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GRADE 12

ACCOUNTING

NOVEMBER 2015

MARKS: 300

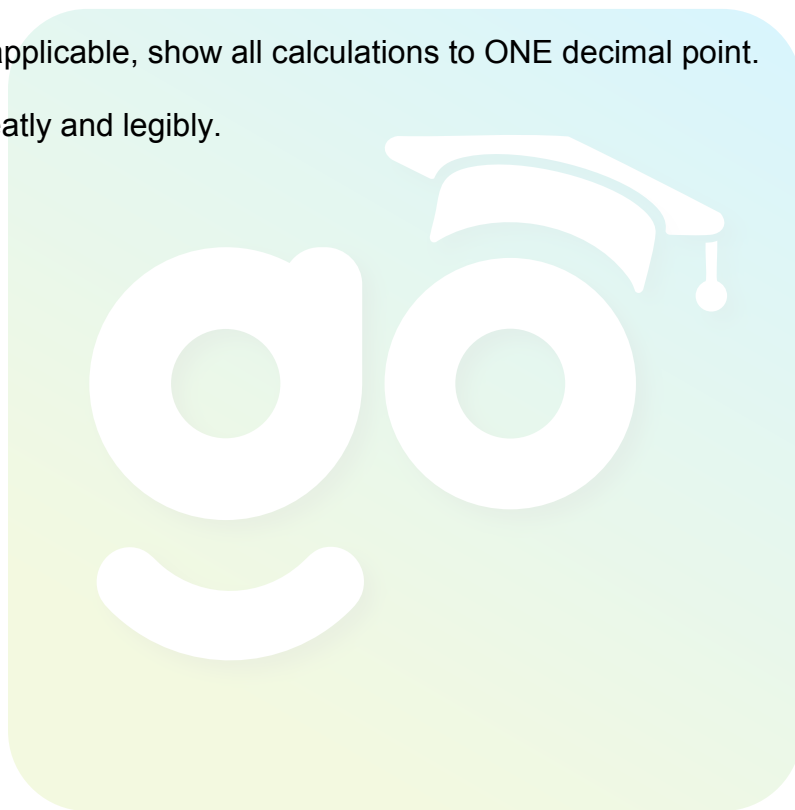
TIME: 3 hours

This question paper consists of 19 pages and a 15-page answer book.

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 ALL workings to earn 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. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.



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

QUESTION 1: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Reconciliation and Age Analysis	Financial accounting Bank reconciliation Debtors' age analysis Managing resources Internal control

QUESTION 2: 50 marks; 30 minutes	
Topic of the question:	This question integrates:
Inventory Systems and Valuation	Managing resources Inventory valuation Internal control

QUESTION 3: 60 marks; 35 minutes	
Topic of the question:	This question integrates:
Company Financial Statements and Audit Report	Financial accounting Income Statement Balance Sheet and notes Audit report Managing resources Ethics

QUESTION 4: 65 marks; 40 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Cash Flow Statement Interpretation of financial information Managing resources Internal control

QUESTION 5: 50 marks; 30 minutes	
Topic of the question:	This question integrates:
Cash Budget and Projected Income Statement	Managerial accounting Analyse and interpret a Cash Budget Projected Income Statement Managing resources Internal control

QUESTION 6: 35 marks; 20 minutes	
Topic of the question:	This question integrates:
Cost Accounting	Managerial accounting Production Cost Statement Analysis and interpretation of break-even point Managing resources Internal control

QUESTION 1: RECONCILIATION AND AGE ANALYSIS (40 marks; 25 minutes)**1.1 BANK RECONCILIATION AND INTERNAL CONTROL**

The information below relates to Eureka Traders.

REQUIRED:

- 1.1.1 Calculate the correct bank balance on 30 June 2015. (13)
- 1.1.2 Prepare the Bank Reconciliation Statement on 30 June 2015. (8)
- 1.1.3 **Refer to Information E.**
Identify TWO separate problems with evidence. Give advice for EACH problem. (6)

INFORMATION:

A. The following Bank Reconciliation Statement was prepared on 31 May 2015:

Balance as per Bank Statement (unfavourable)		(R13 000)
Outstanding deposit		30 000
Outstanding cheques:		
No. 614 (dated 20 December 2014)	Donation	(10 500)
No. 958 (dated 25 May 2015)	Merchandise	(7 900)
No. 962 (dated 30 July 2015)	Settlement of account	(4 500)
Correction of error		3 600
Balance as per bank account (unfavourable)		(2 300)

NOTE:

- The deposit of R30 000 appeared on the Bank Statement on 14 June 2015.
- The error of R3 600 was corrected by the bank on 10 June 2015.
- Cheque No. 958, issued in May 2015, was reflected on the Bank Statement for June as R9 700. The Bank Statement is correct. The other outstanding cheques have not been presented at the bank.

B. Provisional totals on 30 June 2015: CRJ: R87 220; CPJ: R74 860

C. The Bank Statement for June 2015 revealed the following:

- Direct deposit for rent income from the tenant, R21 000
- Stop order for insurance, R6 500
- R/D cheque originally received from F Mnisi for R2 250 in settlement of his debt of R2 300
- Bank charges, R210
- Balance as per Bank Statement, ?

D. The following cheques appeared in the Cash Payments Journal and not on the Bank Statement for June 2015:

- No. 982 for R2 200
- No. 986 for R1 400 (dated 28 July 2015)

E. The bookkeeper recorded the following entry in the June 2015 CRJ:

Doc.	Date	Details	Analysis	Bank	Sales
CS371-402	30	Cash	18 500	18 500	18 500

This was recorded by the bank on 15 July 2015. The internal auditor has noticed that cash slips, CS371-402, actually total R25 500.

1.2 DEBTORS' AGE ANALYSIS

The information below relates to Max Sportswear.

REQUIRED:**1.2.1 Refer to Information B.**

As the internal auditor, what concerns would you have over Susan's job description? Explain. (2)

1.2.2 Identify TWO debtors who could have their credit limits increased. (2)**1.2.3 Explain THREE different problems reflected by the Debtors' Age Analysis. Give evidence. (9)****INFORMATION:**

A. The business sells 80% of their stock on credit. Debtors are required to settle their accounts by the end of the month following the sales transaction month.

B. Susan, the bookkeeper, issues invoices and credit notes and collects cash from debtors.

C. Debtors' Age Analysis on 31 August 2015:

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
S Muller	R10 000	R12 000	R1 800	R4 200	R2 400	R3 600
L Ndlovu	R5 800	R5 000	R3 100		R1 900	
P Pillay	R3 500	R3 200	R3 200			
B Vasco	R5 000	R5 000		R2 600	R1 600	R800
C Crooks	R4 500	R4 100	R3 500	R600		
R Aucamp	R1 500	R1 400	R500			R900
		R30 700	R12 100	R7 400	R5 900	R5 300
		100%	39%	24%	19%	18%

QUESTION 2: INVENTORY SYSTEMS AND VALUATION (50 marks; 30 minutes)

2.1 INVENTORY VALUATION

Josy Fashions uses the periodic stock system and the weighted-average method to value stock of jackets. Josy Arrakal owns the business.

REQUIRED:

- 2.1.1 Explain the difference between the *perpetual stock system* and the *periodic stock system*. (2)
- 2.1.2 Calculate the value of the stock on hand on 28 February 2015 using the weighted-average method. (9)
- 2.1.3 Calculate how long (in days) it will take to sell the closing stock of 650 jackets. Use the closing stock in your calculation. (5)
- 2.1.4 Josy is considering a change in the method of valuing stock. (6)
- Calculate the value of closing stock using the FIFO method. (6)
 - Give ONE reason in favour of and ONE reason against changing to the FIFO method. (4)

INFORMATION:

Records of jackets for the year ended 30 June 2015:

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 March 2014)	300	R1 156	R346 800
Purchases	3 230		R3 686 400
April 2014	1 400	R1 050	R1 470 000
July 2014	1 320	R1 200	R1 584 000
November 2014	510	R1 240	R632 400
Subtotal	?		R4 033 200
Goods returned (from July purchases)	150	?	?
Sales	2 730	R1 425	R3 890 250
Closing stock (28 February 2015)	650	?	?

2.2 INTERNAL CONTROL

Josy Fashions also sells shirts and jeans.

REQUIRED:

- 2.2.1 Calculate the number of shirts stolen. Give TWO points of advice. (9)
- 2.2.2 Comment on the stock-holding period of EACH product and explain how these would affect the business. Quote figures. (9)
- 2.2.3 Josy is unsure whether she is charging the right prices for her products. Give her advice on EACH product. Quote figures. (6)

INFORMATION:

Summary for the year ended 30 June 2015:

	JACKETS (UNITS)	SHIRTS (UNITS)	JEANS (UNITS)
Number of units sold	2 730	7 200	320
Opening stock	300	400	0
Closing stock	650	270	280
Purchases (less returns)	3 080	7 380	600

Weighted-average cost per unit	See 2.1.2.	R150	R500
Selling price per unit	R1 425	R310	R850
Stock-holding period	See 2.1.3.	14 days	319 days

QUESTION 3: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT
(60 marks; 35 minutes)**3.1 PRIDONA LIMITED**

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

REQUIRED:**3.1.1 Refer to Information B.**

Calculate the correct net profit after tax for the year ended 30 June 2015. Indicate a + for increase and a – for decrease. (13)

3.1.2 Prepare the Retained Income Note on 30 June 2015. (11)

3.1.3 Prepare the Balance Sheet on 30 June 2015. Where notes are NOT required, workings must be shown. (30)

INFORMATION:**A.** List of balances/totals on 30 June 2015:

BALANCE SHEET ACCOUNTS SECTION	
Ordinary share capital	R5 600 000
Retained income (1 July 2014)	2 700 000
Mortgage loan: Custom Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2014)	11 400
Cash and cash equivalents (balancing figure)	?
SARS: Income tax (provisional tax payments)	725 000
Income receivable (accrued)	5 200
Creditors' control	261 000

B. Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:

- (i) Trading stock on 30 June 2015 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2015, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.
- (v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.
- (vi) Income tax amounts to R750 000 for the year.

C. Dividends and shares:

- (i) Interim dividends of R600 000 were paid on 31 December 2014.
- (ii) The directors declared a final dividend of 22 cents per share on 30 June 2015 on all shares issued to date. Shares repurchased on 31 May 2015 do not qualify for final dividends.
- (iii) Share capital:

1 July 2014	3 000 000 shares were in issue (R3 900 000)
15 August 2014	1 000 000 new shares were issued at R1,70 each (R1 700 000). This has been recorded.
31 May 2015	20 000 shares were repurchased at R2,50 each from an existing shareholder (R50 000). This has not been recorded.

- D.** A debtor's debit balance of R1 000 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.
- E.** The mortgage loan from Custom Bank was obtained on 1 April 2014. This will be repaid over 6 years. A fixed loan repayment (excluding interest) is made at the end of each month. The first monthly loan repayment was made on 30 April 2014. All other loan repayments have been made. Interest is not capitalised and has been correctly recorded.

3.2 AUDIT REPORT

REQUIRED:

3.2.1 Choose the correct word from those given in brackets. Give a reason.

Trimex Ltd received a/an (qualified/unqualified/disclaimer) audit report. (2)

3.2.2 Explain TWO consequences of this audit report for the company and/or the CEO. (4)

INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Basis for our opinion

The company's procurement policy states that purchases over R100 000 must be approved by the board of directors and supported by three quotations from independent suppliers.

During the year under review the company purchased two vehicles at a cost of R900 000. This was approved by the CEO without reference to the board. Only one quotation was received.

Audit opinion

Because of the significance of this matter, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the financial statements of Trimex Ltd for the year ended 30 June 2015.

Devi & Meyiwa Associates, CA (SA)

QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION**(65 marks; 40 minutes)****4.1 CONCEPTS**

Give ONE term for each of the following descriptions by choosing a term from the list below. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

directors' report; Balance Sheet; shareholder; director;
internal auditor; Cash Flow Statement; independent auditor

- 4.1.1 A person employed by a company to check and advise management on the financial control systems (1)
- 4.1.2 The person appointed by the shareholders who expresses an unbiased opinion on the financial statements of a company (1)
- 4.1.3 A person appointed to manage a company and make decisions to ensure its smooth running (1)
- 4.1.4 The financial statement that shows the financial position of a business on a certain date (1)

4.2 SENZO LTD

The information below relates to Senzo Ltd.

REQUIRED:

- 4.2.1 Calculate the following figures that will appear on the Cash Flow Statement:
- Income tax paid (5)
 - Proceeds from disposal of fixed assets (carrying value) (5)
 - Net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash. (5)
- 4.2.2 Complete the section of the Cash Flow Statement for cash effects of financing activities. (12)
- 4.2.3 Calculate the following for the financial year ended 28 February 2015.
- Acid-test ratio (4)
 - Return on shareholders' equity (ROSHE)
(Use average equity in your calculation.) (5)
 - Net asset value (NAV) per share (3)

INFORMATION:**A.** Figures from the Balance Sheet and notes:

	28 FEBRUARY 2015	28 FEBRUARY 2014
Fixed assets (carrying value)	R4 137 700	R2 598 300
Financial assets (fixed deposit)	350 000	600 000
Current assets	662 300	575 500
Inventories	322 000	345 000
Trade and other receivables	245 000	228 000
SARS: Income tax	6 400	–
Cash and cash equivalents	88 900	2 500
Shareholders' equity	3 439 500	2 718 000
Ordinary share capital	2 967 000	2 520 000
Retained income	472 500	198 000
Non-current liabilities	1 200 000	500 000
Current liabilities	510 500	555 800
Trade and other payables	323 000	285 000
Shareholders for dividends	187 500	108 000
SARS: Income tax	–	9 800
Bank overdraft	–	153 000

B. Extract from the Income Statement for the year ended 28 February 2015:

Gross profit	R2 040 000
Depreciation	215 100
Operating profit	1 300 000
Interest expense	132 000
Net profit before tax	1 175 000
Net profit after tax	846 000

C. Share capital:

- Authorised share capital consists of 800 000 ordinary shares.
- 150 000 new ordinary shares were issued on 1 October 2014.
- 60 000 ordinary shares were repurchased on 1 January 2015 at 90 cents above the average issue price of R4,30.
- On 28 February 2015 the share register reflected that a total of 690 000 shares had been issued to date.

D. Fixed assets:

- Additional property was purchased for R2 100 000. No other fixed assets were purchased.
- Equipment was sold at carrying value.

4.3 DON LTD AND KEY LTD

You have R50 000 to invest in a listed company. You choose to focus on two companies in the same industry.

NOTE: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

REQUIRED:

- 4.3.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company. (6)
- 4.3.2 Compare and comment on the dividend pay-out policies of the two companies. (6)
- 4.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (6)
- 4.3.4 Apart from the points mentioned above, what other factors would you consider before deciding in which company you are going to invest? Explain TWO points. (4)

INFORMATION:

	DON LTD	KEY LTD
Current ratio	4,3 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,8 : 1
Stock turnover rate	4 times	6 times
Stock-holding period	90 days	62 days
Average debtors' collection period	54 days	26 days
Average creditors' payment period	59 days	62 days
Debt-equity ratio	0,3 : 1	1,6 : 1
Return on total capital employed (ROTCE)	15,6%	10,2%
Return on shareholders' equity (ROSHE)	17,2%	9,1%
Earnings per share (EPS)	420 cents	980 cents
Dividend per share (DPS)	360 cents	490 cents
Net asset value per share (NAV)	310 cents	750 cents
Market price of shares on JSE	400 cents	645 cents
Interest rate on loans	11,5%	11,5%

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QUESTION 5: CASH BUDGET AND PROJECTED INCOME STATEMENT
(50 marks; 30 minutes)

5.1 BRUCE TRADERS

Benny Bruce owns Bruce Traders. You are provided with information for two months.

REQUIRED:

Complete the Cash Budget for November and December 2015. Certain figures have been entered for you. (25)

INFORMATION:

A. Extract from the Projected Income Statement:

	NOVEMBER 2015	DECEMBER 2015
Sales	R1 050 000	R997 500
Cost of sales	600 000	570 000
Commission income	7 000	8 000
Sundry expenses	22 500	?
Depreciation	2 200	2 200
Wages and salaries	?	256 000
Bad debts	19 500	34 125
Advertisements	0	11 000
Discount allowed	20 475	18 900
Interest expense (9% p.a.)	3 780	3 510

B. ADDITIONAL INFORMATION:

- (i) Cash sales amount to 40% of all sales.
- (ii) A mark-up of 75% on cost is maintained. Stock is replaced in the same month as sales.
- (iii) 20% of all purchases of stock are bought for cash.
- (iv) All creditors are paid in full in 30 days (in the month following the purchase).
- (v) Commission is received one month after it is earned. Commission is budgeted to increase by R1 000 per month.
- (vi) Sundry expenses consist of cash items only. It is expected to decrease by 8% each month.
- (vii) Wages and salaries for December 2015 include a bonus of R40 000 for the manager. A wage and salary increase of 8% for all employees will be applied from 1 December 2015.
- (viii) Advertisements will appear in a newspaper on the first day of each month, commencing on 1 December. Payment to cover three advertisements will be made in full on 15 November.
- (ix) The interest rate is 9% p.a. Interest is not capitalised and is paid monthly. A portion of the loan will be repaid on 30 November 2015.

5.2 SLEEPEZI BEDS (PTY) LTD

You are provided with information for two months ending 31 October 2015. The business sells one type of bed.

REQUIRED:

- 5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015. Should the employees be satisfied with this? Explain. (3)
- 5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct. Explain your answer. (3)
- 5.2.3 A competitor, BB Beds, which sells only for cash, opened a store nearby on 1 October 2015.
- Comment on how the new competitor has affected the sales of Sleepenzi Beds. Provide figures. (4)
 - Explain how Sleepenzi Beds has responded to this problem. Provide THREE points. Provide figures. (9)
- 5.2.4 Cash balances:
- Comment on the cash balances. Provide figures. (2)
 - Explain how the directors can improve the cash balances in future. Explain TWO points. (4)

INFORMATION:

A. Expected sales, cost of sales and deliveries:

- The business budgets on selling 300 beds per month.
- The cost price of each bed is R3 000 and the selling price is R5 000. No discounts are allowed.
- The stock of beds is replaced in the month of sale.
- Suppliers are paid in the month of purchase.
- The business uses Cape Deliveries to deliver the beds to each customer.

B. Extract from the Cash Budget:

	SEPTEMBER 2015		OCTOBER 2015	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Cash surplus (deficit) for month	110 000	125 000	120 000	(440 000)
Cash at beginning of month	105 000	105 000	215 000	230 000
Cash at end of month	215 000	230 000	335 000	(210 000)

C. Extract from the Projected Income Statement:

	SEPTEMBER 2015		OCTOBER 2015	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Number of beds sold	300 beds	320 beds	300 beds	240 beds
Cash sales	1 200 000	1 280 000	1 200 000	300 000
Credit sales	300 000	320 000	300 000	900 000
Total sales	1 500 000	1 600 000	1 500 000	1 200 000
Cost of sales	(900 000)	(960 000)	(900 000)	(720 000)
Gross profit	600 000	640 000	600 000	480 000
Operating expenses	(313 000)	(323 000)	(407 600)	(374 960)
Directors' fees	80 000	80 000	80 000	36 000
Salaries and wages	30 000	30 000	31 800	31 800
Advertising	10 000	10 000	10 000	40 000
Delivery costs (Cape Deliveries)	150 000	160 000	150 000	168 000
Audit fees	0	0	90 000	50 000
Rent expense	28 000	28 000	30 800	34 160
Sundry expenses	15 000	15 000	15 000	15 000
Operating profit	287 000	317 000	192 400	105 040

QUESTION 6: COST ACCOUNTING**(35 marks; 20 minutes)****6.1 SNAZZY HANDBAGS**

The information below relates to the financial year ended 30 September 2015. The business manufactures one type of handbag.

REQUIRED:

Prepare the Production Cost Statement on 30 September 2015. Show ALL workings. (21)

INFORMATION:

A. Figures provided by the bookkeeper on 30 September 2015:

	R
Administration cost	380 000
Direct material cost	976 000
Direct labour cost	755 000
Factory overhead cost	442 080
Selling and distribution cost	219 200
Work-in-process: 1 October 2014	74 000
30 September 2015	?
Total cost of production of finished goods	2 187 500

B. An internal audit revealed the following:

- Damaged raw material, valued at R17 000, that had been returned to the supplier was omitted in the calculation of the direct material cost.
- The factory overhead cost total included the full amount of R62 400 for rent expense. Only $\frac{2}{3}$ of this expense must be allocated to the factory. The remainder must be split equally between the office and the sales department.
- The salary of a factory foreman on leave was not recorded. Details of his salary are as follows:

Deduction for SARS: PAYE	R2 560
Deduction for pension fund and UIF	?
Net salary	R8 320

The employer's contribution for pension fund and UIF amounts to R1 920. The business contributes on a rand-for-rand basis.

6.2 HEALTHY LIFESTYLE COOKWARE

This business manufactures enamel pots.

REQUIRED:

6.2.1 Calculate the following for the financial year ended 31 August 2015:

- Variable cost per unit (3)
- Break-even point (5)

6.2.2 Explain why the owner should be concerned about the break-even point and level of production. Provide TWO points. Provide figures. (4)

6.2.3 Identify ONE other problem relating to this business. Provide figure(s). (2)

INFORMATION:

	ENAMEL POTS	
	2015	2014
Number of units produced and sold	27 000	32 000
Total fixed cost	R2 850 000	R2 660 000
Total variable cost	R2 160 000	R2 080 000
Selling price per unit	R175	R160
Selling price of competitor	R170	R130
Break-even point in number of units	?	28 000
Total sales	R4 725 000	R4 960 000

35

TOTAL: 300