



ACCOUNTING
MEMORANDUM
COMMON TEST
JUNE 2014

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. If pre-adjustment figure is shown as the final figure, no marks will be allocated.
4. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
5. Codes: f = foreign item; p = placement

This memorandum consists of 19 pages.

QUESTION 1

1.1 Why is it important for a business to prepare a monthly Bank Reconciliation Statement? Provide TWO points.

Any TWO points ✓✓ ✓✓

Good explanation = 2 marks; Satisfactory = 1; Incorrect = 0

Possible answers:

- To improve internal control by minimising fraud or error because records are checked to an external source.
- To improve internal control by identifying outstanding cheques and deposits.
- The books of the business and that of the bank should agree and the bank balance should be the same in both books
- To compare the books of the business with that of the bank in order to detect errors and dishonesty at an early stage.

Expected responses for 1 mark:

- Internal control purposes
- To reconcile the bank account
- To identify the correct bank balance and update records
- To identify outstanding cheques and deposit

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1.2 One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it and explain your choice. Indicate the correct course of action to be taken.

Cheque no 892✓ for R12 340 is stale (older than six months)✓

Indicate the correct course of action

It must be cancelled in the Cash Receipts Journal (CRJ) in February ✓

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1.3 Calculate the correct totals in the CRJ and CPJ for 28 February 2014.

CRJ	CPJ
146 970	68900
1 800✓	2 100✓
12 340✓	
	920✓
	600✓
	50 000✓
161 110	122 520

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Operation if one part correct

1.4 BANK RECONCILIATION STATEMENT AS AT 28 FEBRUARY 2014

	DEBIT	CREDIT
Credit balance as per Bank statement		42 440✓
Outstanding deposit (27 February 2014)		18 000✓
Credit amount wrongly debited		800✓
Outstanding cheques		
No.897 (10 January 2014)	8 700✓	
No.905 (28 February 2014)	1 200✓	
No.908 (15 March 2014)	3 100✓	
Debit balance as per Bank Account	48 240☐	
	61 240	61 240

-1 for foreign items (max -2)

Give the method mark if the figure is above 9 650 in the bank account

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1.5 Explain how cheque No.908 should be treated when preparing the financial statements as at 28 February 2014, and explain the reason for this treatment.

Increase bank account and increase creditors✓✓

OR

Increase the bank and creditors figures in the Balance Sheet notes respectively.

OR

Debit bank and credit creditors control

Explain the reason for this treatment.

The funds have not been transferred by the bank as at 28 February 2014. The amount is still owed to creditors as at 28 February 2014.✓✓

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1.6 Explain why a post-dated cheque received by Belino Traders on 10 February 2014 but dated 25 March 2014 does not appear in the Bank Reconciliation Statement.

Any ONE reason:✓✓

- Post dated cheques received are recorded in the PDC register
- PDC's are deposited on the day they are due
- PDC has no effect until the due date
- Rule of prudence-do not record until certain

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1.7 Refer to information G. The bookkeeper has decided to write off the amount of R50 000.

- Which GAAP principle will the bookkeeper apply in this case?
Briefly explain this principle.
- The bookkeeper wants to prevent a problem such as this in future.
Give TWO solutions to improve internal control in this regard.

Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle

Principle of Prudence ✓

The bookkeeper wants to prevent a problem such as this in future. Give TWO solutions to improve internal control in this regard.

- Division of duties: The person completing the deposit slip must not be the same person depositing the money at the bank.
- Deposit slips must agree to total of the receipts and cash slips
- Check via internet banking that deposits are reflected daily.
- Request the bank to send an sms each time a deposit is made ✓✓

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QUESTION 2

2.1 Tangible asset/fixed asset note.

TANGIBLE ASSETS	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value at beginning of the year	1 900 000	operation 480 000✓	operation 340 000✓
Cost	1 900 000	600 000✓	650 000✓
Accumulated depreciation	-	(120 000)✓	(310 000)✓
Movements			
Additions	0	450 000✓	70 000✓
Disposal	0	Any figure (90 000)✓	-
Depreciation	-	operation (99 900)✓	(102 750)✓
Carrying value at the end of year	1 900 000	operation 740 100✓	operation 307 250✓

Cost	1 900 000	870 000✓	720 000✓
Accumulated depreciation	-	(129 900)✓	(412 750)✓

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2.2 Ordinary share capital note

Authorised:	
Number of authorized ordinary shares: 2 000 000 shares	
ISSUED:	
600 000 ordinary shares in issue at beginning of financial year	R 3 000 000✓
10 000 shares bought back during the financial year at R5	R(R50 000)✓
40 000 shares issued during the year at R8	R320 000✓
630 000 ordinary shares in issue at the end of the financial year	operation R3 270 000✓

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2.3 Retained income

Balance at the beginning of the financial year	44 700✓
Funds used for buy-back of shares (10 000 x R2)	(20 000) ✓
(1 300 000✓ + 5 000✓ – 99 900✓ – 102 750✓ + 650✓ - 330 900✓)	
Net profit after tax for the year operation if one part correct	772 100✓
Dividends operation	(458 500)✓
Interim/Paid	206 500✓
Final/Recommended (630 000 X 0.40)	252 000✓✓
Balance at the end of the financial year	338 300✓✓ operation

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2.4

DURBAN LIMITED
BALANCE SHEET AS AT 28 FEBRUARY 2014

ASSETS	
NON-CURRENT ASSETS	2 987 350✓
Fixed/Tangible assets operation see 4.1	2 947 350✓
Financial assets: fixed deposit (120 000✓ – 80 000)✓	40 000✓
CURRENT ASSETS	1 131 950✓
Inventories (527 450✓ + 9 000✓) operation if one part correct	536 450✓
Trade and other receivables(290 000✓ – 2 100✓ + 9 100✓ + 1 000 ✓+ 95 000✓)	393 000✓
Cash and cash equivalents (122 000✓ + 500✓ + 80 000✓) operation if one part correct	202 500✓
TOTAL ASSETS operation	4 119 300✓
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY operation if one part correct	3 608 300✓
Share capital operation see 4.2	3 270 000✓
Retained income operation see 4.3	338 300✓
NON-CURRENT LIABILITIES operation if one part correct	40 000✓
Loan from: Zola bank (120 000✓ – 40 000✓ – 40 000✓) operation if one part correct	40 000✓
CURRENT LIABILITIES operation if one part correct	471 000✓
Trade and other payables(62 000✓ + 30 000✓ + 10 000✓ + 7 000✓ + 252 000✓ + 70 000✓) operation if one part correct	431 000✓
Current portion of loan operation	40 000✓
TOTAL EQUITY AND LIABILITIES operation	4 119 300✓

Balance sheet totals do not have to agree to get method marks for totals
 Workings may be shown outside the face of BS- award part marks

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QUESTION 3

3.1 Calculate the value of the closing stock for the following stock items. Show all workings

3.1.1 Grocery (use the FIFO method)

$$15 \times 910 = 13\,650\checkmark$$

$$52 \times 900 = \underline{46\,800\checkmark}$$

$$= \underline{60\,450\checkmark} \text{ operation}$$

3.1.2 Bicycles (use the Specific Identification method)

$$\text{BMX 140} \qquad 2 \times 400 = 800\checkmark$$

$$\text{BMX 400} \qquad 1 \times 600 = 600\checkmark$$

$$\text{BMX 305} \qquad 1 \times 510 = 510\checkmark$$

$$\text{BMX 200} \qquad 2 \times 300 = 600\checkmark$$

$$\text{BMX 300} \qquad 7 \times 500 = 3\,500\checkmark$$

$$\text{BMX 205} \qquad 2 \times 380 = \underline{760\checkmark}$$

$$\qquad \qquad \qquad = \underline{6\,770\checkmark} \text{ operation}$$

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3.2 Calculate cost of sales for:

3.2.1 Grocery.

$$\text{Opening stock} \qquad (12 \times \text{R}940) \quad \text{R } 11\,280\checkmark$$

$$\text{Purchases } (16\,000\checkmark + 28\,000\checkmark + 53\,400\checkmark + 90\,000\checkmark + 13\,650\checkmark - 2\,800\checkmark - 4\,500\checkmark) \quad \text{R}193\,750\checkmark \text{ operation}$$

$$\text{Less closing stock} \qquad \underline{(\text{R}60\,450)\checkmark} \text{ see 3.1.1}$$

$$\text{Cost of sales} \qquad \text{R } \underline{144\,580\checkmark} \text{ operation}$$

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3.3 As internal auditor, what would you say to the owner and accountant?
State TWO points

Any two valid comments: ✓✓ ✓✓

- Specific Identification method is more precise.
- Get clearance from SARS to make the changes
- The business should keep to the existing method to ensure comparability across years unless very valid reason for change which is not the case here.
- Decision should not be made on the basis of what is easier or what will result in less tax. They must choose the most appropriate method or must not manipulate the profit (unethical)

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3.4 What advice would you offer to the owner in this regard?

Any valid advice ✓✓✓

- it will be nepotism, and it's unethical
- Procurement policy must be in place and must ensure that employees abide by this policy.
- It is important to support loyal suppliers but the quality and price of the product must not be compromised.

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QUESTION 4

4.1

ASSET DISPOSAL ACCOUNT

Feb 2014	28	Vehicles✓	GJ	210 000✓	Feb 2014	28	(106 000✓ + 17 500✓) Accumulated depreciation✓	GJ	123 500✓ operation
							✓ Bank	GJ	120 000✓
		Profit on sale of asset ✓	GJ	33 500✓ operation					
				243 500					243 500

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4.2

ZOLA LIMITED: INCOME STATEMENT FOR THE YEAR ENDED 30 APRIL 2014

Sales (5 250 000✓ – 72 600✓)	5 177 400✓
Cost of sales	(3 743 500)✓
Gross profit	1 433 900
Other operating income operation	117 450✓
Rent income (88 400✓ – 5 700✓)	82 700✓
Bad debts recovered	1 150✓
Profit on sale of asset	33 500✓
Provision for bad debts adjustment (10 050✓ – 9 950✓)	100✓
Gross income	1 551 350
Operating expenses operation	(1 119 410)✓
Directors fees (420 000✓ – 16 800✓)	403 200✓
Audit fees	36 900✓
Packing material (11 550✓ – 450✓)	11 100✓
Salaries and wages	330 000✓
Marketing expenses	240 000✓
Bad debts (6 000✓ + 1 000✓)	7 000✓
Sundry expenses	31 885✓
Trading stock deficit (477 500✓ – 470 000✓)	7 500✓
Depreciation (17 500✓ + 19 700✓ + 8 625✓ + 6 000✓) operation if one part correct	51 825✓
Operating profit	431 940✓
Interest income (13 315✓ + 8 960✓) operation if one part correct	22 275✓
Operating profit before interest expense	454 215
Interest expense	(15 000)✓
Operating profit before taxation	439 215
Taxation	(140 000)✓

Net profit for the year	operation	299 215✓

Foreign items -1 each (max -2)**42****42**

4.3

4.3.1 TRADE AND OTHER RECEIVABLES

Trade debtors (198 000✓ – 1 000✓ + 2 000✓)	199 000✓
Provision for bad debts	(9 950)✓
Net trade debtors	189 050
Prepaid expense	16 800✓
Accrued income	8 960✓
SARS-income tax (150 900✓ – 140 000✓)	10 900✓
Operation if one pact correct	225 710✓

11**11****QUESTION 5**

5.1

5.1.1 Explain ONE method that Mandla Mbambo could have used to collect audit evidence.

- Interview debtors ✓ ✓
- Use the records of the business

Any relevant answer

2**2**

5.1.2 Calculate the new outstanding balance of Khethiwe Mdluli after taking into account errors and omissions.

Balance 7 400 ✓ ✓

Bank (5 940) ✓

Sales 4 000 ✓

DAJ (340) ✓

DJ 530 ✓5 650✓ Operation if one part is correct

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5.1.3 Calculate the amount of discount that Mduduzi Hlatshwayo received when he settled his account.

$$1600 + 850 = 2\,450 \times \frac{\overset{\checkmark}{4}}{\overset{\checkmark}{100}}$$

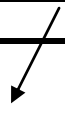
= 98 ☒ Operation if one part is correct

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5.1.4

Debtors age analysis of Five Ways Pharmacy

	90 Days +	60 Days	30 Days	Current
Nonjabulo Mgabhi	-	2 584 ✓	1 780 ✓	450 ✓


 Operation

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5.1.5 If Debtors are not paying their accounts, a business can take legal action against them, but this would cost money. What **THREE** strategies should Mandla Mbambo consider before deciding whether to take legal action or write off the bad debts.

- To remind debtors constantly and timeously ✓
- The amount that the debtor owe us. ✓
- Loss that will be incurred due to legal action and bad debts. ✓
- Send final demand letters for outstanding debts.

Accept any relevant answer

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5.1.6 Five Ways Pharmacy is obviously having a problem controlling its debtors, Mandla Mbambo has been brought in to try and rectify the situation which he claimed he did very well. Do you agree with his statement? Give **TWO** opinions to support your answer.

Opinion : Yes ✓

Supporting answers:

- All debtors are treated the same no matter how much a debtor owes the business ✓ ✓
- Mistakes have been identified and corrected. ✓ ✓
- Some debtors are responding to his new policy.

Any relevant answer

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5.2 Use the table to indicate the differences that were discovered when comparing the account in the Creditors ledger with the statement received from Zulu Suppliers.

Write only the amount in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

	Creditors ledger of Zwane Traders	Statement from Zulu Suppliers
Balance	R 7 750	R 11 000
1.		- 2 000✓✓
2.	+ 400✓✓	
3.	- 50✓✓	
4.		+ 8 100✓✓
5.	+ 4 500✓ + 4 500 ✓ OR + 9 000	
	☑	Operations, both totals
Balance/Total	17 100	17 100

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QUESTION 6

6.1 State where the following statements are TRUE or FALSE .	
6.1.1	False✓
6.1.2	False✓
6.1.3	True✓
6.1.4	False✓
6.1.5	False✓

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6.2.1

Cash generated from operations for the year ended on 28 February 2014

Net profit before tax (522 900 X 100 / 70) operation if one part correct	747 000✓☑
Adjustments in respect of:	
Depreciation	56 000✓
Interest expense	19 500✓
Net profit before changes in working capital	822 500
Changes in working capital	(3 500)
Inventory (220 000 – 185 000)	(35 000)✓
Debtors (141 000 – 113 000)	(28 000)✓
Creditors (145 000 – 85 500)	59 500✓
operation if one part correct	819 000☑

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6.2.2

Cash flow statement for the year ended 28 February 2014

Cash flow from operating activities	operation	210 400✓
Cash generated from operations	see 6.2.2	819 000✓
Interest paid		(19 500)✓
Dividends paid		(300 000)
Tax paid(18 000✓ + 224 100✓ + 47 000✓)		(289 100)✓
Or (-18 000 – 224 100 – 47 000)	operation if one part correct	
Cash flow from investing activities		990 100
Purchases of non-current assets (1 928 600✓ + 56 000 ✓+ 1 100 000✓ – 2 937 600✓)	operation if one part correct	(147 000)✓
Or (-1928 600 – 56 000 – 1 100 000 + 2 937 600)		
Proceeds on sale of non-current assets		1 100 000
Decreased in fixed deposit(753 000 – 715 900)		37 100✓
Cash flow from financing activities	operation if one part correct	(80 000)✓
Proceeds on sale of shares (100 000 X 9)		900 000✓
Buy-back of shares (20 000 X 8.5)		(170 000)✓
Decreased in non-current liabilities (130 000 – 940 000) or (940 000 – 130 000)		(810 000)✓
Net change in cash and cash equivalent	operation	1 120 500✓
Cash and cash equivalent at the beginning		(87 500)✓
Cash and cash equivalent at the end		1 033 000✓

NB: do not ignore brackets for outflow of funds

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6.2.3

6.2.3.1	Debt/equity ratio
	130 000✓ : 2 600 000✓
	0.05 : 1✓
	operation if one part correct

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6.2.3.2	% return on average shareholders' equity (after tax)
$\frac{522\,900 \checkmark}{\frac{1}{2} \checkmark (2\,600\,000 \checkmark + 1\,768\,000 \checkmark)} \times \frac{100}{1}$ $\frac{522\,900}{2\,184\,000} \times \frac{100}{1}$ <p>23.94% <input checked="" type="checkbox"/></p> <p>operation if one part correct</p>	

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6.2.3.3	% return on total capital employed
$\frac{747\,000 \checkmark + 19\,500 \checkmark}{\frac{1}{2} \checkmark (2\,730\,000 \checkmark + 2\,708\,000 \checkmark)} \times \frac{100}{1}$ $\frac{766\,500}{2\,719\,000} \times \frac{100}{1}$ <p>28.19% <input checked="" type="checkbox"/></p> <p>operation if one part correct</p>	

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6.3

6.3.1 Comment on the price at which the new shares were issued for both companies, will the Directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question in each company.

Opinion in each company ✓
Any two valid ratios or figures in each company ✓✓
Quoting of relevant indicators in each company ✓✓

Mkhabela LTD

Opinion: No

Expected response:

- They sold the shares at 260 cents under the market price value (450 cents compared to 710 cents)
- They sold the shares at 85 cents under the NAV (450 cents compared to 535 cents)
- The existing shareholders are being disadvantaged. They could have raised a lot more if they had sold at the market price ($189\,000 \times 260 \text{ cents} = \text{R}491\,400$)

Nyembe LTD

Opinion: Yes

Expected response:

- They sold the shares at 280 cents above the market price value ($1\,200 \text{ cents}$ compared to 920 cents)
- They sold the shares at 80 cents above the NAV (1200 cents compared to 1120 cents)
- The existing shareholders and Directors will be happy to raise ($189\,000 \times 280 \text{ cents}$) $\text{R}529\,200$.

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6.3.2 Consider the use of loans by the two companies:

- Which company is making more use of loan? Quote a financial indicator for each company.
- Explain whether or not it was a good idea for that company to make use of loans. Quote one financial indicator.

Nyembe LTD ☐ ✓

Debt/equity ratio of Nyembe is 3.1 : 1 ✓ while Mkhabela is 0.2 : 1 ✓

No or not good ✓

Return on capital employed for Nyembe 16.8% ✓ which means that the return they are earning is lower than the interest rate of 17% on loan. That indicates negative gearing ✓

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6.3.3 MR Mathebula is of the opinion that the Directors of Nyembe are generally happy with handling of its working capital more effectively and in a better liquidity situation than Mkhabela LTD. Explain and quote THREE financial indicators to support his opinion

Financial indicator ✓✓✓

Quoting of figures ✓✓✓

Explanation ✓✓✓

- Current ratio of Nyembe is 2:1 and of Mkhabela LTD is 5, 1.1. Nyembe has enough current assets to cover his current liabilities whereas Mkhabela is holding too much of his funds in the form of current assets which may not result in a return for the business
- Acid test ratio of Nyembe LTD is 1 : 1 and of Mkhabela is 0.8 : 1. Nyembe can cover his short term debt. Mkhabela is holding much of his trading stock (stock piling)
- Stock turn- over rate of Nyembe is 10 times while Mkhabela is 6 times. Stock of Nyembe is sold fast compared with trading stock of Mkhabela

Do not accept average debtors collection period and average creditors payments period

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