



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
NOVEMBER 2017**

MARKS: 300

TIME: 3 hours

This question paper consists of 21 pages and a 17-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.

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

QUESTION 1: 30 marks; 20 minutes	
Topic:	This question integrates:
Bank Reconciliation and Internal Control	Financial accounting Reconciling Bank Account with Statement Managing resources Internal control

QUESTION 2: 55 marks; 30 minutes	
Topic:	This question integrates:
Manufacturing	Managerial accounting Production Cost Statement Profit/Loss calculations Managing resources Analysing break-even and unit costs

QUESTION 3: 65 marks; 40 minutes	
Topic:	This question integrates:
Fixed Assets, Balance Sheet and Audit Report	Financial accounting Balance Sheet Audit report Managing resources Calculations: Fixed assets

QUESTION 4: 85 marks; 50 minutes	
Topic:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Concepts Cash Flow Statement Interpretation of financial information

QUESTION 5: 35 marks; 20 minutes	
Topic:	This question integrates:
Inventory Valuation	Managerial accounting Concepts Inventory valuation calculations Managing resources Internal control

QUESTION 6: 30 marks; 20 minutes	
Topic:	This question integrates:
Budgets	Managerial accounting Cash Budget Calculations Problem-solving

QUESTION 1: BANK RECONCILIATION AND INTERNAL CONTROL
(30 marks; 20 minutes)

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 A favourable balance on the Bank Statement is indicated as a debit.

1.1.2 A post-dated cheque received must be entered on the date received.

1.1.3 An issued cheque that has been lost must be cancelled in the CRJ. (3 x 1) (3)

1.2 **MENZIES TRADERS**

The given information relates to Menzies Traders for June 2017.

REQUIRED:

1.2.1 Calculate the following on 30 June 2017:

- Correct totals for the CRJ and CPJ
- Bank account balance (14)

1.2.2 Prepare the Bank Reconciliation Statement on 30 June 2017. (9)

1.2.3 Explain the problem relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future. (4)

INFORMATION:

A. The Bank Reconciliation Statement on 31 May 2017 showed the following:

Unfavourable balance on the Bank Statement	R1 450
Outstanding deposits:	
• 17 May 2017	30 000
• 31 May 2017	16 200
Outstanding cheques:	
• 605 (dated 16 December 2016)	9 750
• 812 (dated 10 April 2017)	8 550
• 816 (dated 25 May 2017)	13 590
• 819 (dated 15 August 2017)	7 650
• 823 (dated 31 May 2017)	2 900
Unfavourable balance on the Bank account in the Ledger	R5 210

B. Provisional Cash Journal totals on 30 June 2017:

- Cash Receipts Journal: R90 500
- Cash Payments Journal: R85 920

C. Entries in the Cash Journals for June 2017 that do not agree with the June Bank Statement:

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	EFT 19	11	Paintco	R5 500
	Deposit slip 451	25	Cash sales	R40 500

NOTE: EFT 19 was incorrectly entered in the CRJ instead of the CPJ.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	Cheque 870	25	VN Ltd	R16 800
	EFT 21	30	SJ Stores	R2 250

D. Items on the Bank Statement dated 30 June 2017 that do not agree with the June Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
02	Deposit (17/5)		30 000
05	Cheque 812	8 550	
09	Debit order (insurance)	2 290	
11	Direct transfer to Paintco (EFT 19)	5 500	
12	Cheque 816	13 590	
16	Deposit (31/5)		16 200
18	Direct transfer from S Smit (rent)		16 500
22	Cheque 823 (see note below)	9 200	
23	Unpaid cheque (B Blast settled his debt, R795)	750	
24	Service fee	1 220	

NOTE:

- Cheque 823: Bank Statement figure is correct.
- Service fees were overstated by R900. The bank will rectify the problem next month.

E. The Bank Statement on 30 June 2017 reflected a balance of R?.

QUESTION 2: MANUFACTURING**(55 marks; 30 minutes)****2.1 GEVEN MANUFACTURERS**

The business produces wooden tables.

REQUIRED:

Prepare the following for the year ended 28 February 2017:

2.1.1 Production Cost Statement (14)

2.1.2 Abridged Income Statement (14)

INFORMATION:**A. Stock on hand:**

	28 FEBRUARY 2017	1 MARCH 2016
Work-in-process	?	R160 000
Finished goods	400 tables, valued using FIFO method	1 200 tables at R280 = R336 000

B. Production and sales for the year:

- 7 200 tables were produced at a unit cost of R330 each.
- 8 000 tables were sold for R4 080 000.

C. Costs (before adjustments):

Administration	R148 400
Factory overheads	R487 200
Direct materials	R1 050 000
Direct labour	?
Selling and distribution	R422 000

Adjustments:

- Payment to EZ Transport, R102 000, was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory.
- The cleaning contract for the year, R126 000, was shared between Factory and Administration in the ratio 2 : 1. However, 80% should have been allocated to Factory.

D. Prime cost: R1 800 000 (after adjustments)

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2.2 GYMWEAR MANUFACTURERS

Gymwear Manufacturers is owned by Jan Fiks. They produce shoes and shirts for gym training. Jan requires assistance in interpreting his 2017 results. Note that one pair of shoes comprises one unit.

REQUIRED:

2.2.1 Shirts:

- Calculate the break-even point for shirts. (4)
- Jan is not satisfied with the variable costs per unit, even though the total variable costs per unit decreased by R6.
 - Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem. (4)
 - Explain why Jan might be concerned about the large decreases in the other TWO variable costs. (4)
- Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures). (4)

2.2.2 Shoes:

- Calculate the % increase in the selling price of shoes. (3)
- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures. (4)
- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)

INFORMATION:

	SHIRTS		SHOES	
	2017	2016	2017	2016
Break-even point	?	11 522	3 842	4 317
Units produced and sold	16 100	25 000	7 750	6 500
Net profit	R500 400	R620 000	R2 379 750	R1 183 000
Selling price per unit	R302	R290	R1 640	R1 260
Selling price of competitors	R310	R290	R1 100	R1 250
Total fixed costs (factory overhead and administration)	R530 000	R530 000	R2 340 000	R2 340 000
Total fixed cost per unit	?	?	R302	R360
Total variable costs per unit	R238	R244	R1 031	R718
Direct material costs per unit	R92	R116	R456	R330
Direct labour costs per unit	R131	R100	R381	R360
Selling and distribution costs per unit	R15	R28	R194	R28
Unit cost of production	R242	R228	R1 100	R1 004

QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT
(65 marks; 40 minutes)

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

REQUIRED:

3.1 **Refer to Information B.**

Calculate the missing amounts denoted by (a) to (e). (22)

3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

Balance Sheet accounts section	R
Ordinary share capital	?
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	?
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
Nominal accounts section (pre-adjustment amounts)	
Insurance	30 200
Rent income	108 450
Electricity	42 000

B. Fixed assets:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	(a)	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	(d)	
Depreciation		(b)	(13 766)	
Carrying value (28/02/2017)	2 550 000	(c)	50 994	(e)
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.
- The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.
- Extract from the Fixed Assets Register in respect of equipment sold:

Fridge (Model X3)			
Date purchased: 1 March 2014			
Date sold: 31 December 2016		Sold for: R81 250	
Depreciation rate: 10% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	BOOK VALUE
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

- C. The electricity account for February 2017, R5 600, was still outstanding.
- D. The provision for bad debts must be increased by R270.
- E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.
- F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.
- G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.
- H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.
- I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

NOTE:

- Interest has not been entered in the books.
 - R50 000 of the loan balance will be settled in the next financial year.
- J. The net asset value per share on 28 February 2017 is 620 cents.
- K. The current ratio is 2,1 : 1 on 28 February 2017.

3.3 AUDIT REPORT

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

REQUIRED:

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

(6)

INFORMATION:**EXTRACT FROM THE AUDIT REPORT OF KARIN LTD**

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion

In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

Audit Opinion

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

Bongani and Botha, Chartered Accountants (SA)

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION**(85 marks; 50 minutes)**

- 4.1 Choose a term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

- 4.1.1 ... are appointed by the shareholders to manage the company.
- 4.1.2 The ... is employed by the company to set up functional internal control processes.
- 4.1.3 A ... is a person who invests in a company by buying shares.
- 4.1.4 ... are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

4.2 **SO-FINE LTD**

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

- 4.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:
- Ordinary share capital (7)
 - Retained income (9)
- 4.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)
- 4.2.3 Calculate the following financial indicators on 31 August 2017:
- Percentage operating profit on sales (3)
 - Debt-equity ratio (4)
- 4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

INFORMATION:

A. Information from the Income Statement for the financial year ended 31 August 2017:

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

B. Information from the Balance Sheet on 31 August:

	2017 (R)	2016 (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

D. Fixed assets: Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

(See QUESTION 4.3 on the next page.)

4.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

- 4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 4.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
 - Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

RONKI LTD

- 4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:**Financial indicators and additional information from annual reports:**

	CASTRO LTD		RONKI LTD	
	2017	2016	2017	2016
Debt-equity ratio	0,5 : 1	0,8 : 1		
Current ratio			1,9 : 1	3,5 : 1
Acid-test ratio			1,1 : 1	1,7 : 1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents

QUESTION 5: INVENTORY VALUATION**(35 marks; 20 minutes)****5.1 CONCEPTS**

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

- 5.1.1 The (specific identification/weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities.
- 5.1.2 Cost of sales is determined at the point of sale in the (perpetual/periodic) inventory system.
- 5.1.3 Stock valued according to the (first-in-first-out/weighted-average) method determines stock on hand by recording the cost prices of the most recent stock purchases.
- 5.1.4 In the periodic inventory system, carriage on goods purchased is recorded as an (expense/asset) to the business. (4 x 1) (4)

5.2 HOT-WHEELS (PTY) LTD

You are provided with information relating to Hot-Wheels (Pty) Ltd for the three months ending 30 September 2017. The business trades in motorbikes and helmets.

Mike, the owner, wants to assess his stock records before any price increases during the year.

REQUIRED:**Motorbikes:**

- 5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method. (7)
- 5.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. (4)

Helmets:

- 5.2.3 Calculate the value of the closing stock on 30 September 2017 using the weighted-average method. (9)
- 5.2.4 Is the weighted-average method appropriate to value the helmets? Explain ONE point. (3)
- 5.2.5 Mike suspects that helmets are being stolen from the shop despite security cameras being installed.
- Provide a calculation to verify his suspicion. (5)
 - What can Mike do to improve the internal control of stock? State THREE points. (3)

INFORMATION:**A. Motorbikes:**

Information for three months ended 30 September 2017:

Stock on 1 July 2017:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	12	24 300	291 600

Total purchases:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	6	24 300	145 800
AO3	15	27 400	411 000
AO4	18	31 600	568 800
	39		1 125 600

Sales:

MODEL	UNITS SOLD	TOTAL SALES AMOUNT (R)
AO2	8	311 040
AO3	11	482 240
AO4	10	505 600
	29	1 298 880

B. Helmets:

Information for three months ended 30 September 2017:

Stock balances according to physical count:

	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
1 July 2017	30	R500	R15 000
30 September 2017	12		?

Purchases:

DATE	UNITS PURCHASED	COST PRICE PER UNIT (R)	TOTAL (R)
20 July 2017	25	R510	R12 750
20 August 2017	30	R525	R15 750
20 September 2017	20	R540	R10 800
TOTAL	75		R39 300

Returns: Five defective helmets from the purchases in August 2017 were returned to suppliers for a full refund.

Sales: 85 helmets were sold at R600 each.

QUESTION 6: BUDGETS**(30 marks; 20 minutes)**

You are provided with information relating to Lamba Traders, a business owned by Larry Lamba. The business sells cleaning materials for cash and on credit. They deliver goods free of charge to local customers.

REQUIRED:

6.1 Explain the main purpose of a Cash Budget and a Projected Income Statement. (2)

6.2 **Debtors:**

Refer to Information A and Information B.

The credit terms allow debtors to settle accounts by the end of the month following the sales transaction month. No discount is allowed. However, based on past experience, Larry expects debtors to pay according to the Debtors' Collection Schedule.

6.2.1 Use the November figures to calculate the following:

- % of debtors that are expected to comply with the credit terms
- % of bad debts expected (9)

6.2.2 Larry does not believe that his debtors' control clerk, Shirley, deserves a bonus on 31 October 2017. Provide evidence to support his opinion. Offer Larry advice to improve debtors' collections (TWO points). (4)

6.3 **Projected Income Statement:**

Refer to Information C and Information D.

6.3.1 Calculate:

- The fixed % of sales used by Larry to budget for delivery expenses (2)
- The amount of the loan to be repaid on 31 December 2017 (4)

6.3.2 **Refer to variances in Information D.**

Explain why Larry would feel that all these variances are problems for his business. (9)

INFORMATION:**A. Debtors' Collection Schedule for the period ending 28 February 2018:**

	CREDIT SALES R	COLLECTIONS			
		NOV. 2017 R	DEC. 2017 R	JAN. 2018 R	FEB. 2018 R
September	112 000	16 800			
October	134 400	75 264	20 160		
November	224 000	56 000	125 440	33 600	
December	358 400		89 600	200 704	53 760
January	179 200			44 800	100 352
February	112 000				28 000
		148 064	235 200	279 104	182 112

B. The debtors' clerk presented the following age analysis at the end of October 2017:

TOTAL	CURRENT MONTH	1 MONTH	2 MONTHS	3 MONTHS +
100%	18%	40%	23%	19%

C. Extract from the Projected Income Statement:

	NOV. 2017	DEC. 2017	JAN. 2018	FEB. 2018
Interest on loan (rate 8,5% p.a.)	R2 975	R2 975	R2 465	R2 465

D. Figures provided by the accountant on 31 October 2017:

	PROJECTED	ACTUAL	VARIANCE
Total sales	320 000	290 000	-30 000
Cash sales	96 000	50 000	-46 000
Credit sales	224 000	240 000	+16 000
Advertising	5 000	1 000	-4 000
Packing material	4 800	4 800	0
Delivery expenses	12 800	12 500	-300

30

TOTAL: 300