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SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING

2019

MARKS: 300

TIME: 3 hours

This question paper consists of 18 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 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: 35 marks; 20 minutes	
Topic:	This integrates:
VAT and reconciliation	Financial accounting VAT concepts and calculations Bank reconciliation Managing resources Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic:	This integrates:
Inventory valuation	Managing resources Specific identification Weighted average Internal control

QUESTION 3: 40 marks; 25 minutes	
Topic:	This integrates:
Manufacturing	Managerial accounting Production Cost Statement Interpretation Managing resources Internal control

QUESTION 4: 80 marks; 45 minutes	
Topic:	This integrates:
Audit report and company financial statements	Financial accounting Concepts, Income Statement and notes Managing resources Audit report Fixed asset management

QUESTION 5: 75 marks; 45 minutes	
Topic:	This integrates:
Cash flow and interpretation	Financial accounting Concepts, Retained Income Note, Cash flow calculations Interpretation of financial information

QUESTION 6: 30 marks; 20 minutes	
Topic:	This integrates:
Budgeting	Managerial accounting Cash Budget: analyse and interpret Managing resources Internal control

QUESTION 1: VAT AND RECONCILIATION**(35 marks; 20 minutes)****1.1 CONCEPTS****REQUIRED:**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

- 1.1.1 Output VAT is collected by a business when goods are sold.
- 1.1.2 The calculation of salaries does not take VAT into account.
- 1.1.3 A credit balance on the Bank Statement indicates an unfavourable balance.
- 1.1.4 Recording bank charges separately from interest on an overdraft is an application of the materiality concept. (4 x 1) (4)

1.2 VALUE-ADDED TAX (VAT)

The information relates to Longhill Traders for the VAT period ended 30 April 2019. The VAT rate of 15% applies to all goods and services.

REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 30 April 2019. Indicate whether the amount is receivable or payable. (11)

INFORMATION:

- A. Amount owed to SARS on 1 April 2019, R15 890
- B. VAT transactions for April 2019:

DETAILS	EXCLUDING VAT (R)	VAT AMOUNT (R)	INCLUDING VAT (R)
Returns by debtors		1 470	
Drawings by owner		3 075	
Debtors' accounts written off	8 700		10 005
Total purchases (cash and credit)	224 000		
Total sales			396 750

1.3 BANK RECONCILIATION

The following information relates to Thandeka Traders for May 2019.

REQUIRED:

- 1.3.1 Calculate the correct Bank Account balance on 31 May 2019. Indicate whether this is favourable or unfavourable. (9)
- 1.3.2 Prepare the Bank Reconciliation Statement on 31 May 2019. The bank statement balance is the missing figure. (7)
- 1.3.3 **Refer to Information B(iii).**
- State TWO internal control measures that the business can use to ensure that this will not happen in the future. (4)

INFORMATION:

- A.** Before the bank statement was received, the Bank Account showed a favourable balance of R19 400 on 31 May 2019.
- B.** Extract from the Bank Reconciliation Statement on 30 April 2019:

Outstanding deposit (dated 23 April 2019):	R31 560
Outstanding payments:	
Cheque 654 (dated 23 November 2018)	R2 350
EFT (electronic funds transfer)	R15 400
Cheque 705 (dated 30 June 2019)	R9 450

NOTE:

- (i) Cheque 654 does not appear in the May Bank Statement.
- (ii) The EFT payment of R15 400 appears in the May Bank Statement.
- (iii) The outstanding deposit of R31 560 does not appear in the May Bank Statement. An investigation shows that this is cash paid by a debtor and has never been deposited. The amount must be written off.
- C.** The following items must also be taken into account:
- (i) Items appearing in the May Bank Statement but not in the journals:
- Bank charges, R1 060
 - A deposit of R4 500 made by another business. The bank will correct this error in June 2019.
 - Interest on favourable balance, R313
- (ii) Items appearing in the journals but not in the May Bank Statement:
- A deposit of R21 343 made on 31 May 2019
 - Cheque 797 (dated 15 June 2019), R14 350
- (iii) An EFT payment appeared correctly in the Bank Statement as R5 678. The Cash Journal shows this EFT as R6 578.

QUESTION 2: INVENTORY VALUATION**(40 marks; 25 minutes)****2.1 CONCEPTS**

Choose the correct term from those given in brackets. Write only the term next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

- 2.1.1 The most recent purchases will be considered as closing stock in the (FIFO/weighted-average) stock valuation method.
- 2.1.2 Merchandise purchased is recorded in a Trading Stock Account in the (perpetual/periodic) inventory system.
- 2.1.3 Carriage on purchases is recorded as an (asset/expense) in the periodic inventory system. (3 x 1) (3)

2.2 PHOTO-FIX TRADERS

The information relates to Photo-fix Traders for the financial year ended 30 April 2019. The business is owned by Tom Samuels and sells two models of cameras (Grand and De-Lux) and photo frames.

- The stock of cameras is valued using the specific identification method.
- Photo frames are valued using the weighted average method.

REQUIRED:

- 2.2.1 Calculate the value of closing stock of **cameras** on 30 April 2019. (9)
- 2.2.2 Calculate the value of closing stock of **photo frames**. (8)
- 2.2.3 The owner suspects that **photo frames** are being stolen. Provide a calculation to confirm his suspicions. (5)
- 2.2.4 Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of **photo frames**. Explain why this is NOT a good idea. Provide TWO points with figures/calculations. (6)

INFORMATION:

The following information is in respect of the year ended 30 April 2019:

A. CAMERAS: STOCK, BOUGHT AND SOLD

	BOUGHT			UNITS SOLD
	UNITS	UNIT COST	TOTAL	
GRAND MODEL				
Opening stock	20	R5 500	R110 000	14
Purchases	240	R5 750	R1 380 000	170
DE-LUX MODEL				
Net purchases:	270		R1 104 000	235
September 2018	180	R4 000	R720 000	140
Returns	(30)	R4 000	(R120 000)	
January 2019	120	R4 200	R504 000	95

B. PHOTO FRAMES: STOCK, BOUGHT AND SOLD

	UNITS	AMOUNTS
Opening stock	60	R7 200
Purchases	720	R108 000
Returns	30	R4 500
Closing stock	80	?
Sales	657	

2.3 MANAGEMENT OF INVENTORIES

The information relates to Lyle Furnishers for the financial year ended 28 February 2019. The business sells cupboards, tables and chairs. No stock went missing during the year.

REQUIRED:

Provide ONE different problem (with figures) relating to EACH product and ONE solution to EACH problem.

(9)

INFORMATION:

	CUPBOARDS	TABLES	CHAIRS
Opening stock (units)	200	160	1 300
Purchases (units)	2 500	3 050	6 000
Selling price per unit	R1 750	R850	R350
Credit sales (units)	800	2 400	2 100
Returns by customers (units)	(500)	(10)	0
Cash sales (units)	1 000	600	2 250
Closing stock (units)	400	200	2 950
Cash received from cash sales	R1 750 000	R470 000	R787 500

QUESTION 3: MANUFACTURING**(40 marks; 25 minutes)**

3.1 Choose the correct term from those given in brackets. Write only the term next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

3.1.1 Wages paid to the factory cleaner is considered to be (direct/indirect) labour.

3.1.2 Bad debts must be shown as a (selling and distribution/factory overhead) cost.

3.1.3 Rent paid for the factory building is regarded as a (fixed/variable) cost.

3.1.4 Carriage on purchases of raw materials is regarded as a/an (direct material/indirect material) cost. (4)

3.2 ZINZI MANUFACTURERS

Information is provided for the financial year ended 31 December 2018. The business manufactures leather jackets according to orders received. There is no work-in-progress stock.

REQUIRED:**3.2.1 Raw material stock:**

Calculate:

- The value of the closing stock using the first-in-first-out stock valuation method (5)
- The direct material cost (4)

3.2.2 Refer to Information C.

Calculate the correct factory overhead cost for the year. (8)

3.2.3 The owner is concerned about the increase in the following:

- Total fixed cost per unit
- Direct labour cost per unit

Provide evidence (figures) to justify his concern. In each case, also give a possible reason for the increase in EACH unit cost, apart from normal inflation. (6)

3.2.4 Break-even:

- Calculate the break-even point on 31 December 2018. (4)
- Explain whether or not there was any improvement in the trends of the level of production and the break-even point from one year to the next. Quote figures. (4)
- The owner cannot understand why he is making a better profit this year. Explain how this happened. Provide TWO points. Quote figures. (5)

INFORMATION:**A. Raw material:**

Stock balance:	Metres	Cost per metre	Total amount
1 January 2018	920	R65	R59 800
31 December 2018	1 195	?	?

B. Purchases for the year:

Date	Metres	Cost per metre	Total amount
February 2018	5 200	R75	R390 000
May 2018	2 480	R80	R198 400
September 2018	930	R90	R83 700
TOTAL	8 610		R672 100

C. Factory Overhead Costs:

The bookkeeper calculated the factory overhead cost at R84 330. He did not take into account the following expenses:

Insurance	R31 200
Rent expense	R114 000
Water and electricity for the administration section	R7 110

- 60% of the insurance relates to the factory.
- The rent must be allocated between the factory, sales and administration in the ratio 5 : 2 : 1.
- 15% of the water and electricity expense relate to the office. 50% must be allocated to the factory.

D.

	2018		2017 PER UNIT
	TOTAL AMOUNT	PER UNIT	
Fixed costs:	R264 000	R44	R36
Factory overheads			R26
Administration			R10
Variable costs:		R165	R150
Direct materials			R94
Direct labour	R330 000	R50	R38
Selling and distribution			R18

E. Additional information:

	2018	2017
Number of jackets produced and sold	6 000 units	7 560 units
Break-even point	?	3 888 units
Selling price per jacket	R300	R220
Inflation rate	5%	

QUESTION 4: AUDIT REPORT AND COMPANY FINANCIAL STATEMENTS
(80 marks; 45 minutes)

- 4.1 Choose a term in COLUMN B that matches an explanation in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Reflects the financial position of the business on a specific date	A	Audit report
4.1.2	Shows whether the business made a profit or loss	B	Cash Flow Statement
4.1.3	Provides details about the movement of money with regard to operating, investing and financing activities	C	Balance Sheet
		D	Income Statement
4.1.4	Provides an unbiased opinion on the reliability of the financial statements of a business	E	Directors' report

(4 x 1) (4)

4.2 **AUDIT REPORT**

Extract from the audit opinion of Everest Ltd for the financial year ended 30 April 2018:

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 April 2018 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2008 (Act 71 of 2008).

Kego and Murray Associates
Chartered accountants (SA)

31 July 2018

REQUIRED:

- 4.2.1 Choose the correct word from those given in brackets. Give ONE reason.
Everest Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (3)
- 4.2.2 Give ONE reason why the Companies Act requires public companies to be audited by an independent auditor. (2)
- 4.2.3 Newspaper reports have indicated that Kego and Murray Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Everest Ltd. State TWO points. (4)

4.3 MVVS LTD

The information relates to the financial year ended 31 March 2019.

REQUIRED:

4.3.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 31 March 2019. (53)

4.3.2 Complete the following notes to the Balance Sheet:

- Fixed/Tangible Asset Note (8)
- Ordinary share capital (6)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balances on 31 March:

	2019	2018
	R	R
Ordinary share capital	9 300 000	4 800 000
Mortgage loan: Sapphire Bank	1 430 200	1 658 000
Land and buildings	12 500 000	12 500 000
Vehicles	1 377 000	750 000
Equipment	?	398 000
Accumulated depreciation on vehicles	?	475 000
Accumulated depreciation on equipment	?	117 500
Provision for bad debts	?	30 100
Trading stock	364 200	
Debtors' control	578 000	
Sales	10 563 280	
Cost of sales	6 236 000	
Rent income	99 500	
Directors' fees	1 262 100	
Water and electricity	218 000	
Telephone	75 600	
Audit fees	104 000	
Sundry expenses	61 001	
Salaries and wages	1 280 000	
Employer's contributions (medical, pension and UIF)	316 000	
Bad debts	22 300	
Consumable stores	53 200	
Interest income	?	
Insurance	79 500	
Depreciation (on equipment sold)	1 750	
Interest on loan	?	
Bad debts recovered	6 000	
Ordinary share dividends (interim)	375 000	

Adjustments and additional information:

- A.** A credit invoice for R36 720 (after deducting a 10% trade discount) issued on 31 March 2019, was not recorded. Goods are marked up at 70% on cost.
- B.** The physical stock count on 31 March 2019 revealed the following on hand:
- Trading stock, R334 500
 - Consumable stores, R3 400
- C.** Debtor S Magnum was declared insolvent. His estate paid R2 000, which was 20% of his debt. The difference must be written off as a bad debt.
- D.** R1 800 was received from a debtor, J Misting, whose debt had previously been written off. The bookkeeper incorrectly credited the amount to the Debtors' Control Account. Correct the error.
- E.** Adjust the provision for bad debts to R28 500.
- F.** Insurance includes an annual premium of R51 000 paid for the period 1 January 2019 to 31 December 2019.
- G.** An employee was left out of the Salaries Journal for March 2019. The following details are applicable:
- Net salary of the employee, R9 100
 - The deductions by the employer totalled 30% of the gross salary
 - Employer's contributions were R2 200
- H.** Interest on loan is capitalised. A fixed monthly repayment (including interest) of R25 400 was paid for the financial year.
- I.** Fixed assets and depreciation:
- (i) Vehicles:
- Details for the three vehicles are as follows:

	Cost price	Accumulated depreciation 31 March 2018	Date purchased
1	R350 000	R315 000	1 October 2013
2	R400 000	R160 000	1 April 2016
3	R627 000		30 November 2018

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:

- Equipment was sold for R9 600 cash on 31 August 2018. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

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

K. Income tax is calculated at 28% of the net profit. The net profit before tax was R691 000.

L. Shares and dividends:

- The company has an authorised share capital of 8 000 000 shares.
- The company had 1 200 000 shares in issue on 1 April 2018.
- 150 000 shares were repurchased on 30 November 2018. EFT payments totalling R825 000 were made for these shares.
- 850 000 additional shares were issued on 30 September 2018.

QUESTION 5: CASH FLOW AND INTERPRETATION**(75 marks; 45 minutes)**

- 5.1 Choose a term from the list below that answers the specific following questions. Write only the term next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

gearing; return on equity; solvency; liquidity; profitability

- 5.1.1 Is the business able to pay off all its debts?
- 5.1.2 Can the business pay off short-term debts in the next financial year?
- 5.1.3 Will shareholders be satisfied with the benefit that they receive for investing in the company?
- 5.1.4 To what extent is the company financed by loans or borrowed capital? (4)

5.2 **KULFI LTD**

Information for the financial year ended 28 February 2019 is provided.

Where financial indicators are required to support your answer, quote the financial indicator and actual figure/ratio/percentage and trends.

REQUIRED:

- 5.2.1 Prepare the Retained Income Note to the Balance Sheet. (12)
- 5.2.2 Calculate the following amounts for the Cash Flow Statement. Show workings.
- Income tax paid (4)
 - Dividends paid (4)
- 5.2.3 Complete the following sections of the Cash Flow Statement:
- Cash effects of investing activities (9)
 - Net change in cash and cash equivalents (4)
- 5.2.4 Calculate the following financial indicators on 28 February 2019:
- Acid-test ratio (4)
 - Debt-equity ratio (4)
 - % return on average shareholders' equity (ROSHE) (5)
- 5.2.5 The shareholders are satisfied with the improvement in the liquidity position. Quote THREE financial indicators (with figures) to support this statement. (6)

- 5.2.6 The company increased the share capital by R840 000, and the loan by R550 000.
- Explain how this affected the gearing and risk of the company. Quote TWO financial indicators. (5)
 - Explain what the directors have done with this cash inflow. State TWO points. (4)
- 5.2.7 The directors decided to decrease the dividend pay-out percentage.
- Provide calculations to show the change in the pay-out rate. (4)
 - Give ONE reason why many shareholders were satisfied with the change in policy. Quote figures. (2)
- 5.2.8 On 1 March 2018 Martha owned 475 000 shares in the company. She did not purchase any shares from the shares issued on 1 May 2018.
- Explain how the repurchase of the shares benefited Martha's shareholding. Quote figures. (4)

INFORMATION:**A. Share capital:**

- There were 900 000 ordinary shares in issue on 1 March 2018.
- An additional 100 000 ordinary shares were issued on 1 May 2018.
- On 1 October 2018 the company repurchased 60 000 shares at R9,00 per share. The average share price at the time was R8,04.

B. Dividends:

- Interim dividends of 25 cents per share were paid on 15 September 2018.
- Final dividends were declared on 28 February 2019.

C. Extract from Income Statement for the year ended 28 February 2019:

	R
Depreciation	123 600
Interest expense	143 000
Income tax (at 30% of the net profit)	293 100

D. Extract from Balance Sheet on 28 February 2019:

	2019	2018
	R	R
Fixed assets (carrying value)*	8 775 720	8 430 720
Fixed deposit: Flay Bank	150 000	100 000
Current assets	996 480	684 300
Inventories	448 000	281 000
Trade and other receivables (Note 1)	288 300	378 300
Cash and cash equivalents	260 180	25 000
Shareholders' equity	?	7 341 500
Ordinary share capital	7 557 600	7 200 000
Retained income	?	141 500
Loan: Home Bank	1 400 000	850 000
Current liabilities	553 600	923 520
Trade and other payables (Note 2)	553 600	781 000
Bank overdraft	0	142 520

* Old equipment was sold at carrying value, R111 800, for cash.

Note 1: Trade and other receivables:	2019	2018
Debtors' control	288 300	367 000
SARS: Income tax	0	11 300

Note 2: Trade and other payables:	2019	2018
Creditors' control	325 000	421 000
Shareholders for dividends	206 800	360 000
SARS: Income tax	21 800	0

E. The following financial indicators were calculated on 28 February:

	2019	2018
Current ratio	1,8 : 1	0,7 : 1
Acid-test ratio	?	0,4 : 1
Debtors' collection period	28 days	39 days
Creditors' payment period	60 days	60 days
Debt-equity ratio	?	0,1 : 1
Return on shareholders' equity (ROSHE)	?	10.2%
Return on total capital employed (ROTCE)	12,9%	14,4%
Earnings per share (EPS)	71 cents	83 cents
Dividends per share (DPS)	47 cents	80 cents
Net asset value per share (NAV)	837 cents	816 cents
Market value per share	840 cents	807 cents
Interest rate on loans	13,5%	13,5%

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

You are provided with information relating to Cimpiwe Clothing Shop.

REQUIRED:**6.1 Refer to Information A.**

Identify TWO items in the Cash Budget that will not appear in a Projected Income Statement. (2)

6.2 Calculate the missing amounts indicated by **(i)** to **(iii)** in the Cash Budget for June and July 2019. (7)

6.3 Calculate the total purchases for April 2019. (2)

6.4 Complete the Debtors' Collection Schedule for July 2019. (8)

6.5 Refer to Information F.

6.5.1 Comment on the following:

- Effect of the advertising on sales (3)
- Payment to creditors (2)

6.5.2 Sales strategy:

- Identify TWO strategies (except advertising) that the business used to achieve sales targets for May 2019. Quote figures. (4)
- Explain whether these were good strategies, or not. Provide ONE point with figures. (2)

INFORMATION:**A. Extract from the Cash Budget**

	JUNE 2019	JULY 2019
CASH RECEIPTS		
Cash sales	186 000	285 000
Cash from debtors	533 430	?
Rent income	(i)	9 180
Interest on fixed deposit	1 800	2 200
CASH PAYMENTS		
Salaries and wages	73 400	73 400
Fixed deposit: Protea Bank	0	(ii)
Cash purchases of trading stock	?	(iii)
Payment to creditors	192 000	?
Insurance	3 250	3 250
Drawings	21 600	21 600
Sundry expenses	96 360	98 700

B. Cash sales are 25% of total sales.

Collections from debtors:

- 30% in the month of sales less 5% discount
- 65% in the following month
- Provision is made for 5% bad debts.

C. Budgeted purchases of trading stock:

April	?
May	R484 000
June	R496 000
July	R760 000

- 40% of trading stock is bought on credit.
- Creditors are paid two months after the transaction month.

D. Rent increased by 8% in July 2019.**E.** The business has a fixed deposit of R360 000. An additional amount is budgeted to be invested on 1 July 2019. Interest (not capitalised) at 6% p.a. is receivable at the end of each month.**F.** Cimpiwe is concerned about the following items for May 2019:

	BUDGETED (R)	ACTUAL (R)	VARIANCE (R)
Cash sales	172 000	140 000	– 32 000
Credit sales	516 000	552 000	+ 36 000
Collection from debtors	475 000	380 000	– 95 000
Advertising	36 000	64 800	+ 28 800
Payments to creditors	180 000	105 000	– 75 000
Delivery expenses	0	19 000	– 19 000
Packing materials	3 000	2 500	– 500

30

TOTAL: 300