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GRADE 12

ACCOUNTING
NOVEMBER 2014

MARKS: 300

TIME: 3 hours

This question paper consists of 17 pages and an answer book of 19 pages.

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 workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.



6. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 20 minutes	
Topic of the question:	This question integrates:
VAT, Inventory and Ethics	Financial accounting VAT concepts and calculations Managing resources Inventory valuation: FIFO and weighted average Ethical behaviour in a financial environment

QUESTION 2: 30 marks; 20 minutes	
Topic of the question:	This question integrates:
Creditors' Reconciliation and Internal Control	Financial accounting Reconciling a Creditors' Ledger Account to a statement of account Managing resources Internal control and internal audit Ethical behaviour in a financial environment

QUESTION 3: 65 marks; 40 minutes	
Topic of the question:	This question integrates:
Financial Statements: Balance Sheet, Interpretation and Ethics	Financial accounting Balance Sheet and notes Analysis and interpretation of financial information Managing resources Professional bodies and code of conduct Ethical behaviour in a financial environment

QUESTION 4: 75 marks; 45 minutes	
Topic of the question:	This question integrates:
Fixed Assets, Cash Flow Statement, Interpretation and Corporate Governance	Financial accounting Cash Flow Statement Analysis and interpretation of financial information Managing resources Interpret and report on movements of assets

QUESTION 5: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Cash Budget and Internal Control	Managerial accounting Cash Budget – analyse and interpret Managing resources Internal control and problem solving

QUESTION 6: 55 marks; 30 minutes	
Topic of the question:	This question integrates:
Manufacturing	Managerial accounting Production Cost Statement and notes Analysis and interpretation of unit costs and break-even point Managing resources Internal control and internal audit

QUESTION 1: VAT, INVENTORY AND ETHICS**(35 marks; 20 minutes)****1.1 CONCEPTS****REQUIRED:**1.1.1 What do the letters *VAT* stand for? (1)

1.1.2 What rate of VAT is charged on necessities such as brown bread, milk and fresh vegetables? (1)

1.1.3 What do the letters *FIFO* stand for? (1)

1.1.4 Write down the missing word:

The stock system which involves the recording of the cost of sales for every sales transaction is the ... inventory system. (1)

1.2 VAT: SEBENZA TRADERS

The business accounts for VAT on a two-monthly basis.

REQUIRED:

Calculate the final amount payable to SARS on 31 July 2014 (you may prepare a VAT Control Account to assist in your calculations). (9)

INFORMATION:

	INCLUDING VAT	EXCLUDING VAT	VAT AMOUNT
Balance owed by SARS on 1 July 2014			R11 200
Cash and credit sales invoices	R1 026 000	R900 000	R126 000
Purchase of trading stock	R627 000	R550 000	R77 000
Defective stock returned to suppliers	R2 223	R1 950	R273
Discount allowed to debtors for prompt payment		R47 800	?
New office computer bought on credit	R10 830		?

1.3 INVENTORY VALUATION: SMART UNIFORMS

You are provided with information relating to Smart Uniforms for June 2014. The business is owned by Harry Mavuso. They buy and sell school blazers. The business uses the weighted-average method for stock valuation and the periodic inventory system.

REQUIRED:

- 1.3.1 Calculate the total amount paid for carriage on the purchases on 11 June 2014. (4)
- 1.3.2 Calculate the value of the closing stock on 30 June 2014 using the weighted-average method. (8)
- 1.3.3 Harry is considering a change in the method of valuing stock. The value of closing stock using the FIFO method will be R20 850 higher than the value using the weighted-average method.
- Explain the effect that this will have on the gross profit. (2)
 - Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method. (4)
- 1.3.4 Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year. Give a calculation to support his concern. (4)

INFORMATION:**A. Inventory balances:**

Date	No. of units	Price per unit	Total cost
1 June 2014	410	R190	R77 900
30 June 2014	580	?	?

B. Purchases during the month:

Date	No. of units	Price per unit	Carriage on purchases	Total cost
11 June 2014	1 600	R215	?	R352 600
18 June 2014	1 210	R240	Nil	R290 400
26 June 2014	470	R265	R3 300	R127 850
Total purchases	3 280			R770 850
Returns from 18 June purchases	5			R1 200

QUESTION 2: CREDITORS' RECONCILIATION AND INTERNAL CONTROL
(30 marks; 20 minutes)

KZ Stores purchase goods on credit from Valley Ltd.

REQUIRED:

- 2.1 The bookkeeper, Litzie, says it is not necessary for her to prepare a Creditors' Reconciliation Statement because the creditors send monthly statements to the business anyway. What would you say to her? State TWO points. (4)
- 2.2 Use the table in the ANSWER BOOK to indicate how the relevant balances will change when preparing the creditors' reconciliation. Indicate the figure as well as a + for increase and a – for decrease. The first transaction (Information A) has been done for you. (16)

INFORMATION:

The following balances are provided:

In the account of Valley Ltd in the Creditors' Ledger of KZ Stores on 30 September 2014:	R112 820	Credit
On the statement received from Valley Ltd on 25 September 2014:	R182 150	Debit

The following errors and omissions were discovered during an investigation:

- A. A payment by KZ Stores of R9 000 was omitted from the Creditors' Ledger and the statement.
- B. An invoice for goods bought for R87 500 was reflected on the statement from Valley Ltd but was not recorded by KZ Stores.
- C. An invoice for R28 000 received from Valley Ltd was recorded correctly by KZ Stores. The statement of account reflects it as R20 800.
- D. KZ Stores had correctly recorded discount of R1 400 for early payment of their account. This has not been reflected on the statement from Valley Ltd.
- E. The statement reflects interest of R630 on the overdue account. Valley Ltd acknowledged that an error had been made and promised to reverse the entry in the October 2014 statement.
- F. A debit note for R2 100 issued to Value CC was incorrectly recorded in the account of Valley Ltd by KZ Stores.
- G. A credit note for R5 250 received from Valley Ltd for goods returned was incorrectly recorded as an invoice by KZ Stores.
- H. Goods purchased from Valley Ltd on 30 September 2014 for R4 600 were recorded by KZ Stores. The statement from Valley Ltd is dated 25 September 2014.

2.3 Refer to Information B:

As the internal auditor of KZ Stores, you have detected that only R50 000 of these goods were entered into the stock records by the storeman. The remaining goods were ordered privately by J van Wyk, an employee in charge of creditors.

2.3.1 Explain what action should be taken against J van Wyk. State TWO points. (4)

2.3.2 What must the business do to prevent a similar incident in future? Explain THREE points. (6)

30



QUESTION 3: BALANCE SHEET, INTERPRETATION AND ETHICS**(65 marks; 40 minutes)**

You are presented with information from the records of Vijay Limited. The financial year-end is 28 February 2014.

REQUIRED:

- 3.1 Prepare the following notes to the Balance Sheet:
- 3.1.1 Share capital (9)
- 3.1.2 Retained income (11)
- 3.2 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2014. Where notes are not required, show ALL workings in brackets. (26)
- 3.3 Calculate the return on average shareholders' equity for 2014. (5)
- 3.4 From 2013 to 2014 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer. (4)
- 3.5 Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case. (6)
- 3.6 The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Vijay Ltd. Janet owns 10 000 shares in Vijay Ltd.
- Explain why this is a problem and give a valid solution. (4)

INFORMATION:

A. The authorised share capital consists of 750 000 ordinary shares. On 1 March 2013, only 60% of the shares were in issue.

B. The following amounts were extracted from the records:

	28 Feb. 2014	28 Feb. 2013
Ordinary share capital	?	3 215 000
Retained income	?	322 500
Total ordinary shareholders' equity	?	3 537 500
Fixed assets (carrying value)	?	
Fixed deposit: Sam Bank	650 000	
Loan: William Bank	482 600	
Inventories	275 400	
Debtors' Control	243 500	
Creditors' Control	62 460	
Cash in the bank and petty cash	336 600	
Income received in advance (Rent)	12 120	
Prepaid expenses (Insurance)	7 600	
Provisional income tax payments	299 980	
Interim dividends paid on 31 Aug. 2014	270 000	

- C.** On 1 November 2013, the company issued a further 80 000 shares at R9,50 per share.
- D.** On 28 February 2014, the directors decided to repurchase 75 000 ordinary shares from the estate of a shareholder who had died. This shareholder had originally purchased his shares on the JSE at various times and at different prices. A repurchase price of R10,40 was accepted as being a fair price.
- E.** On 27 February 2014, a final dividend of 40 cents per share was declared. All shares, including the new shares issued and repurchased, qualify for final dividends.
- F.** The loan statement from William Bank received on 28 February 2014 reflected interest capitalised at R81 400. This was not recorded in the books. The business expects to settle 20% of the outstanding balance in the next financial year.
- G.** After all the above adjustments were taken into account the net profit before tax was calculated to be R1 161 000. The income tax is calculated at 30% of net income before tax.

H.

Financial indicators on 28 February:	2014	2013
Earnings per share (EPS)	170 cents	82 cents
Dividends per share (DPS)	100 cents	82 cents
Net asset value (NAV)	846 cents	786 cents
Return on shareholders' equity (ROSHE)	?	18,3%

I.

Additional information:	2014	2013
Market price of Vijay Ltd shares on JSE	1 032 cents	1 060 cents
Interest rate on alternative investments	9%	9%

**QUESTION 4: FIXED ASSETS, CASH FLOW STATEMENT: INTERPRETATION
AND CORPORATE GOVERNANCE (75 marks; 45 minutes)**

You are provided with information relating to Meteor Supermarkets Limited, a public company. The financial year-end is 28 February 2014.

REQUIRED:**4.1 Refer to Information E:**

Calculate the missing amounts (indicated by **a**, **b** and **c**) in the Fixed/Tangible Asset Note for the year ended 28 February 2014. (12)

4.2 Complete the Cash Flow Statement for the year ended 28 February 2014. Some of the details and figures have been entered in the ANSWER BOOK. Show workings in brackets. (31)

4.3 At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors.

Explain TWO points, with relevant figures, to support his opinion. (4)

4.4 Calculate the following financial indicators for the financial year ended 28 February 2014:

4.4.1 Net asset value per share (3)

4.4.2 Debt-equity ratio (3)

4.5 Comment on the liquidity position of the company. Quote THREE relevant financial indicators (actual figures/ratios/percentages) and their trends. (9)

4.6 The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not. (8)

4.7 The Bakker family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2013 had on their control of the company. Give a calculation(s) to support your answer. (5)

INFORMATION:**A. Extract from the Income Statement for the year ended 28 February 2014:**

Interest on loan (all capitalised)	88 500
Net profit before tax	1 575 000
Income tax	441 000

B. Extract from the Balance Sheet as at:

	28 Feb. 2014	28 Feb. 2013
Current assets	3 337 300	4 641 000
Inventories	818 200	641 000
Trade debtors	2 377 600	1 512 000
SARS: Income tax	128 000	-
Cash and cash equivalents	13 500	2 488 000
Shareholders' equity	8 839 000	7 400 000
Ordinary share capital	8 700 000	6 600 000
Retained income	139 000	800 000
Mortgage loan: Excel Bank (interest rate: 12,5% p.a.)	908 000	508 000
Current liabilities	2 063 700	1 302 000
Trade creditors	678 700	700 000
Shareholders for dividends	870 000	480 000
Bank overdraft	515 000	-
SARS: Income tax	-	122 000

C. Shareholders' register:

DATE	DETAILS
1 March 2013	1 200 000 shares in issue
31 March 2013	300 000 shares issued at R8 each
31 December 2013	The company bought back 50 000 shares from a dissatisfied shareholder, S Smit, at R9,50 each. The average price of all shares issued to date was R6 per share.
28 February 2014	1 450 000 shares in issue

D. Dividends for the financial year ending 28 February 2014:

Interim dividends paid on 31 August 2013	R750 000
Final dividends declared on 28 February 2014	R870 000

E. Fixed/Tangible assets:

	LAND AND BUILDINGS	VEHICLES
Carrying value at the beginning of the financial year	2 689 000	1 880 000
Cost	2 689 000	3 250 000
Accumulated depreciation	-	(1 370 000)
Movements		
Additions at cost	a	330 000
Disposals at carrying value	-	b
Depreciation	-	c
Carrying value at the end of the financial year	6 740 000	
Cost	6 740 000	3 440 000
Accumulated depreciation	-	

Additional information in respect of fixed/tangible assets:

- (i) A vehicle was sold for cash at its carrying value on 31 May 2013. The following extract of the vehicle sold was taken from the Fixed Assets Register:

Cost price: R140 000		Date purchased: 1 March 2012
Rate of depreciation: 20% p.a. on the diminishing-balance method		
FINANCIAL YEAR END	DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2013	28 000	28 000
31 May 2013	5 600	33 600

- (ii) A new vehicle, costing R330 000, was purchased and paid for by cheque on 1 January 2014.
- (iii) Vehicles are depreciated at 20% p.a. on the diminishing balance method.
- (iv) New premises (land and buildings) were acquired during the financial year.

F. Financial indicators:

	28 Feb. 2014	28 Feb. 2013
Debt-equity ratio	?	0,1 : 1
Net asset value per share (NAV)	?	617 cents
Current ratio	1,6 : 1	3,6 : 1
Acid-test ratio	1,2 : 1	3,1 : 1
Stock turnover rate	6,8 times p.a.	5,1 times p.a.
Debtors' collection period	40 days	35 days
% return on average capital employed	18,8%	16,4%

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QUESTION 5: CASH BUDGET AND INTERNAL CONTROL (40 marks; 25 minutes)

You are provided with information relating to Martin's Health Shop. The business sells a health drink which has a shelf life of two months. The financial year of the business ends on 30 September 2014. The newly appointed bookkeeper prepared a budget for the three months ended 31 December 2014. The Cash Budget he presented is not completely correct.

REQUIRED:**5.1 Refer to Information C:**

List FOUR items that should not have been placed in this Cash Budget. (4)

5.2 Complete the Creditors' Payment Schedule for the period October to December 2014 by calculating the amounts indicated by an asterisk (*). (9)

5.3 With reference to the prepared budget, calculate the following:

5.3.1 The total sales for September 2014 (3)

5.3.2 The percentage increase in rent income in December 2014 (3)

5.3.3 The salaries and wages amount for December 2014 (3)

5.3.4 The rate of interest on the loan (4)

5.4 Answer the following questions.

5.4.1 Calculate the period for which enough stock is on hand (in days) on 30 September 2014. Explain whether this is appropriate for the business. (6)

5.4.2 Calculate the mark-up percentage achieved for the year ended 30 September 2014. (4)

5.4.3 Comment on whether or not the change in the mark-up percentage has benefited the business. Give a calculation(s) to support your opinion. (4)

INFORMATION:

A. Figures extracted from the financial statements on 30 September 2013 and 2014:

	2014	2013
Sales	1 780 600	1 680 000
Cost of sales	1 228 000	?
Mark-up %	?	60%

B. It is business policy to maintain a stock base of R250 000 every month. Stock sold each month is replaced in the same month.

C. CASH BUDGET PREPARED BY THE BOOKKEEPER FOR THE PERIOD ENDED 31 DECEMBER 2014:

CASH RECEIPTS	OCTOBER	NOVEMBER	DECEMBER
Cash sales	238 000	212 500	221 000
Receipts from debtors	40 500	42 000	37 500
Loan: Mali Bank	-	-	150 000
Discount received	1 350	1 400	1 400
Rent income	8 000	8 000	9 000
	287 850	263 900	418 900
CASH PAYMENTS			
Total cost of sales	185 000	170 000	175 000
Cash purchases of trading stock	111 000	102 000	105 000
Bad debts	400	400	400
Salaries and wages	46 000	46 000	5.3.3
Interest on loan	-	-	1 125
Depreciation on equipment	8 200	8 200	8 200
Sundry cash expenses	18 000	18 900	?
	368 600	345 500	358 500
Cash surplus/deficit	(80 750)	(81 600)	60 400
Bank (opening balance)	45 000	(35 750)	(117 350)
Bank (closing balance)	(35 750)	(117 350)	(56 950)

- D.** Credit sales amounts to 15% of total sales. Debtors are expected to pay in full in the month following the month of sales.
- E.** 40% of all the trading stock was purchased on credit.
- F.** Creditors allow 60 days credit, but payments made within the month of purchase receive 5% discount. Based on past experience, the business pays as follows:
- 10% within the month of purchase
 - 75% in the month following the month of purchase
 - 15% in the second month following the month of purchase
- G.** The loan will be received on 1 December 2014.
- H.** The union negotiated an 8,5% increase in salaries and wages. This will only be effective from 1 December 2014.

QUESTION 6: MANUFACTURING**(55 marks; 30 minutes)****6.1 BRIAN'S BRELLIES**

Brian Jonas is the owner of Brian's Brellies, a business that manufactures umbrellas. The financial year ends on 31 July 2014.

REQUIRED:

- 6.1.1 **Refer to Information C:** Calculate the direct labour cost. (5)
- 6.1.2 **Refer to Information D:** Prepare the correct note for factory overhead cost. (19)
- 6.1.3 Prepare the Production Cost Statement for the year ended 31 July 2014. (10)

INFORMATION:

A. STOCK BALANCES	31 JULY 2014	1 AUGUST 2013
Raw material stock	R124 400	R98 780
Work-in-process stock	R42 600	R37 600
Indirect material	R3 600	R4 400

- B. Raw material issued to the factory for production: R623 700
- C. Three workers are employed in production. They each work 1 920 hours normal time per year at R95 per hour. In December 2013, each factory worker received a bonus of 12% of his annual earnings.
- D. The bookkeeper presented the following factory overhead cost calculation:

Sundry factory expenses	30 975
Indirect material	52 200
Rent expense	117 000
Advertising	10 500
Insurance	16 640
Salary of factory foreman	97 150
Water and electricity	20 010
TOTAL	344 475

The following errors were noticed:

- Stocks of factory indirect materials were not taken into account in calculating indirect materials used.
- The amount for rent expense is the total amount paid. Rent should be split between the factory, sales and administration sections in the ratio of 5 : 2 : 1.
- The amount for insurance is the total amount paid. This includes the August 2014 premium. Only 75% of this expense relates to the factory. There was no increase in monthly premiums.
- The factory foreman was on paid leave in July 2014. His salary for July 2014 was not processed. The factory foreman received a R900 monthly increase in his salary with effect from 1 June 2014.
- 60% of the water and electricity cost was allocated to the factory whereas it should have been 80%.

6.2 BEN'S CATERING

Ben Khulamo owns a small business that produces pies and doughnuts which he supplies to local school tuck shops.

Where comments/explanations are required below, quote figures, unit costs or financial indicators to support your opinions.

REQUIRED:

- 6.2.1 Identify ONE unit cost for doughnuts and TWO unit costs for pies that were major problems in 2014, considering that the inflation rate was 5%. For each unit cost identified, give a possible cause of the problem and give advice on how to rectify it. (12)
- 6.2.2 Ben feels that he can produce and sell more doughnuts. Calculate the number of extra doughnuts he must produce and sell to make an additional profit of R15 000. Assume that the unit costs and selling price for 2014 remain unchanged. (4)
- 6.2.3 Ben is concerned about the financial performance of his business and the fact that a new competitor has opened in the area. (5)
- Name the product which has been negatively affected by the new competitor.
 - Comment on how this would have affected the net profit on this product.

INFORMATION	DOUGHNUTS		PIES	
	2014	2013	2014	2013
Total units produced & sold	55 000 units	51 000 units	35 000 units	44 000 units
Break-even point (units)	21 667 units	24 074 units	38 095 units	18 519 units
Ben's selling price per unit	R8,00	R7,00	R12,50	R12,00
Selling price of competitor	R8,60	-	R12,50	-
VARIABLE COSTS PER UNIT	R5,00	R4,30	R8,30	R5,85
Direct material cost per unit	R1,95	R2,05	R5,05	R2,20
Direct labour cost per unit	R1,90	R1,55	R2,20	R2,60
Selling & distribution cost per unit	R1,15	R0,70	R1,05	R1,05
FIXED COSTS PER UNIT	R1,18	R1,27	R4,57	R3,64
Factory overhead cost per unit	R0,67	R0,78	R3,38	R2,50
Administration cost per unit	R0,51	R0,49	R1,19	R1,14