



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2018**

**ACCOUNTING**

**MARKS: 300**

**TIME: 3 hours**



---

This question paper consists of 17 pages and a 16-page answer book.

---

**INSTRUCTIONS AND INFORMATION**

Read the 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 place.
7. A breakdown of the questions is provided. Attempt to comply with the suggested time allocation for each question.

QUESTION 1: 45 marks; 30 minutes	
Main topic:	This question integrates:
Cost Accounting	<b>Managerial Accounting</b>
	<ul style="list-style-type: none"> <li>• Concepts; Production Cost Statement</li> <li>• Break-even and unit cost analysis</li> </ul>
	<b>Managing resources</b>
	<ul style="list-style-type: none"> <li>• Internal control</li> </ul>
QUESTION 2: 40 marks; 25 minutes	
Main topic:	This question integrates:
Budgeting	<b>Managerial Accounting</b>
	<ul style="list-style-type: none"> <li>• Calculations and Interpretation of budgets</li> </ul>
	<b>Managing Resources</b>
	<ul style="list-style-type: none"> <li>• Internal control</li> </ul>
QUESTION 3: 75 marks; 45 minutes	
Main topic:	This question integrates:
Company Financial Statements	<b>Financial Accounting</b>
	<ul style="list-style-type: none"> <li>• Concepts; Income Statement</li> </ul>
	<b>Managing Resources</b>
	<ul style="list-style-type: none"> <li>• Fixed Assets management</li> <li>• Audit Report</li> </ul>
QUESTION 4: 65 marks; 40 minutes	
Main topic:	This question integrates:
Financial Statements, Cash flow and Interpretation	<b>Managerial Accounting</b>
	<ul style="list-style-type: none"> <li>• Concepts; Balance Sheet notes</li> <li>• Cash Flow Statement</li> <li>• Interpretation of financial information</li> </ul>
QUESTION 5: 45 marks; 25 minutes	
Main topic:	This question integrates:
Stock Valuation	<b>Managing resources</b>
	<ul style="list-style-type: none"> <li>• Stock valuation methods</li> <li>• Internal control</li> </ul>
QUESTION 6: 30 marks; 15 minutes	
Main topic:	This question integrates:
Reconciliations and VAT	<b>Financial accounting</b>
	<ul style="list-style-type: none"> <li>• Creditors Reconciliation</li> <li>• VAT calculations</li> </ul>
	<b>Managing resources</b>
	<ul style="list-style-type: none"> <li>• Internal control</li> </ul>

**QUESTION 1: COST ACCOUNTING****(45 marks; 30 minutes)**

1.1 Choose the correct answer from the words provided within brackets. Write only the answer next to the numbers (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 (**Office stationery/packing material**) will NOT be regarded as an administration cost.

1.1.2 Cleaning detergents used in the factory is an example of (**direct material/indirect material**).

1.1.3 An increase in the number of units produced will lead to a/an (**decrease/increase**) in the fixed cost per unit. (3 x 1) (3)

**1.2 LOLO MANUFACTURERS**

Lolo Manufacturers makes plastic buckets. Information for the financial year ended 28 February 2018 is provided.

**REQUIRED:**

1.2.1 Calculate the cost of the raw materials issued to the factory during the financial year. (8)

1.2.2 Calculate the following for the Production Cost Statement:

- Direct Labour Cost (7)
- Factory Overhead Cost (complete the table provided). (5)

1.2.3 Prepare the Production Cost Statement on 28 February 2018. (11)

**INFORMATION:**

A. **Stock balances:**

	<b>28 FEB. 2018</b>	<b>1 MAR. 2017</b>
	<b>R</b>	<b>R</b>
Raw materials	76 300	87 250
Work-in-process	?	30 000
Finished goods	31 800	27 800
Factory consumables	7 700	5 300

B. **Summary of transactions for the year ended 28 February 2018:**

Purchases of raw materials	R 694 150
Carriage on raw materials purchased	21 200
Consumable stores used in the factory	22 830
Cleaning materials purchased for the office	12 330
Production wages	423 400
UIF – Contribution for factory employees	?
Salaries: Factory foreman	154 200
Administration	189 000
Sales	217 000
Water and electricity	132 360
Sundry expenses: Factory	89 910
Administration	76 200
Sales department	68 390

**C. Additional information:**

- (i) An invoice for transport of raw materials, R4 200, has not yet been recorded.
- (ii) During the physical stock take of raw materials on 28 February 2018, 3 000 bucket handles were recorded at R5,00 each instead of R1,50 each. This must be corrected.
- (iii) The wage of a factory worker was omitted from the February 2018 wages journal. Her details are:
 

Net wage	R9 614
PAYE tax	R2 860
UIF (1% of gross)	R126
The employer contributes 1% to the UIF	
- (iv) The water and electricity account for February 2018, R3 240, was not paid. 75% of the water and electricity is allocated to the factory.
- (v) Buckets are sold at R96 each (60% mark-up on cost). Total sales for the financial year amounted to R2 457 600.

**1.3 GRENS BAKERY**

Information relating to the production of cakes is presented. The business is owned by Sydney.

**REQUIRED:**

- 1.3.1 Calculate the break-even point for 2018. (4)
- 1.3.2 Explain whether Sydney should be concerned about the break-even point and the level of production. Quote figures. (3)
- 1.3.3 Give a possible reason for the change in unit costs of direct material and of direct labour. (4)

**INFORMATION:**

		30 APRIL 2018	30 APRIL 2017
<b>UNIT COSTS</b>	Direct material	R14,50	R18,20
	Direct labour	R17,30	R12,40
	Selling and distribution	R8,40	R8,00
	Variable cost	R40,20	R38,60
Total fixed cost		R249 000	R242 720
Number of cakes produced and sold		15 000	14 800
Break-even point		?	13 950
Selling price per unit		R61,60	R56,00

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

2.1 Indicate whether the following statements are TRUE or FALSE. Write only True or False next to the numbers (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 A Cash Budget is prepared to show the actual receipts and payments for a specific period.

2.1.2 A Projected Income Statement would reflect the expected profit or loss for the budget period.

2.1.3 Only nominal accounts are recorded in a Cash Budget. (3)

2.2 **BANYAMA LTD**

The information relates to Banyama Ltd for the budget period ended 30 September 2018.

**REQUIRED:**

2.2.1 Complete the Debtors Collection Schedule. (7)

2.2.2 Calculate the amounts denoted by (i) to (vi) on the extract of the Cash Budget provided. (19)

2.2.3 **Refer to Information J:**

- Calculate the percentage increase in the manager's salary. (4)
- Comment on whether the salary and wage decision was justified. Quote figures. (3)
- Provide TWO possible consequences of this decision. (4)

**INFORMATION:**

A. The business sells kitchen appliances at a profit mark-up of 80% on cost. Stock is replaced in the month of sale. A base stock is maintained.

B. **Actual and budgeted figures for 2018:**

	JULY	AUGUST	SEPTEMBER
Sales	225 000	207 000	216 900
Purchases	125 000	?	120 500

C. 70% of total sales are on credit. Debtors pay as follow:

- 60% in the month following the sales month;
- 36% in the second month following the month of sales;
- 4% is written off.

D. All goods are purchased on credit. Creditors are paid after 30 days subject to a 5% discount.

**E. Extract from the Cash Budget for August and September 2018:**

	<b>AUGUST R</b>	<b>SEPTEMBER R</b>
Cash sales	62 100	(i)
Loan received	316 800	0
Payment to creditors	118 750	(ii)
Salary of manager	15 300	16 830
Wages of sales staff	38 400	38 400
Operating expenses	?	(iii)
Drawings	13 250	(iv)
Water and electricity	15 400	16 632
Deposit on new equipment	12 600	0
Instalment on new equipment	0	(v)
Instalment on loan	0	(vi)
Interest on loan	0	2 310

- F. Operating expenses amounts to R163 440 annually and is spread evenly throughout the budget period.
- G. The owners plan to draw 50% more than their usual monthly drawings to attend a live concert during September 2018.
- H. New equipment will be purchased during August 2018. A 15% deposit will be paid. The balance will be settled in equal instalments over 24 months, commencing on 30 September 2018.
- I. The loan was received from a partner. A fixed instalment will be paid on the 1<sup>st</sup> of each month. Interest at 9% p.a. will be paid at the end of each month, commencing in September 2018.
- J. Salaries and wages are revised in August each year. The manager's salary will increase on 1 September 2018. Due to the poor economic situation, the owner decided that a wage increase cannot be afforded.

**QUESTION 3: FIXED ASSETS, INCOME STATEMENT AND AUDIT REPORT****(75 marks; 45 minutes)****3.1 CONCEPTS**

Choose a category from the list provided for each example below. Write only the category next to the numbers (3.1.1–3.1.4) in the ANSWER BOOK.

non-current asset; current liability; expense; equity; current asset; income

3.1.1 Retained income

3.1.2 Amount due by SARS in respect of income tax for the year

3.1.3 Extensions to land and buildings

3.1.4 An increase in the Provision for Bad Debts (4 x 1) (4)

**3.2 YASHPAL LTD**

The information relates to the financial year ended 28 February 2018.

**REQUIRED:**

3.2.1 **Refer to Information A:**

Calculate the figures denoted by (i) to (iii) on the Fixed Asset note. (11)

3.2.2 Prepare the Asset Disposal account on 1 January 2018. (5)

3.2.3 Prepare the Income Statement for the year ended 28 February 2018. (46)

**INFORMATION:****A. Fixed Assets:**

	VEHICLES	EQUIPMENT
Cost (1 March 2017)	838 000	622 000
Accumulated depreciation (1 March 2017)	(420 000)	(264 000)
<b>Carrying value (1 March 2017)</b>	<b>(i)</b>	358 000
<i>Movements:</i>		
Additions	216 000	0
Disposals	0	<b>(iii)</b>
Depreciation	<b>(ii)</b>	(35 400)
<b>Carrying value (28 February 2018)</b>		
Cost (28 February 2018)		517 000
Accumulated depreciation (28 February 2018)		

- A new vehicle was purchased on 1 October 2017.
- Vehicles are depreciated at 15% on cost.
- Old equipment was sold on 1 January 2018 for R26 250, cash. A profit of R4 250 was made on this sale.



**B. Balances/totals extracted from the Pre-adjustment Trial Balance on 28 February 2018:**

Loan: GT Bank	R 542 000
Fixed deposit (8% p.a. interest)	195 000
Debtors control	112 245
Provision for bad debts	7 480
Trading stock	728 400
Sales	?
Cost of sales	4 250 000
Directors fees	336 500
Salaries and wages	222 700
Fee income	79 350
Audit fees	19 450
Rent expense	146 080
Packing material	43 730
Discount received	14 280
Bad debts	23 555
Sundry expenses	?

**C. ADDITIONAL INFORMATION AND ADJUSTMENTS:**

- (a) A credit sales invoice for R32 200 was not taken into account. Goods are sold at a profit mark-up of 75% on cost.
- (b) Stock-taking on 28 February 2018 revealed the following stock on hand:
  - Trading stock, R706 350
  - Packing material, R3 880
- (c) A debtor who owed R17 300 was declared insolvent. His estate paid 35 cents to the Rand and this was correctly recorded. The remaining balance must be written off as irrecoverable.
- (d) The provision for bad debts must be adjusted to 5% of debtors.
- (e) Directors' fees of R23 500 were still outstanding on 28 February 2018.
- (f) 50% of the audit fees were paid to the external auditor. The balance will be settled in March 2018.
- (g) Rent paid includes the rent for March 2018. Note that the rent increased by 7% on 1 December 2017.
- (h) The loan statement received on 28 February 2018 reflected an outstanding balance of R565 800. Interest, capitalised, was not taken into account.
- (i) Take into account interest on fixed deposit at 8% p.a. This investment was made on 1 September 2017.
- (j) After taking into account all the adjustments, the income tax for the year at 29% of the net profit amounted to R560 860.

**3.3 AUDIT REPORT: PICOLI LTD****REQUIRED:**

- 3.3.1 Briefly explain the role of the external auditor. (2)
- 3.3.2 What type of audit report did Picoli Ltd receive? Explain. (3)
- 3.3.3 Why would an existing shareholder be concerned about this report? Provide TWO points. (4)

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

We have audited the annual financial statements of Picoli Ltd, for the financial year ended 30 June 2018. Our responsibility is to express an opinion on these financial statements based on our audit.

**Audit opinion**

In our opinion, the financial statements fairly represent the financial position of the company at 30 June 2018, except for the advertising expenses in the Income Statement which could not be verified, as no documentation existed for this expenditure.

**Mashele and Fouche**  
**Chartered Accountants (SA)**

**12 August 2018**

**QUESTION 4: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION****(65 marks; 40 minutes)****4.1 CONCEPTS: MATCHING**

Choose a description from COLUMN B that matches the concept in COLUMN A. Write only the letter (A–F) next to the numbers (4.1.1–4.1.5) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Balance Sheet	A Reflects the financial performance of a business for a specific period
4.1.2 Liquidity	B The extent to which a business is making use of borrowed capital
4.1.3 Income Statement	C The ability of a business to pay off all its debts
4.1.4 Solvency	D This is the return earned by shareholders' investments in the business
4.1.5 Gearing	E The ability of a business to meet its current liabilities
	F Shows the financial position of a business in terms of its assets, liabilities and equity

(5 x 1) (5)

**4.2 KHLOE LTD**

The information relates to the financial year ended 31 May 2018.

**REQUIRED:**

4.2.1 Complete the cash generated from operations note for the Cash Flow Statement. (9)

4.2.2 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Fixed assets purchased (5)

4.2.3 Calculate the Net change in cash and cash equivalents. (4)

**INFORMATION:****A. Extract from the Balance Sheet and notes on 31 May 2018:**

	2018	2017
Fixed assets (carrying value)	R1 437 200	R1 120 400
<b>Current assets</b>		
Inventories	123 800	163 300
Trade and other receivables:	168 300	149 100
Trade debtors	155 600	134 700
SARS: Income tax	12 700	0
Expenses prepaid	0	14 400
Cash and cash equivalent	76 750	15 500
<b>Current liabilities</b>		
Trade creditors	122 900	162 600
SARS: Income tax	0	27 200
Shareholders for dividends	142 400	111 000
Income received in advance	11 100	0
Bank overdraft	0	124 300

**B. Additional Information:**

- (i) Net profit before income tax, R988 700;  
Net profit after income tax, R692 100.
- (ii) Old equipment were sold at carrying value of R283 500. Equipment were purchased during the financial year to upgrade the facilities.
- (iii) Depreciation for the year, R221 400.
- (iv) Total dividends (paid and recommended) as per the Retained Income note, R317 400.

**4.3 KWEZI LTD: ANALYSIS AND INTERPRETATION**

The information relates to the financial year ended 28 February 2018.

**REQUIRED:**

- 4.3.1 Prepare the Ordinary Share Capital note. (7)
- 4.3.2 Calculate the following financial indicators on 28 February 2018:
  - Net asset value per share (3)
  - Return on shareholders' equity (5)
- 4.3.3 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business. (4)
- 4.3.4 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures). (6)
- 4.3.5 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures. (5)
- 4.3.6 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation. (4)

**INFORMATION:****A. Extract from the Income Statement on 28 February:**

	<b>2018 R</b>	<b>2017 R</b>
Interest on loan	77 400	211 700
Net profit after tax	545 600	494 000

**B. Extract from the Balance Sheet on 28 February:**

	<b>2018 R</b>	<b>2017 R</b>
Shareholders' Equity	4 488 000	3 724 000
Ordinary share capital	4 291 500	?
Retained income	?	76 000
Loan: Buzza Bank (11% p.a.)	692 000	1 920 000

**C. Share Capital:**

- On 1 March 2017, the company had 760 000 shares in issue.
- On 1 June 2017, 30 000 shares were repurchased at R5,20 per share.
- On 31 October 2017, a further 150 000 shares were issued.

**D. Financial indicators on 28 February:**

	<b>2018</b>	<b>2017</b>
Current ratio	1,9 : 1	1,4 : 1
Acid test ratio	0,7 : 1	0,8 : 1
Average debtors collection period	38 days	57 days
Average creditors payment period	50 days	63 days
Debt/equity ratio	0,2 : 1	0,5 : 1
Earnings per share	62 cents	65 cents
Dividends per share	31 cents	52 cents
Return on shareholders' equity	?	13,7%
Return on capital employed	20,8%	22,3%
Net asset value	?	490 cents
Market price on JSE	515 cents	485 cents

**QUESTION 5: INVENTORY VALUATION****(45 marks; 25 minutes)**

5.1 Provide a stock valuation method that is best described by each statement below. Write only the valuation method next to each number (5.1.1–5.1.3) in the ANSWER BOOK.

5.1.1 Unique stock items of high value such as motor cars are valued individually.

5.1.2 Stock of appliances such as microwave ovens are always reflected at their most recent cost price.

5.1.3 Low-cost items such as golf balls are purchased in large quantities and reflect a similar value over time. (3 x 1) (3)

**5.2 CASUAL OUTFITTERS**

The information relates to Casual Outfitters, owned by Funiwe, for June 2018. The business sells men's jeans. Stock is valued using the weighted-average method and the periodic inventory system.

**REQUIRED:**

5.2.1 Calculate:

- Amount paid for carriage on 11 June 2018 (4)
- Value of the closing stock on 30 June 2018 (9)

5.2.2 Funiwe wants to change the method of valuing stock. The value of closing stock using the FIFO method will be R4 853 higher than the value using the weighted-average method.

- Explain the effect that this decision will have on the gross profit. (2)
- Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method. (4)

5.2.3 Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern. (5)

5.2.4 Comment on the stock balance on 30 June 2018. Is this appropriate? Explain. Provide ONE point. (3)

**INFORMATION:****A. Stock balances:**

DATE	NO. OF UNITS	TOTAL COST
1 June 2018	230	R28 633
30 June 2018	415	?

**B. Purchases and returns:**

Date	No. of units	Price per unit	Carriage on purchases	Total cost
11 June 2018	835	R130	?	R116 065
18 June 2018	780	R142	R7 020	R117 780
26 June 2018	380	R148	R3 420	R 59 660
<b>Total purchases</b>	<b>1 995</b>			<b>R293 505</b>
<b>Returns from 18 June purchases</b>	15	The supplier refunded the purchase price, excluding the carriage cost.		?

**5.3 PROBLEM-SOLVING**

Jay's Furnishers sells desks and chairs. The financial year ended on 28 February 2018.

**REQUIRED:**

Where applicable, provide relevant figures for ALL questions below.

**5.3.1 Desks:**

- What decision did Jay take regarding the selling price of the desks? (3)
- Explain TWO points on how this decision has affected the business. (6)

**5.3.2 Chairs:**

Jay decided to buy his chairs from a cheaper supplier. Provide TWO points on why you feel that this was NOT a good decision. (6)

**INFORMATION:**

	DESKS		CHAIRS	
	2018	2017	2018	2017
Orders received from customers	250	330	500	450
Gross units sold	250	318	380	450
Returns by customers	0	12	56	0
Selling price per unit	R420	R360	R126	R168
Cost price per unit	R240	R240	R90	R120
Mark-up %	75%	50%	40%	40%
Gross profit	R45 000	R36 720	R11 664	R21 600
Stock turnover rate	5,4 times	7,4 times	5,2 times	5,2 times

**QUESTION 6: RECONCILIATION AND VAT****(30 marks; 15 minutes)****6.1 CREDITORS RECONCILIATION**

Ladoo Traders buys goods on credit from Anami Suppliers. The information relates to August 2018.

**REQUIRED:**

- 6.1.1 Use the table in the ANSWER BOOK to indicate how the balances will change when preparing the creditors' reconciliation. Indicate the figure as well as a + for increase and a – for decrease. (11)

6.1.2 **Refer to Information (vi):**

An investigation revealed that only R21 500 of these goods were entered in the stock records. The remaining goods were ordered by M. Rice, the credit manager.

- Provide TWO possible actions that can be taken against M. Rice. (4)
- Explain TWO internal control measures that the business can use to prevent such incidents in future. (4)

**INFORMATION:****A. Balances:**

Account of Anami Suppliers in the Creditors' Ledger of Ladoo Traders on 31 August 2018	R95 160	Cr
Statement from Anami Suppliers 25 August 2018	R143 460	Dr

**B. Errors and omissions discovered during an investigation:**

- (i) An invoice for R26 000 received from Anami Suppliers was recorded correctly by Ladoo Traders. The statement reflects it as R20 600.
- (ii) Ladoo Traders had correctly recorded a discount of R820 for an early payment. This did not appear on the statement from Anami Suppliers.
- (iii) The statement reflected interest of R1 240 on an overdue balance. Anami Suppliers acknowledged that an error had been made.
- (iv) A debit note for R1 520 issued to Amanda Ltd was incorrectly recorded in the account of Anami Suppliers by Ladoo Traders.
- (v) A credit note for R2 440 received from Anami Suppliers for goods returned was incorrectly recorded as an invoice by Ladoo Traders.
- (vi) An invoice for R47 500 was reflected on the statement from Anami Suppliers but was not recorded by Ladoo Traders.
- (vii) A payment of R7 500 by Ladoo Traders on 27 August 2018 was recorded in the Creditors Ledger account of Anami Suppliers.



## 6.2 VAT: XEGO STORES

Xego Stores accounts for VAT every alternative month. All goods and services are subjected to VAT at the standard rate of 15%.

### REQUIRED:

Calculate the final amount payable to SARS on 31 July 2018.

(11)

### INFORMATION:

	INCLUDING VAT R	EXCLUDING VAT R	VAT AMOUNT R
Balance due to SARS (1 July 2018)			6 665
Cash and credit sales invoices	828 000	720 000	108 000
Purchase of trading stock	534 750	465 000	?
Stock returned to suppliers		3 200	480
Debtors' accounts written off			915
Office computer bought on credit		9 800	?
Discount allowed to debtors	10 810		?

30

**TOTAL: 300**













