciliation? (2)
- 1.2 Cheque No. 789 is stale. The cheque had been issued to Bafana Fund as a donation. This organisation does not exist any longer. State the double entry to record the stale cheque. (2)
- 1.3 The financial year of All Access ends on 30 June each year. How would cheque no. 1040 (in favour of Aggie Traders, a creditor) be dealt with in the financial statements? Give a reason for your answer. (6)
- 1.4 Name ONE error by the bank that could have resulted in them wrongly debiting All Access' bank statement with R1 550. (2)
- 1.5 Calculate the balance as per bank account. Indicate whether the balance is favourable or unfavourable. Take into account the error in QUESTION 1.2 when calculating your balance. (5)
- 1.6 A cheque for R175 received from a debtor, B. Pine, was dishonoured due to insufficient funds. State the double entry in the general ledger to record the dishonoured cheque. (2)
- 1.7 Cheques are mainly dishonoured because of insufficient funds. Give TWO more reasons, excluding insufficient funds, for cheques to be dishonoured. (4)

- 1.8 South African companies are concerned about the increasing occurrence of 'white-collar crime' as well as 'blue-collar crime'.
- 1.8.1 "White collar crime" may be defined as sophisticated crimes committed by members of management, whereas "blue collar crime" may be defined as obvious crimes which do not require access to the books of a business. Give an example of each of these crimes that could occur in a business. (4)
- 1.8.2 What is meant by the term **internal control**? (2)
- 1.8.3 What is the role of an internal auditor? (2)
- 1.8.4 What is the role of an external auditor? (2)
- 1.8.5 Why should an external auditor also be concerned over the quality of internal control in a business? (2)

QUESTION 2**INVENTORY VALUATION, CONTROL, VAT AND ETHICS (35 marks; 21 minutes)**

- 2.1 You are provided with information relating to Tiger Music for the financial year ended 28 February 2010. The business is situated in Pretoria. The business sells music in the form of compact discs (CDs).

REQUIRED:

- 2.1.1 Calculate the value of stock on hand at the end of the year according to the weighted average method. (8)
- 2.1.2 Calculate the NUMBER of CDs that have been shoplifted. (5)
- 2.1.3 Calculate the VALUE of CDs that have been shoplifted. (3)
- 2.1.4 Provide THREE points of practical advice to Tiger Music on how to improve internal control over their stock. (6)

INFORMATION:

- The business uses the perpetual inventory system and the weighted average method of valuing stock.
- Units of CDs for the year.

	Units	Unit price	Total value
CDs on hand on 1 March 2009	2 500	R70	R175 000
CDs on hand on 28 February 2010	3 020	?	?
CDs bought on credit during the year	15 000		R1 150 000
Bought on 30 April 2009	4 000	R60	R240 000
Bought on 31 August 2009	3 000	R90	R270 000
Bought on 30 November 2009	8 000	R80	R640 000
CDs sold during the year ended 28 February 2010.	14 400	R125	R1 800 000

- 2.2 You have been appointed as the accountant for Bawinile's Mini Market. After an internal audit you discover a discrepancy with the till slips. It appears that the information of Cashier 5 is incorrect.

The manager of Bawinile's Mini Market feels that he is not required to pay to SARS all the VAT that he has collected from customers. Till 5 was programmed to charge VAT on certain zero-rated items. However none of the cash slips of till 5 was accounted for in the accounting records of Bawinile's Mini Market.

REQUIRED:

- 2.2.1 How would you respond to the manager if he feels that not all VAT must be paid over to SARS? List ONE response. (2)
- 2.2.2 Calculate the total amount of VAT that was charged on Zero-rated items if the amount including the VAT on the cash slip of Cashier 5 was R29,10. (3)
- 2.2.3 In the scenario described above the management acted unethically. Provide TWO reasons to support this statement. (4)
- 2.2.4 What will the consequences be for management, in the above scenario if their actions were discovered? Provide TWO consequences. (4)

Bawinile's Mini Market			
Tel:801-9662			
VAT# 7408919723			
CASHIER 3			
Perishables			19.95
Coffee			41.84
Eggs			9.25*
Can Fruit			12.55
Tab			10.99
Bananas			6.55*
Gum			4.19
Brown bread			3.25*
Milk			3.65*
TOTAL			112.22
Items 9 Due			112.22
CASH			120.00
CHANGE			7.78
NON-VAT*	0.00	00.0%	22.70
VAT-AMT	12.53	14.0%	89.52
26/08/2009			

Bawinile's Mini Market			
Tel:801-9662			
VAT# 7408919723			
CASHIER 5			
Tea			15.75
Rice			8.20
Tennis balls			25.50
Coke			10.99
Apples			8.05*
Gum			4.19
Maize			8.25
Cooking oil			12.65
TOTAL			93.58
Items 8 Due			93.58
CASH			100.00
CHANGE			6.42
NON-VAT*	0.00	00.0%	8.05
VAT-AMT	10.50	14.0%	85.53
27/8/2009			

QUESTION 3**MANUFACTURING****(35 marks; 21 minutes)****3.1 BALLY TOY MANUFACTURERS**

You are provided with information relating to Bally Toy Manufacturers for the year ended 28 February 2010.

The business makes and sells only one type of soft toy.

REQUIRED:

- 3.1.1 Prepare the Factory Overhead Note to the Production Cost Statement. (20)
- 3.1.2 Prepare the Production Cost Statement. (7)
- 3.1.3 Calculate the unit cost of production. (3)

INFORMATION:**1. Units produced:**

11 100 toys were produced during the financial year.
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2. Stock balances:

	1 March 2009	28 February 2010
Direct/Raw material stock	R80 000	R?
Work-in-process stock	35 000	62 337
Finished Goods	27 900	?
Consumable Stores	4 700	1 900

3. Transactions for the year:

	R
Raw Materials issued for production	231 575
Consumable stores: cash purchases	9 900
Cost of completed goods manufactured	?
Sales: finished goods (mark-up 50% on cost of goods sold)	540 000
Totals on 28 February 2010	
Wages:	
• Direct labour	174 000
• Indirect labour	19 800
Salaries: (include benefits)	
• Factory manager salary	48 120
• Selling and distribution staff	38 000
• Administrative and clerical staff	28 050
Depreciation	
• Depreciation on factory plant	20 000
• Depreciation on office furniture	2 400
• Depreciation on sales vehicles	17 150
Factory maintenance	6 077
Insurance	
• Factory	6 240
• Administration offices	11 220
Commission on sales	561
Rent expenses:	
• Factory	10 400
• Administration offices	5 830
Sundry administration expenses	16 555

4. The factory manager was given an increase from 1 February 2010 of R2 500 per month, but the bookkeeper forgot to process this increase and the Pension fund. PAYE amounts to 20 % , Pension fund 8%. The business contributes on a Rand-for-Rand basis to the pension. Contributions are debited to the respective salaries and wages accounts.
5. Repairs of R500 were undertaken to the factory. Bally Toys has paid for this, but it is the responsibility of the owner and will deduct the amount off their rent that they owe for February. The amount has been debited to the rent account. Rent for the factory is R900 per month.
6. Insurance on the factory includes a premium of R6 000 that was paid for the period 1 July 2009 to 28 June 2010.
7. 75% of the consumable stores are used in the factory and the balance in the admin/sales department.

3.2 SHARKS CRICKET MANUFACTURERS

The factory produced 6000 cricket bats during the year. There was no work-in-process either at the beginning or the end of the year. The cricket bats are sold at R1 800,00 each. The variable cost per unit was R620.00 per cricket bat. All cricket bats produced were sold.

REQUIRED:

- 3.2.1 Calculate the number of cricket bats that must be produced and sold to break even. (3)
- 3.2.2 Should Shark Cricket Manufacturers be satisfied with the break-even-point? Give a reason for your answer. (2)

The information below relates to the year ended 30 June 2010.

Direct materials	R1 320 000
Direct labour costs	1 500 000
Factory overhead (all fixed)	2 820 000
Cost of production of finished goods	5 640 000

Income Statement for the period ended 30 June 2010.

Sales (6 000 units)	R10 800 000
Cost of sales	(564 000)
Gross profit	5 160 000
Selling and distribution cost (all variable)	900 000
Administration cost (all fixed)	960 000
Net profit (loss)	3 300 000

QUESTION 4**BALANCE SHEET, CORPORATE GOVERNANCE AND AUDIT****(80 marks; 48 minutes)****4.1 STONES LIMITED**

Stones Ltd., a dealer in gem stones provided the following information for the year ended 30 June 2010.

REQUIRED:

4.1.1 Complete the following notes to the Balance Sheet on 30 June 2010:

- Distributable Reserves (Retained Income) (8)
- Trade and other payables (31)

4.1.2 Complete the Equity and Liabilities Section of the Balance Sheet on 30 June 2010. (24)

INFORMATION:

1. The following balances appeared in the Pre-Adjustment Trial Balance on 30 June 2010. The adjustments that are given were already taken into account in order to calculate the correct net income. This amounted to R 988 000 as calculated in the Profit and Loss Account.
2. The Adjustments **MUST** still be taken into account in order to complete the Balance Sheet and notes.

3. STONES LTD**EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2010**

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		1 250 000
Share premium		?
Retained income (1 July 2009)		450 000
UIF		590
SARS(PAYE)		9 000
Star Medical Fund		4 200
Bank		109 000
Creditors Control		87 000
Loan: Shaid's Bank		300 000
Petty cash	2 200	
SARS – Income tax	248 976	
Creditors for salaries		22 120
Etc.		

Nominal Accounts Section	R	R
Salaries and wages	192 000	
Rent income		184 800
Ordinary share dividends	88 000	
Interest on loan: Shaids Bank	39 600	
Etc.		

4. ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A On 1 July 2009, the start of the financial year, the authorized share capital consisted of 300 000 ordinary shares at a par value of R10 per share. Up to the present date, 125 000 shares have been issued. 50% of these shares have been issued at a premium of 300c per share.
- B An employee, who joined the company on 1 July 2010, was inadvertently entered into the salaries journal for June. The amount due to her **was not** paid out. Details of her salary are as follows:

Gross salary	R18 000
Deductions:	
PAYE	30%
Medical aid	R1 500
UIF	1%

The company contributes on a rand for rand basis to both the Medical aid as well as the UIF.

- C The tenant paid the rent for July and August 2010 in advance. Due to the poor economic conditions it was agreed to reduce the rent by 10% on 1 January 2009.
- D The loan from Shaids Bank was taken out on 1 January 2005. The terms of the loan stipulated that the loan must be repaid OVER 10 YEARS in ten equal installments starting on 31 December 2005. The interest has been calculated correctly.
- E The Bank reconciliation process for June 2010 revealed the following additional entries which have to be made:
1. Outstanding cheque no. 786 for R20 000 issued to a creditor dated 28 August 2010.
 2. Bank charges of R7 000 as well as interest on overdraft of R18 900.
 3. A direct deposit by a creditor, R5 000 being an overpayment on their account from the previous month.

- F A final dividend of 150c per share was declared.
- G On 30 June 2010 the business traded in equipment at a loss of R1 500. The cost price of this equipment was R27 000 and the depreciation for the current year amounted to R750. The new equipment had a cost of R80 000. Depreciation is calculated at 20% p.a. on the diminishing balance method.
- H The income tax as per the tax assessment for the year amounted to R276 640.

4.2 Answer the questions that follow.

REQUIRED:

- 4.2.1 Give ONE reason why it is important that financial statements should be prepared according to GAAP and IFRS principles. (2)
- 4.2.2 Explain what is meant by the Historical Cost and Going-Concern principles. (4)
- 4.2.3 Apart from the Income statement and Balance Sheet, list another TWO parts of a company's published annual report AND explain what the purpose of these two parts would be. (4)
- 4.2.4 Audit reports are categorized into FOUR categories. Disclaimer of opinion and withheld are two of these. **Name and explain the other two reports.** (4)
- 4.2.5 Why is it important that all directors of companies in South Africa adopt an approach of **good corporate governance** at all times? (3)

QUESTION 5**CASH-FLOW STATEMENT AND RATIO ANALYSIS (75 marks; 45 minutes)**

The information given below was extracted from the financial statements of Meadows Ltd. on 28 February 2010, the end of the financial year.

REQUIRED:

- 5.1 This question consists of FOUR multiple-choice questions. Answer these questions by drawing an **X** over the correct answer on the answer sheet.
- 5.1.1 With what abbreviation must the name of a public company end?
- A CC
 - B LTD
 - C (PTY) LTD
 - D JSE
- (2)
- 5.1.2 Who appoints the external auditors of a company?
- A Employers
 - B Directors
 - C Managers
 - D Shareholders
- (2)
- 5.1.3 Which of the following items must be taken out of the calculation for the effect of cash flow on the operating activities?
- A Audit fees
 - B Salaries
 - C Depreciation
 - D None of the above
- (2)
- 5.1.4 Which one of the following financial indicators is used to analyse the solvency of a company?
- A Total assets to total liabilities
 - B Gross profit on sales
 - C Net current assets
 - D Debt / Equity ratio
- (2)
- 5.2 Complete the Appropriation account. (10)
- 5.3 Prepare the Cash-Flow Statement for the year ended 28 February 2010. (25)

All workings must be shown to earn part-marks.

5.4 Calculate the following for 2010:

Show calculations to two decimal places.

5.4.1 Debt/Equity ratio (Gearing ratio) (3)

5.4.2 Dividend per share (all shares qualify for both interim and final dividends) (3)

5.4.3 Net asset value per share (3)

5.4.4 Acid-test ratio (4)

5.5 The shareholders are concerned about the increase in borrowed capital. They think the increase in interest expense will impact negatively on the profit. Do you agree with them? Discuss by quoting TWO financial indicators and comment briefly to support your answer. (7)

5.6 Your friend owns 2 000 shares in Meadows Ltd.

5.6.1 According to the books of the company, how much was his investment worth on 28 February 2009? (3)

5.6.2 Why is the price of shares on the J.S.E. different to the figures quoted above? (Provide ONE reason.) (2)

5.6.3 Your friend is tempted to buy a further 1 000 shares at market price in Meadows Ltd.

(a) How much will he pay in total for the shares on 28 February 2010? (3)

(b) Provide ONE point in support of his decision to buy more shares. (Quote figures/ratios.) (2)

(c) Provide ONE point against his decision to buy more shares. (Quote figures/ratios.) (2)

INFORMATION:

1.	Extract from the Income Statement	R
	Depreciation	?
	Interest expense	76 500
	Net profit after tax	630 000
	Income tax (rate 30% of net profit)	?

2.	Extract from the Balance sheet	28/02/2010	28/02/2009
	Trading stock	920 000	1 060 000
	Trade and receivables (see 3.2)	688 000	612 000
	Ordinary shareholders' equity (40 000 shares were issued)	2 800 000	2 060 800
	Retained income	600 800	560 000
	Loan: Money Bank	552 000	468 000
	Trade and payables (see 3.3)	968 100	808 000
	Current assets	2 218 688	?

3.	Extract from notes to the financial statement
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3.1	Fixed Assets	Land and Buildings	Vehicles	Equipment
	Cost price at 28/02/2009	2 000 000	360 000	168 000
	Accumulated depreciation	0	(36 000)	(31 920)
	Carrying value at 28/02/2009	2 000 000	324 000	136 080
	Movement:			
	Additions	?	0	36 000
	Depreciation	0	?	(14 268)
	Disposal at carrying value	(240 000)	0	?
	Carrying value at 28/02/2010	2 400 000	252 000	?
	Cost price	2 400 000	360 000	184 000
	Accumulated depreciation	0	?	(41 308)

3.2	Trade and other receivables	28 February 2010	28 February 2009
	Trade debtors	648 000	576 000
	Accrued income	25 600	36 000
	SARS (income tax)	14 400	0
		688 000	612 000

3.3	Trade and other payables	28 February 2010	28 February 2009
	Trade creditors	568 800	520 000
	Deferred income	34 400	30 400
	Accrued expenses	4 100	0
	Shareholders for dividends	360 800	240 000
	SARS (income tax)	0	17 600
		968 100	808 000

ADDITIONAL INFORMATION:

- A. Interest on loan and loan:
- A new loan of R84 000 was advanced on 1 September 2009.
 - Interest payments are up to date.
 - No capital repayments were made this past financial year.
- B. An interim dividend of R228 400 was paid to the shareholders on 31 August 2009.
- C. You are also provided with the following financial indicators:

	2010	2009
Debt/Equity ratio	?	0,18 : 1
Dividend per share	?	1060 cents
Net asset value per share	?	6960 cents
% return on capital employed (after tax)	27,4%	23,2%
Market price (JSE listed)	4743 cents	6681 cents

QUESTION 6**PROJECTED INCOME STATEMENT****(40 marks; 24 minutes)**

The final abridged Income Statement for the **half year ended 30 September 2010** of Florence Traders is provided. You are also given an incomplete Projected Income Statement. The business is owned by Bongji Florence.

REQUIRED:

- 6.1 Calculate the missing figures, labelled **A** to **H** on the Projected Income Statement. (31)
- 6.2 List ONE item that you would find in the cash budget but not in the Projected Income Statement. (1)
- 6.3 State TWO reasons why Florence Traders might not achieve their intended mark up on cost of goods sold. (4)
- 6.4 To minimize the risk of bad debts there are certain steps that should be taken before allowing a customer to open an account. Name ONE step. (2)
- 6.5 Will discount allowed be shown in the Projected Income Statement or in the Cash Budget or in both? Explain your answer in full. (2)

		Actual figures for the half year ended 30 September 2010	Budgeted figures for the third quarter ending 31 December 2010
	Sales	450 000	200 000
	Cost of sales	(300 000)	A
	Gross Profit	150 000	B
	Other income	35 000	
	Bad debts recovered	5 000	1 000
	Rent Income	30 000	C
	Gross operating income	185 000	
	Operating expenses	(110 400)	
	Depreciation	45 000	D
	Bad debts	8 900	17 000
	Rates and taxes	4 500	9 000
	Water and Electricity	15 000	30 000
	Sundry expenses	23 000	E
	Salaries and wages	14 000	15 400
	Loss on sale of asset		F
	?		G
	Operating Profit	74 600	
	Interest Income	24 000	H
	Profit before interest expense	98 600	
	Interest expense (15% p.a.)	(45 000)	9 000
	NET PROFIT FOR THE YEAR	53 600	

ADDITIONAL INFORMATION:

1. Florence Traders intends to increase the mark-up to 100% on cost from the 30 September 2010.
2. The rental agreement with the tenant stipulates that the rental increases annually on the 1 October by 9% p.a.
3. Fixed assets with a carrying value of R100 000 will be disposed of on 1 December 2010 for R80 000. The carrying value of the assets after the disposal would amount to R500 000. Depreciation will remain unchanged at 20% p.a. on the diminishing balance method.
4. Sundry expenses are expected to increase by 10% for the next quarter ended 31 December 2010.
5. Due to the increase in bad debts, Florence Traders decided to create a provision for bad debts of R2 500 on 1 December 2010.
6. The Fixed Deposit at Remo Investment will be increased as of the 1 December 2010 from R300 000 to R480 000. The interest rate on the fixed deposit will remain unchanged.