basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING

2017

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and an 18-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 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. 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:**
Debtors' Reconciliation and Age Analysis	**Financial accounting** Reconcile Debtors' Control with debtors' list Age analysis **Managing resources** Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic:	**This question integrates:**
VAT and Inventory Valuation	**Financial accounting** VAT concepts and calculations **Managing resources** Stock valuation

QUESTION 3: 50 marks; 30 minutes	
Topic:	**This question integrates:**
Manufacturing	**Managerial accounting** Production Cost Statement and notes Interpretation

QUESTION 4: 70 marks; 40 minutes	
Topic:	**This question integrates:**
Income Statement and Fixed Assets	**Financial accounting** Concepts and Income Statement **Managing resources** Fixed asset management

QUESTION 5: 65 marks; 40 minutes	
Topic:	**This question integrates:**
Notes to Financial Statements, Cash Flow Statement and Interpretation	**Financial accounting** Concepts; Capital and Retained Income Notes; Cash flow calculations Interpretation of financial information

QUESTION 6: 45 marks; 25 minutes	
Topic:	**This question integrates:**
Budgeting	**Managerial accounting** Cash Budget: analyse and interpret **Managing resources** Internal control

QUESTION 1: DEBTORS' RECONCILIATION AND AGE ANALYSIS

(30 marks, 20 minutes)

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

1.1.1 The balance in the Debtors' Control Account should equal the total of the debtors' list.

1.1.2 Bad debts will be recorded in the Debtors' Allowances Journal.

1.1.3 A post-dated cheque received from a debtor must be recorded in the CRJ on the date received. (3 x 1) (3)

1.2 **MIZZY BOUTIQUE**

The Debtors' Control Account and debtors' list for February 2017 prepared by the bookkeeper contained errors/omissions.

REQUIRED:

Use the table provided to indicate corrections that must be made to the Debtors' Control Account and the debtors' list.

Provide figures and a plus (+) or minus (–) sign for each correction. (13)

INFORMATION:

A.

	Debtors' Control Account	Debtors' List
Balance/Total	R37 710	R39 490

B. Errors or omissions to be corrected:

(a) No entry was made for an invoice for R7 440 issued to G Gwen.

(b) A receipt for R9 400 issued to debtor B Crawley was recorded correctly in the relevant journal. It was posted incorrectly as R4 900 to his Debtors' Ledger Account.

(c) An invoice for R1 360 issued to A Naidoo was correctly recorded in the DJ. It was posted in error to the wrong side of her account in the Debtors' Ledger.

(d) A cheque for R1 350 received from D Zulu was recorded in the CRJ and posted to the Debtors' Control Account and Debtors' Ledger accordingly. D Zulu's account was previously written off.

(e) A credit note for R720 issued to W Wallace was recorded in the DAJ as R270 and posted as such.

(f) No entry was made for a dishonoured cheque of R1 750 on the February 2017 bank statement. This had originally been received from debtor J Taylor to settle his debt of R1 950.

1.3 **GLENDALE TRADERS**

The debtors' age analysis on 30 April 2017 is provided. Credit terms are 30 days.

REQUIRED:

1.3.1 Explain how a debtors' age analysis can assist with internal control over debtors. (2)

1.3.2 Calculate the percentage of total debts exceeding the credit terms. (4)

1.3.3 Explain ONE problem (with figures) relating to EACH of the following debtors:

- D Pillay
- W Patel (4)

1.3.4 Explain TWO problems (with figures) relating to debtor D Gouws. (4)

INFORMATION:

DEBTORS' AGE ANALYSIS ON 30 APRIL 2017:

	CREDIT LIMIT	**AMOUNT OWING**	**CURRENT MONTH**	**30 DAYS**	**60 DAYS**	**90 DAYS**
	R	R	R	R	R	R
D Pillay	10 000	11 800	1 980	9 820		
D Gouws	14 000	13 450	4 100	3 902	5 448	
Z Ngosi	2 800	2 550		2 550		
W Patel	14 000	11 192			9 112	2 080
P Peters	5 000	2 608	1 408	1 200		
		41 600	7 488	17 472	14 560	2 080
		100%	**?**	**?**	**?**	**?**

30

QUESTION 2: VAT AND INVENTORY VALUATION (40 marks; 25 minutes)

2.1 VAT

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

(a) VAT paid to a service provider for the purchase of goods is regarded as (input VAT/output VAT).

(b) A (debit/credit) balance in the VAT Control Account reflects the final amount payable to SARS.

(c) VAT on drawings of stock will (increase/decrease) the VAT payable to SARS.

(d) VAT will not be accounted for by the business on payment of (salaries/electricity). (4 x 1) (4)

2.1.2 Calculate the VAT amounts.

Make/Draw a cross (X) in the relevant column in the ANSWER BOOK to indicate whether it will increase or decrease the amount owed to SARS. All items are subject to 14% VAT.

No.	JOURNAL	DOCUMENT	VAT EXCLUSIVE AMOUNT	VAT INCLUSIVE AMOUNT
(a)	DAJ	Credit note issued	R1 600	R1 824
(b)	CRJ	Cash register tape	R8 700	
(c)	CJ	Invoice received		R10 374

(10)

2.2 INVENTORY VALUATION

You are provided with information relating to Tyres Galore for the 2017 financial year. The business sells one type of vehicle tyres. They use the periodic inventory system and the weighted average method to value stock.

REQUIRED:

2.2.1 Give a reason why the business uses the weighted average method to value the stock of tyres. (2)

2.2.2 Calculate the value of the closing stock on 28 February 2017. (10)

2.2.3 Calculate the following for the year ended 28 February 2017:

- Cost of sales (3)
- Gross profit (3)
- Average stock-holding period (in days) (5)

2.2.4 Should the owner be satisfied with the stock-holding period calculated above? Explain. Quote figures.

NOTE: The stock-holding period for 2016 was 70 days. (3)

INFORMATION:

A. Stock balances:

DATE	UNITS	TOTAL (including carriage)
1 March 2016	94	R27 650
28 February 2017	280	**?**

B. Purchases:

DATE	UNITS	COST PRICE PER UNIT (excluding carriage)	TOTAL
25 March 2016	375	R290	R108 750
19 June 2016	650	R320	R208 000
6 September 2016	1 120	R300	R336 000
10 February 2017	540	R310	R167 400
TOTAL	2 685		R820 150

C. Carriage on purchases:

On-Time Deliveries transport the tyres to the business at a fixed cost of R40 per tyre. This rate remained unchanged.

D. Returns:

79 of the tyres purchased on 6 September 2016 were returned. The supplier credited the business with the cost price per item. No refund was received for carriage on purchases of these returns.

E. Sales:

2 420 units at R400 each = R968 000

40

QUESTION 3: MANUFACTURING (50 marks; 30 minutes)

3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

3.1.1 The wages of factory cleaners are classified as (direct labour/ factory overhead) cost.

3.1.2 Factory rent is a (fixed/variable) cost.

3.1.3 Packing materials used are regarded as a/an (selling and distribution/ administration) cost.

3.1.4 Break-even point refers to the (minimum/maximum) number of units that must be produced and sold to cover all costs. (4 x 1) (4)

3.2 **INFINITY HATS**

The information relates to Infinity Hats, a business that manufactures one type of hat. The financial year ended on 28 February 2017.

REQUIRED:

3.2.1 Prepare the Factory Overhead Cost Note. (14)

3.2.2 Complete the Production Cost Statement for the year ended 28 February 2017. (10)

3.2.3 Infinity Hats are considering importing raw materials at a lower price than they are currently paying.

Provide TWO points they should consider before deciding. (4)

INFORMATION:

A. Extract from stock records on 28 February 2017:

	2017	**2016**
Work-in-process	R94 000	**R?**
Indirect factory materials	R8 750	R5 950

B. Transactions/Information for year ended 28 February 2017:

Raw materials issued for production	**R?**
Indirect materials purchased	36 000
Salaries and wages	2 900 000
Rent expense	291 000
Insurance	49 200
Telephone allocated to the administration section	28 800
Sundry factory expenses	189 856

C. 45% of salaries and wages are paid to employees who work directly in the production process and 10% must be allocated as the salary of the factory foreman.

D. Rent expense must be distributed according to floor space used. The factory occupies 2 400 m^2. Selling and distribution and the administration sections occupy the remaining 600 m^2.

E. The insurance premium has been paid up to 31 May 2017. Insurance is shared between factory, selling and distribution and the administration sections in the ratio 4 **:** 4 **:** 2.

F. 20% of the telephone expense must be allocated to the factory. The remaining amount is shared equally between selling and distribution and the administration sections.

G. 40 000 hats were produced during the financial year at a cost of R120 per hat.

3.3 **SANYATI BAKERY**

You are provided with information relating to Sanyati Bakery for the past two years.

The business produces doughnuts and cakes. The owner, Damon Barker, compared the net profit of the past two financial years and noticed that it had decreased by R730 700.

REQUIRED:

3.3.1 **Refer to Information B.**

Identify the production cost that caused the biggest problem in the:

- Doughnut factory
- Cake factory

Provide relevant figures. In EACH case, give Damon a solution to the problem. (6)

3.3.2 Provide workings to show that the break-even point of 158 298 units for the doughnuts in 2016 was correctly calculated. (3)

3.3.3 Explain why Damon should be concerned over the break-even point of doughnuts. Quote figures. (3)

3.3.4 Damon is concerned about the:

- Prices that the customers are willing to pay
- Demand for both products

Comment on these points in respect of EACH product. Quote figures. (6)

INFORMATION:

	DOUGHNUT FACTORY		**CAKE FACTORY**	
	2016	**2015**	**2016**	**2015**
A. Fixed costs	R372 000	R372 000	R206 000	R122 000
B. Variable costs per unit				
Direct materials	R4,50	R5,00	R22,50	R15,00
Direct labour	R3,20	R2,00	R10,60	R10,20
Selling and distribution	R1,95	R2,00	R9,80	R9,50
Total	R9,65	R9,00	R42,90	R34,70
C. Additional information				
Selling price of Sanyati Bakery (per unit)	R12,00	R14,00	R65,00	R50,00
Selling price of competitor (per unit)	R13,00	R12,50	R55,00	R67,00
Net profit	R192 000	R1 028 000	R191 800	R23 500
D. Units produced and sold	240 000	280 000	18 000	15 000
E. Break-even point	158 298	78 316	9 321	13 465

50

QUESTION 4: INCOME STATEMENT AND FIXED ASSETS (70 marks; 40 minutes)

4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK, for example 4.1.5 E.

COLUMN A	COLUMN B
4.1.1 Income Statement	A reflects the source of funds and how they were used
4.1.2 Balance Sheet	B reflects the opinion on the reliability of the financial statements
4.1.3 Cash Flow Statement	C reflects the financial position of a business on a particular date
4.1.4 Independent Audit Report	D reflects profit or loss for a financial period

(4 x 1) (4)

4.2 **MTOMBENI LTD**

The information relates to Mtombeni Limited for the financial year ended 28 February 2017.

REQUIRED:

4.2.1 **Refer to Information A and B and calculate:**

- Carrying value of the vehicle sold on 30 November 2016 (5)
- Total depreciation on equipment on 28 February 2017 (7)

4.2.2 Prepare the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017. (54)

INFORMATION:

Information extracted from the Pre-adjustment Trial Balance on 28 February 2017:

Balance Sheet Accounts Section	
Land and buildings	1 600 000
Vehicles	**?**
Equipment	250 000
Accumulated depreciation on equipment (01/03/2016)	85 000
Trading stock	386 500
Debtors' control	88 500
Provision for bad debts	3 650
Mortgage loan: Quick Bank	1 056 000
Nominal Accounts Section	
Sales	5 500 000
Cost of sales	3 150 000
Debtors' allowances	32 500
Directors' fees	380 000
Audit fees	54 000
Bad debts	13 600
Rent income	169 500
Interest on loan	**?**
Insurance	19 220
Salaries and wages	475 000
Bad debts recovered	4 750
Consumable stores	67 500
Bank charges	7 760
Sundry expenses	140 085
Interest income	**?**

Adjustments and additional information:

A. No entries were made for a vehicle sold on 30 November 2016 for R97 700 cash. Details of the vehicle:
- Cost price, R190 000
- Accumulated depreciation (1 March 2016), R72 000
- Depreciation rate: 20% p.a. on cost

B. Provide for depreciation as follows:
- On remaining vehicles – R138 000 for the financial year
- On equipment at 10% p.a. on the diminishing-balance method
  NOTE: New equipment costing R32 000 was purchased and recorded on 1 September 2016.

C. Goods sold on credit to debtor, J Gander, for R15 000 were not recorded. The mark-up is 60% on cost price.

D. A physical stocktaking on 28 February 2017 reflected trading stock of R374 000.

E. Consumable stores used during the financial year amounted to R61 700.

F. The account of debtor, L Maseko, must be written off as irrecoverable, R1 900.

G. Entries on the February 2017 Bank Statement not yet recorded in the books of the company:

- Bank charges, R870
- Debit order payment for the monthly insurance premium, R1 780

H. Provision for bad debts must be adjusted to R4 030.

I. Loan statement received reflected the following:

Balance: 1 March 2016	1 356 000
Interest	**?**
Repayment during the financial year	300 000
Balance: 28 February 2017	1 200 000

J. An employee, H Brooks, who commenced work on 1 February 2017, was omitted from the Salaries Journal. Details of his salary for February 2017 are:

GROSS SALARY	**DEDUCTIONS**			**CONTRIBUTIONS**	
	PAYE	**PENSION FUND**	**UIF**	**PENSION FUND**	**UIF**
13 500	2 190	1 080	135	1 620	135

NOTE: All contributions are recorded as part of salaries and wages.

K. The rent income was increased by R1 500 per month from 1 November 2016. The tenant has not paid the rent for February 2017 yet.

L. Interest income is the missing figure in the Income Statement.

M. Income tax is calculated at 28% of net profit.

N. Net profit after tax amounted to R864 000.

70

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QUESTION 5: NOTES TO FINANCIAL STATEMENTS, CASH FLOW STATEMENT AND INTERPRETATION (65 marks; 40 minutes)

5.1 Choose ONE word/term for each of the following descriptions from the list below. Write only the word/term next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

limited liability; net working capital; gearing; solvency; liquidity

5.1.1 The ability of the business to pay off its short term debts in the next financial year

5.1.2 The extent to which the company is financed by borrowed capital (loans)

5.1.3 The difference between current assets and current liabilities

5.1.4 Shareholders will not be required to use their personal possessions to settle the debts of the company (4 x 1) (4)

5.2 **MIKHA LTD**

You are provided with information relating to Mikha Ltd for the financial year ended 31 December 2016.

REQUIRED:

5.2.1 Prepare the following notes on 31 December 2016:

- Ordinary share capital (6)
- Retained income (9)

5.2.2 Complete the CASH EFFECTS OF OPERATING ACTIVITIES section of the Cash Flow Statement. Show workings. (9)

5.2.3 Calculate the following amounts that will appear in the Cash Flow Statement. State whether these are inflows or outflows.

- Change in fixed deposit (3)
- Proceeds on disposal of equipment (6)

5.2.4 Calculate the following financial indicators on 31 December 2016:

- Mark-up percentage on cost (4)
- Debt-equity ratio (4)
- Net asset value (in cents) (3)

5.2.5 The financial director was questioned about the decision to increase the loan. Explain what he should say to justify this decision. Quote TWO financial indicators (with figures). (6)

5.2.6 Ashraf, a new shareholder, bought 70 000 shares on 31 August 2016. He expected the company to distribute at least 80% of its earnings as it did in 2015.

- Ashraf is unhappy with the dividend pay-out policy for 2016. Provide a calculation to support his opinion. (3)
- Explain TWO points to support the company's decision regarding dividends for 2016. (4)

5.2.7 Comment on the re-purchase price paid for the 40 000 shares on 30 December 2016. Provide TWO financial indicators (with figures) in your comment. (4)

INFORMATION:

A. Extract from Income Statement (Statement of Comprehensive Income) for the year ended 31 December 2016:

Sales	R6 090 000
Gross profit	1 890 000
Interest expense (all paid)	100 000
Depreciation	360 400
Net profit before tax	1 150 000
Income tax	322 000

B. Extract from Balance Sheet (Statement of Financial Position) on 31 December 2016:

	2016	2015
Ordinary share capital	R4 752 000	R4 200 000
Retained income	637 000	276 000
Fixed assets (carrying value)	5 828 000	4 905 800
Fixed deposits	200 000	500 000
Loan: Sharks Bank	1 000 000	600 000
Cash and cash equivalents	126 400	2 000
Bank overdraft	-	85 600
SARS: Income tax	3 600 (Dr)	9 200 (Cr)
Shareholders for dividends	175 000	270 000

C. Share capital:

- The company is registered with an authorised share capital of 800 000 ordinary shares.
- On 1 January 2016, there were 600 000 ordinary shares in issue.
- On 31 August 2016, a further 100 000 shares were issued.
- On 30 December 2016, the company repurchased 40 000 shares from a disgruntled shareholder at R1,30 above the average share price of R7,20. This shareholder qualified for final dividends.

D. Dividends:

- Interim dividends were paid on 30 June 2016.
- A final dividend of 25 cents per share was declared on 31 December 2016.

E. Fixed assets:

- R1 495 000 was paid for extensions to buildings.
- Old equipment was sold for cash at carrying value.

F. Financial indicators on 31 December 2016:

	2016	2015
Debt-equity ratio	**?**	0,1 : 1
Earnings per share	131 cents	122 cents
Dividends per share	65 cents	100 cents
Dividend pay-out rate	**?**	81,9%
Return on average shareholder's equity (ROSHE)	16,8%	16,3%
Return on average total capital employed (ROTCE)	21,8%	21,3%
Net asset value (NAV)	**?**	746 cents
Interest rate on loans	12,5%	12%
Market price of shares (JSE)	848 cents	836 cents

65

QUESTION 6: BUDGETING **(45 marks; 25 minutes)**

You are provided with information relating to XYZ Furnishers owned by Piet Morake.

REQUIRED:

6.1 On 30 April 2017 Piet identified the figures below. Comment on the control of EACH item and give ONE point of advice in each case.

	APRIL 2017	
	BUDGETED	**ACTUAL**
Telephone	1 000	3 800
Staff training	2 500	800

(4)

6.2 **Refer to Information C.**

Identify TWO items incorrectly entered in the Cash Budget. (2)

6.3 Complete the Creditors' Payment Schedule for June 2017. (9)

6.4 Identify/Calculate the missing figures **(i)** to **(vii)** in the Cash Budget. (21)

6.5 Piet wants to save on costs by not offering a free delivery service. Is this a good idea? Explain. (3)

6.6 Piet has to replace his old equipment in July 2017 but does not have the cash available. The cost of new equipment amounts to R180 000. The new items are expected to last 5 years. Options are:

- Raise a new loan of R180 000 at an interest rate of 15% p.a. to be repaid over 24 months.
- Hire (lease) the assets from Computer Solutions at R6 250 per month.
- Ask a friend to become an equal partner by providing capital of R180 000.

Explain ONE advantage and ONE disadvantage of EACH option. (6)

INFORMATION:

A. Sales, purchases of stock and cost of sales:

- Total sales:

Actual	March	R120 000
	April	R135 000
Projected	May	R150 000
	June	R180 000

- 40% of sales are cash, the rest is on credit.
- The mark-up is 50% on cost.
- Stock is replaced on a monthly basis.
- 20% of purchases are cash; the rest is on credit.

B. Creditors' payment:

It is expected that creditors will be paid as follows:

- 75% are paid in the month of purchases to receive a 5% discount.
- 15% are paid in the month after purchases.
- 10% are paid in the second month after purchases.

C. Delivery expenses:

Piet pays Fast Deliveries to deliver goods to customers free of charge. He budgets a fixed percentage of monthly sales for this expense.

D. Salaries and wages:

Employees receive an increase of 7,5% from 1 June 2017.

E. Loan:

Part of the loan will be repaid on 1 June 2017. Interest of 15% p.a. is paid monthly and is not capitalised.

F. Extract from Cash Budget for May and June 2017:

RECEIPTS	MAY	JUNE
Cash sales	60 000	**(i)**
Collections from debtors	78 300	89 550
Commission income		
Rent income	7 500	7 750
PAYMENTS		
Cash purchase of stock	**(ii)**	
Payments to creditors	74 200	
Delivery expenses of goods to customers	9 000	**(iii)**
Salaries and wages	**(iv)**	38 700
Stationery		
Telephone	1 000	1 000
Office furniture bought on credit	40 000	0
Training of staff	2 500	2 500
Advertising	1 500	1 800
Depreciation	12 500	12 500
Loan repayment		**(v)**
Interest on loan	2 100	1 500
Sundry expenses	3 300	3 400
Cash drawings by owner		
Vehicle expenses	0	800

G. After finalising the budget, the following was identified:

	MAY	JUNE
Cash deficit for the month	(19 450)	**(vii)**
Cash at beginning of month		35 500
Cash at end of month	**(vi)**	(7 300)

45

TOTAL: 300