



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2012**

**ACCOUNTING  
MEMORANDUM**

**MARKS: 300**

---

This memorandum consists of 15 pages.

---

**GENERAL RULES:**

1. Award full marks for the correct final answers. If the answer is incorrect, mark the workings provided. If a workings figure/amount is shown as a final answer, allocate the working mark.
2. “Method” marks are denoted by ☒
  - In calculations and final totals, at least one part of the workings must be correct to earn the mark.
  - In cases where answers of previous questions must be used, check the transfer.
  - Ignore brackets on statements, but check the operation before awarding marks.
3. Where penalties are applied, the marks for that section cannot be a negative. (foreign items)
4. For questions requiring explanations and comments, award part-marks. A good explanation will normally mention and explain a point. Beware of alternative wording reflecting the same points. This marking guideline provides some explanations – they are not conclusive. Read the candidates’ responses and give credit for their interpretations.
5. Where appropriate/acceptable, accept recognisable abbreviations.

## QUESTION 1

## MANUFACTURING CONCERNS

(45 marks ; 27 minutes)

- 1.1 Calculate the missing amounts denoted by (a) to (e) on the Statement and Notes below:

(a)	156 x 350 = 54 600 ✓ 32 736 ✓ + 54 600 = 87 336 ✓	(3)
(b)	359 320 + 87 336 = 446 656 ✓                      ✓                      ✓	At least one part of the workings must be correct to score the ✓ for the answer, in each case.  Check the transfer of totals in (b), (c) and (d)
(c)	446 656 + 178 544 = 625 200 ✓                      ✓                      ✓	
(d)	625 200 + 32 500 – 630 500 = 27 200 ✓                                      ✓                      ✓	
(e)	32 500 + 351 500 – 359 320 = 24 680 ✓*                                      ✓                      ✓ *One mark for both amounts or total: 384 000	(3)

15

- 1.2 Note 2: Manufacturing Costs (Factory Overhead Costs)

Indirect labour	42 500	
Factory indirect material (2 260 ✓ + 48 190 ✓ – 3 250 ✓)	47 200	✓
Insurance (19 600 x 60%)	11 760	✓✓
Water and electricity (52 800 x $\frac{5}{8}$ )	33 000	✓✓
Depreciation on factory plant and machinery	25 000	
Sundry Factory Expenses	19 084	
	178 544	

8

- 1.3 Calculate the unit costs of the finished goods produced.

$\frac{630\,500}{25\,220} = \text{R}25 \quad \checkmark$	
--	--

3

1.4 Calculate the Gross Profit for the year.

Sales – Cost of sales = Gross Profit		Cost of Sales :	
1 069 600 – (67 680 + 630 500 – 82 960)		Finished goods Stock	
✓	✓	b/d 67 680	615 220
	✓	630 500	c/d 82 960
= 454 380 ✓			

5

1.5 Should the business be satisfied with:

a) The total number of units produced this year? Substantiate.

Yes. ✓

Produced more goods than the break-even number of units, therefore the business made a profit. Profit margin, however, needs to be compared with previous year to determine profitability.

Any valid response ✓✓

3

b) The break-even number of units compared to last year? Explain.

No. ✓

It took more units to break-even this year. Could be as a result of increase in prices. The percentage increase, however, is much greater than the inflation rate suggesting that there could be some wastage etc.

Any valid response ✓✓

3

1.6 The internal auditor noticed that the overtime earnings represent a large percentage of total production wages. He requested that the production management investigate this matter.

1.6.1 Briefly outline the role of an internal auditor.

Independent activity.

Investigate, analyse and evaluate the internal controls in place.

Test compliance to company and accounting principles.

Note weaknesses and advise management on ways to improve processes.

Any valid explanation ✓✓

2

1.6.2 List TWO problems that the business may be experiencing with regard to overtime, and suggest an appropriate internal control measures that can be used to rectify the concern expressed by the internal auditor.

**Problems identified:**

Production levels may not be met during normal time.

Poor supervision of workers in production.

The company policy on overtime may not be clear or stringent.

Ethical issues :

Haphazard signing/authorisation of overtime

Poor discipline of employees (time wastage, loitering, breaks etc.)

Any other explanation (x2) ✓✓ ✓✓

**Suggestion:**

Set production targets that must be completed during normal time (undertake time and motion studies to determine this).

Limit overtime hours per worker, per month.

Explore alternative methods of production/processes/layouts

Rotate supervision, division of duties etc.

Any other explanation (x2) ✓✓

6

[45]



2.4.3 The debtors' average collection period for 2011 (in months).

$$\frac{\frac{1}{2}(70\,120 + 94\,280)}{2\,466\,000 \times 10\%} = \frac{82\,200}{246\,600} \times \frac{12}{1} = 4 \text{ months } \checkmark$$

May allocate part marks to the calculations (2 numerator and 2 denominator)

5

2.4.4 Using the acid test ratio for 2011, calculate the creditors balance on 31 December 2011.

Debtors: Creditors + Bank Overdraft  
94 280: Creditors + 40 000  
0,5 : 1

$$\begin{aligned} \frac{1}{2} (\text{creditors} + 40\,000) &= 94\,280 \checkmark \\ \text{Creditors} &= (94\,280 \times 2) - 40\,000 \\ &= 188\,560 \checkmark \checkmark - 40\,000 \checkmark \\ &= 148\,560 \checkmark \end{aligned}$$

5

2.5 Comment on whether you think that Freedom Traders is likely to experience liquidity problems. Motivate your answer by making reference to the ratios given.

The current ratio indicates that they should not have liquidity problems as they have 4 times as many current assets to current liabilities. The acid test ratio, however, is only 0,5 : 1, indicating that they carry too much stock. This means that they will have liquidity problems if they are unable to sell their stock.

They are likely to experience liquidity problems and therefore one can conclude that they are not managing their working capital efficiently.

*Any reasonable explanation highlighting the gist above.*

X2 current ratio explanation ✓✓

X2 acid test ratio explanation ✓✓

X2 comment about liquidity ✓✓

6

2.6 Comment on the debtors' collection and the creditors' payment terms, and give a suggestion on how they could be managed differently.

**Comment:**

Creditors only allow 30 days credit. Debtors are taking 4 months to settle their debts. Because of their large stock balance and the poor debtors' policy, they are tying up cash in working capital.

Relying heavily on cash sales (90%) to meet cash obligations – also overdraft.

*Any other valid explanation ✓✓*

**Suggestion:**

They need to re-negotiate better terms with creditors to lighten cash burden.

They have to provide incentives to debtors to pay early, or amend credit terms with debtors.

Debtors, however, does not appear to be a large factor as it constitutes only 10% of sales.

*Any other valid explanation ✓✓*

4

2.8 The business plans to acquire a loan of R400 000 in March 2012. Explain why you think that this is either a wise decision or not.

The loan is intended to relieve cash flow problems highlighted by the budget. (large overdraft) This budget is, however, incorrect as it includes cost of sales and other non-cash items which are misleading. The corrected budget may show that the loan is in fact not needed.

*Any other valid explanation ✓✓*

2

## QUESTION 3

## COMPANIES – FINANCIAL STATEMENTS

(65 marks ; 39 minutes)

## 3.1 KR TRADERS LTD

## INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012.

Sales	(454 300 ✓ – 2 700 ✓) or 2 marks	451 600	②
Cost of sales		<b>(222 600)</b>	
GROSS PROFIT		229 000	✓
Other Income		39 985	
Bad Debts recovered		840	✓
Rent Income	(45 500 – 6 500)	39 000	✓
Provision for Bad Debts adjustment (decrease)		145	✓✓
GROSS INCOME		268 985	
Operating Expenses		(199 385)	
Telephone		2 437	✓
Audit fees		4 450	✓
Bad Debts	(2 142 ✓ + 353 ✓) or 2 marks	2 495	②
Insurance	(6 540 ✓ – 1 875 ✓)	4 665	✓ ③
Stationery	(1 777 ✓ – 147 ✓) or 2 marks	1 630	②
Directors Fees	(157 500 ✓ + 4 500 ✓)	162 000	✓ ③
Bank Charges		383	✓
Salaries		15 180	✓
Trading Stock deficit	(26 625 – 25 375)	1 250	✓✓
Depreciation		4 890	✓
Operating Profit		69 605	✓
Interest income	(5 775 ✓ + 1 925 ✓ + 250 ✓)	7 950	✓ ④
Profit before interest expense		77 555	✓
Interest expense		(3 525)	✓
NET PROFIT BEFORE TAX		74 030	
Income tax		(36 630)	✓
NET PROFIT FOR THE YEAR		37 400	✓

Mark the final answers first (award full marks). If the final answer is incorrect, award the part marks within brackets. (-1) for each foreign item (Balance sheet accounts) max -3

Misplaced items must be marked wrong. (interest).

## 3.2.1 RETAINED INCOME

Balance on 1 March 2011	22 200	✓
Net Profit.... <i>after tax</i>	37 400	✓
Ordinary Share Dividends	(24 350)	✓
• Paid/interim	10 350	✓
• Recommended/final	14 000	✓✓
Balance on 28 February 2012	35 250	✓

7

## 3.2.2 TRADE AND OTHER RECEIVABLES

Debtors control (17 245 ✓ + 308 ✓ – 353 ✓)	17 200	✓ ④
Provision for Bad Debts	(688)	✓✓
NET TRADE DEBTORS	16 512	
Prepaid expenses ( <i>Insurance</i> )	1 875	✓
Accrued Income ( <i>Interest on investment</i> ) 7 700 – 5 775	1 925	✓
SARS – Income Tax (37 000 – 36 630)	370	✓✓
	20 682	✓

11

## 3.3 Calculate the earnings per share (EPS), and explain the usefulness of this financial indicator.

$$37\,400 / 70\,000 = 53c$$

✓      ✓      ✓

Indicates the profit made, per share – useful to compare with that of the previous year

Check profitability, check alternative investment opportunities and competitors

Check market prices (Stock exchange) and trends in the market.

*Any other valid explanation* ✓✓

5

## 3.4 Comment on the financial gearing of this company. Use an appropriate ratio or financial indicator in your explanation.

Debt : Equity Ratio      ✓      ✓      (350 000 + 35 750 + 35 250)  
 ✓      0,105 : 1      ✓ accept 0,1 : 1

Business is lowly geared – not making much use of borrowed capital.

Company raised more capital by issuing additional shares – it was however, safe to borrow additional capital – needs analysis: does the business need extra funding and the cost of borrowing (interest).

*Any valid explanation* ✓✓

6

[65]



## QUESTION 4

## CASH FLOW STATEMENT, RATIOS AND INTERPRETATION

(60 marks ; 36 minutes)

## 4.1.1 OUTBACK LTD

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 NOVEMBER 2011

NOTES

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	(a)	124 975	✓
• Cash generated from operations	1	1 043 225	✓
• Interest paid Check transfer of amount from 4.1.2		(36 850)	✓
• Dividends paid (128 000✓ + 308 000✓)		(436 000)	②
• Income Tax paid (2 000✓ – 450 000✓ + 2 400✓) or (–2 200✓ + 450 000✓ – 2 400✓) Mark one line consistently. Award the part marks for the calculations even if the final answer is incorrect.		(445 400) <i>Must be an outflow for mm</i>	✓④
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	(b)	(155 000)	✓
• Purchases of non-current assets (–1 841 625✓ – 56 000✓ – 85 000✓ + 1 742 625✓) or (1 841 625✓ + 56 000✓ + 85 000✓ – 1 742 625✓) Mark one line consistently. Award the part marks for the calculations even if the final answer is incorrect.		(240 000) <i>Must be an outflow for mm</i>	✓⑤
• Proceeds from the sale of non-current assets		85 000	✓
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	(c)	174 000	✓
• Proceeds from the issue of shares 200 000✓ (Ord share Capital) + 4 000 ✓ (Share Premium)		204 000	②
• Proceeds/repayment of loans (320 000 – 350 000)		(30 000)	✓✓
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	**	143 975	✓
Cash and cash equivalents (1 December 2010)		(55 000)	✓
Cash and cash equivalents (30 November 2011)		88 975	✓

\*\* check total : (a) + (b) + (c) or (CCE)balances

## 4.1.2 Note 1: CASH GENERATED FROM OPERATIONS

Net Profit ... before income tax	957 000	✓
Adjustments for:		
• Depreciation	56 000	✓
• Interest paid (19 250✓ + 17 600✓)	36 850	☑③
Profit before changes in working capital	1 049 850	
Change in working capital	(6 625)	☑
Increase/change in inventory ✓ (850 300 – 720 500)	(129 800)	✓✓
Decrease/change in Debtors ✓ (560 000 – 480 000)	80 000	✓✓
Decrease/change in creditors ✓ (423 500 – 380 325)	43 175	✓✓
CASH GENERATED FROM OPERATIONS	1 043 225	☑

16

\*Accept appropriate alternatives for details such as Trade and Other.... or Account receivable....

## 4.2.1 At what price were the additional shares issued?

$$\begin{array}{l} 2\,200\,000 - 2\,000\,000 = 200\,000✓ \\ 104\,000 - 100\,000 = 4\,000✓ \\ \hline = R2,55 \quad \checkmark \end{array}$$

4

## 4.2.2 Calculate the average return on shareholder's equity for the year ended 30 November 2011.

$$\frac{\frac{507\,000}{\frac{1}{2}(4\,451\,000)}}{507\,000 / 2\,225\,500} \times 100 = 22,78\% \text{ or } 22,8\% \quad \checkmark$$

Shareholders' equity:  
 (2 000 000 + 100 000 + 12 000 (OB)  
 2 200 000 + 104 000 + 35 000 (CB)  
 = 4 451 000

5

## 4.2.3 Explain whether you think the shareholders should be happy with the return on their investment. (Return on shareholder's equity for 2010 was 17%)

Higher than alternative investments such as fixed deposits (can mention the current interest rates offered by banks) or they can be compared with last year's return of 17% and say that there was an improvement to last year.

Any other valid explanation ✓✓

2

## 4.2.4 Calculate the dividends per share (DPS) for the year ended 30 November 2011.

$$\frac{(308\,000 + 176\,000)}{484\,000} = 0,55 \text{ or } 55c \quad \checkmark$$

2

4.2.5 Give a reason why you think the final dividend this year was much lower than the interim dividend.

Made less profit than expected.  
Decided to use profits to re-invest in the business such as buying assets, upgrading etc.  
To pay debts, improve liquidity, eliminate overdrafts.

*Any reasonable explanation ✓✓*

2

4.2.6 The net asset value (NAV) for 2011 is 266c. Give ONE factor that causes the net asset value to increase.

Increase in retained income (investment in increasing the retained income).  
Sale of shares at a higher premium (increasing share premium).

*Any one cause ✓✓*

2

4.2.7 If the market price of the shares of Outback LTD is 252c, would it be a wise decision to purchase them now? Explain.

✓

Yes: The NAV is 266c, which shareholders are likely to receive in the event of bankruptcy (liquidation). Shares are being sold for less so it could be a worthwhile investment.

No: demand determines the market price – this low price indicates that there is no/reduced demand for the shares, hence the lower price. Need to examine why public are not interest in these shares.

*One good explanation ✓✓*

3

[60]

## QUESTION 5

## RECONCILIATION and VAT

(40 marks ; 24 minutes)

## 5.1 Creditors Reconciliation

5.1.1 Calculate the correct balance for Kay Lee Suppliers in the Creditors Ledger.

Balance			36 804
Correction of error (2 880 – 2 280)		600 ✓✓	
Posting error	1 690 ✓		
Reversal of posting error	370 ✓		
Taking into account of returns	370 ✓		
Closing balance			34 974 ✓

Accept any arrangement offered by learners – award the allocated marks accordingly.  
At least one mark scored to receive the ✓

6

5.1.2 CREDITORS RECONCILIATION STATEMENT ON 31 AUGUST 2012.

Balance as per Statement	<b>36 600</b>
Omission of trade discount (9 120 x 5%)	✓✓ (456)
Omission of cash discount for early payment	✓ (800)
Credit note error on statement (incorrect returns)	✓ 606
Goods returned – not on statement	✓ (370)
	✓ <b>34 974</b>

At least one mark scored to receive the ✓

6

## 5.2 Debtors

5.2.1

GENERAL LEDGER OF JP STORES  
BALANCE SHEET SECTION  
DEBTORS CONTROL (B6)

2011 May	1	<b>Balance</b>	<b>b/d</b>	<b>21 670</b>	2011 May	31	<b>Bank</b>	CRJ	12 530	*
	31	Sales (13 326 – 330 ✓)	DJ	12 996 ✓			<b>Discount Allowed</b>	CRJ	470	✓
		Bank (483 + 513 ✓)	CP J	996 ✓			Debtors Allowances (2 454 – 27 ✓ + 285 ✓)	DAJ	2 712 ✓	
		Sundry Accounts (537 + 57 ✓)	GJ	594 ✓			Sundry Accounts (700 + 570 ✓ ✓)	GJ	1 270 ✓	
							Balance	c/d	19 274	
				36 256					36 256	
June	1	Balance	b/d	19 274 ✓						

\* 1 mark for both amounts, or a  
total (13 000)

14

5.2.2 The credit controller realised that debtors' allowance is high.

- What can the business do to reduce this balance? (Two points).

Quality control – sell products of good quality.  
 Prompt ordering and dispatch of goods.  
 Guarantees and follow-up visits to check products (depending on what the product is).  
 Outsource delivery, reduce handling etc.

*Any other valid explanation (x 2) ✓✓ ✓✓*

4

5.2.3 A debtor, who had been charged interest for three months, at 12% p.a. on his overdue account of R3 560, argued that this penalty was unfair because his most recent purchase of R1 250 was made in this month.

- Explain why you agree with him.

That portion of his account is not overdue. The business needs to do age analysis and apply interest to the portions of the account that is overdue.

The learner must mention Age Analysis.

*Any reasonable explanation ✓✓✓*

3

5.2.4 The business uses the invoice method to determine its VAT liability.

- Briefly describe this method.

VAT is calculated taking into account cash and credit transactions and recorded in the month of the transactions. VAT return form is completed and submitted accordingly.

*Any reasonable explanation ✓✓✓*

3

- Due to the cash flow problems experienced by the business, the owner decided to inflate the VAT Input on the VAT return form by R7 500. What implications would this have on the business and the owner?

The VAT Input would have to be adjusted manually on the VAT return but the book records will reflect the total amount due. If audited by SARS, the business would be liable for additional penalties and fines applicable for falsifying the VAT return.

The candidate may discuss the ethical issue of deliberately defrauding the state of its taxes.

*Any other reasonable explanation*

*Two complete points (Good, satisfactory, fair) ✓✓ ✓✓*

4

[40]

## QUESTION 6

## STOCK VALUATION AND ASSET MANAGEMENT

(35 marks ; 21 minutes)

## 6.1 INVENTORY VALUATION

- 6.1.1 Perkin Stores uses the weighted average method to value their stock. Calculate the closing stock balance, using the above method.

$$\frac{4\,650\,000}{930} = R5\,000 \times 418 \text{ units} = R2\,090\,000$$

4

- 6.1.2 Calculate the Gross Profit on TV sets sold for the year based on the weighted average method.

Cost of sales: 510 units x 5 000 = 2 550 000

4 845 000 (Sales) – 2 550 000

Gross Profit = 2 295 000

\* (depending on the weighted average calculated)

3

- 6.1.3 Perkin is considering a change to the FIFO method to value his stock. Calculate the Gross Profit using this method.

Cost of sales : 228 x 4 300 = 980 400      Sales – cost of sales = Gross profit

190 x 4 750 = 902 500      4 845 000 – 1 882 900 = 2 962 100

Total: 1 882 900

4

- 6.1.4 In your opinion, which is the more appropriate method to use? Give a reason for your answer.

FIFO ✓

This is the preferred method for large items where individual costs vary and fewer purchases are made each year, and they can be easily controlled.

Weighted average is more suited for low-value items produced/purchased in bulk.

*One valid explanation ✓✓*

3

- 6.1.5 Although Perkin is contended to sell the same brand TV sets, he did notice the significant difference between the number of units he had at the beginning of the year, and his closing balance. Explain why he should be concerned about this trend, and provide TWO suggestions on how he can remedy this situation.

**Why he should be concerned:**

The cost of the products is decreasing significantly due to other more up-to-date products entering the market. Technological changes make the more modern products desirable causing a decrease in the demand for Perkin's TV sets.

Danger of redundant/obsolete products – insurance may not provide cover for out dated items

*Any other reasonable explanation ✓✓*

**Suggestions:**

Consider expanding his range of products and offer other after sales services.

Decrease profit mark-up percentage to increase sales – cut losses now.

*Any reasonable suggestions*

✓✓ ✓✓

6

