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GRADE 12

ACCOUNTING

NOVEMBER 2016

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.

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

QUESTION 1: 45 marks; 25 minutes	
Topic of the question:	This question integrates:
Manufacturing	Managerial accounting Concepts Production Cost Statement Break-even analysis Managing resources Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Reconciliation, Age Analysis and VAT	Financial accounting Debtors' reconciliation Debtors' age analysis VAT calculations Managing resources Internal control

QUESTION 3: 70 marks; 40 minutes	
Topic of the question:	This question integrates:
Audit report and Income Statement	Financial accounting Concepts Income Statement Audit report Managing resources Fixed assets

QUESTION 4: 75 marks; 45 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Concepts Cash Flow Statement Interpretation of financial information Managing resources Internal control

QUESTION 5: 30 marks; 20 minutes	
Topic of the question:	This question integrates:
Inventories	Managerial accounting Inventory valuation Managing resources Internal control

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Budgeting	Managerial accounting Cash Budget Calculations

QUESTION 1: MANUFACTURING**(45 marks; 25 minutes)****1.1 CONCEPTS**

Give ONE cost category for each of the following descriptions by choosing a cost category from the list below. Write only the cost category next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

direct material cost; direct labour cost; factory overhead cost;
administration cost; selling and distribution cost

1.1.1 Salaries paid to office workers

1.1.2 Cost of raw materials used in the production process

1.1.3 Commission paid to salespersons

1.1.4 Rent paid for factory buildings (4 x 1) (4)

1.2 GUGU MANUFACTURERS

You are provided with information relating to Gugu Manufacturers for the year ended 29 February 2016. The business produces one style of handbag.

REQUIRED:

1.2.1 Calculate the:

- Direct labour cost (8)
- Direct material cost (6)

1.2.2 Prepare the Production Cost Statement. (8)

1.2.3 The owner is concerned about the production level in 2016.

- Calculate the break-even point for 2016. (5)
- Explain whether the owner should be concerned or not. Provide figures. (3)

1.2.4 The owner is not satisfied with the internal control of the raw material.

Calculate the following regarding the raw material (fabric):

- Metres of fabric stolen from the storeroom (5)
- Metres of fabric wasted in the factory (4)

Provide a strategy to improve the internal control in EACH case above. (2)

INFORMATION:**A. Workers involved in the manufacturing process:**

NO. OF WORKERS	WAGE	EARNINGS PER WORKER	
5	Basic (normal wage)	R40 per hour	1 920 hours
	Overtime	Basic rate + 75%	90 hours
NOTE: Deductions: 8,5% of basic wage Employer's contribution: 11,5% of basic wage			

B. Raw material (fabric):

Raw material purchased is kept in a storeroom before being issued to the factory for production. Stock is valued according to the weighted-average method.

Storeroom stock records:

	METRES	TOTAL AMOUNT (R)
Balance on 1 March 2015	1 350	131 500
Purchases:	5 400	584 000
May 2015	2 500	265 000
September 2015	2 900	319 000
Raw material issued to factory	5 500	?
Stock balance on 29 February 2016	940	?

C. There is no work-in-process stock.**D. Other costs for the financial year (after all the adjustments):**

Factory overhead cost	Fixed cost	R343 340
Administration cost	Fixed cost	R226 660
Selling and distribution cost	Variable cost	R217 340

E. Additional information on 29 February 2016:

- 4 200 handbags were produced and sold at R450 each.
- Total sales amounted to R1 890 000.
- Total variable cost per unit was R300.
- 1,25 metres of fabric was used to make one handbag.

QUESTION 2: RECONCILIATION, AGE ANALYSIS AND VAT**(40 marks; 25 minutes)**

2.1 Simply Traders sell goods for cash and on credit.

REQUIRED:

2.1.1 Simply Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case. (4)

2.1.2 **Refer to Information A, B and C.**

Calculate:

- The correct closing balance of the Debtors' Control Account on 31 October 2016 (6)
- The correct amounts owing by debtors:
 - J Ramsay (D2)
 - W Smith (D3)
 - C Prince (D5) (12)

2.1.3 **Refer to Information D.**

- Calculate the percentage of debtors complying with the credit terms. (4)
- Explain TWO measures to improve collection from debtors. (4)

INFORMATION:

A. Balance of the Debtors' Control Account on 31 October 2016, R179 500 (before adjustments).

B. Debtors' list on 31 October 2016:

DEBTORS	FOLIO	AMOUNT
M Coley	D1	R60 200
J Ramsay	D2	37 500
W Smith	D3	19 500
D Cummings	D4	42 000
C Prince	D5	3 900
TOTAL		R163 100

C. The following errors and omissions must be taken into account:

- (a) An invoice for R2 500 issued to W Smith was not recorded in the books of Simply Traders.
- (b) The total of the Debtors' Allowances Journal was posted to the Debtors' Control Account as R20 100 instead of R21 000.

- (c) An invoice for R4 300 issued to C Prince was posted incorrectly to the account of J Ramsay.
- (d) Stock for R5 100 sold to C Prince was treated as a return of goods when posting it to the Debtors' Ledger Account of C Prince.
- (e) A cheque for R8 350, originally received from J Ramsay in settlement of debt of R8 500, was returned by the bank, marked R/D. No entries were made in the Debtors' Ledger.
- (f) An invoice for R3 600 issued to W Smith was recorded correctly in the Debtors' Journal, but posted as R6 300 to his account in the Debtors' Ledger.
- (g) The total for discount allowed in the CRJ was overstated by R500.

D. Debtors' age analysis on 30 September 2016:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
201 200	35 300	23 300	76 700	65 900

The credit period is 60 days.

2.2 VALUE-ADDED TAX (VAT)

The information below relates to Creamline Traders for their two-month VAT period ended on 31 August 2016. All items are subject to 14% VAT.

REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016. Indicate whether the amount is receivable or payable. (You may complete a VAT Control Account.)

(10)

INFORMATION:

A. Amount owed to SARS for July 2016, R14 250.

B. Details in respect of VAT for August 2016:

DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
Merchandise purchased/Expenses paid	R198 000		R225 720
Goods taken by owner for personal use		R2 940	
Returns by debtors		R1 120	
Debtors' accounts written off	R9 500		
Total sales			R332 880

QUESTION 3: AUDIT REPORT AND INCOME STATEMENT (70 marks; 40 minutes)**3.1 CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

cash and cash equivalents; current asset; non-current asset; income;
net working capital; expense; current liability; non-current liability

- 3.1.1 Interest on a bank overdraft is a/an ...
- 3.1.2 Consumable stores on hand are a/an ...
- 3.1.3 The portion of a loan to be paid during the next financial year is regarded as a/an ... in the Balance Sheet.
- 3.1.4 The difference between current assets and current liabilities is known as ... (4 x 1) (4)

3.2 AUDIT REPORT

You are provided with an extract from the audit report of Fralezi Ltd.

REQUIRED:

- 3.2.1 To whom is the audit report addressed? (1)
- 3.2.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting? (1)
- 3.2.3 Choose the correct word from those in brackets. Write the answer next to the question number (3.2.3) and explain your choice.
Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (2)
- 3.2.4 Explain why the independent auditors referred to pages 11–29 in the report. (2)

INFORMATION:

We have examined the financial statements set out on pages 11–29.

In our opinion, the annual financial statements present fairly, in all material respects:

- The financial position of Fralezi Ltd on 30 June
- The cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and as required by the Companies Act of South Africa

Roux and Pieterse
Chartered Accountants (CA)
Registered Accountants and Auditors
Schilbach Street, Parys

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3.3 INCOME STATEMENT

You are provided with information relating to Fralezi Ltd for the financial year ended 30 June 2016.

REQUIRED:

Complete the Income Statement for the financial year.

(60)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2016:

	R
Balance Sheet Accounts	
Mortgage loan: Parys Bank	333 200
Bank (favourable)	482 000
Debtors' control	116 500
Trading stock	209 500
Provision for bad debts	3 732
Nominal Accounts	
Sales (less allowances)	4 777 300
Cost of sales	?
Directors' fees	375 000
Salaries and wages	365 540
Sundry expenses	?
Depreciation	124 260
Audit fees	23 000
Repairs	100 000
Rent income	101 900
Interest income	?
Bad debts recovered	10 540
Packing material	13 600
Advertising	20 596
Loss of computer due to theft	9 300
Ordinary share dividends	200 000

Adjustments and additional information:

- A.** A credit note for R35 700 issued to a debtor, dated 27 June 2016, was not recorded. The cost price of these goods was R21 000. The goods were placed back into stock.
- B.** The business prices its goods at a mark-up of 70% on cost. Trade discount of R297 200 was allowed on invoices to certain customers.
- C.** Adjust the provision for bad debts of debtors to 4%.

- D.** Stock counts on 30 June 2016 revealed the following on hand:
- Trading stock, R225 500
 - Packing material, R3 700
- E.** External auditors are owed a further R7 250.
- F.** Interest on the loan is capitalised and has not been recorded yet. The loan statement from Parys Bank on 30 June 2016 reflected a closing balance of R372 920.
- G.** Corrections must be made in respect of a computer that was stolen on 31 March 2016.

The bookkeeper completed the following page in the Fixed Assets Register, using the incorrect method of depreciation:

SUNCREST COMPUTER	COST	DEPRECIATION	BOOK VALUE
1 July 2014	R42 000		R42 000
30 June 2015		R8 400	R33 600
31 March 2016		R6 300	R27 300
Insurance pay-out	R18 000		
Loss of computer due to theft	R9 300		

Depreciation on this asset should have been calculated at 20% p.a. on the diminishing-balanced method.

- H.** The monthly rent did not change during the year. During April 2016 the tenant paid R6 000 for repairs to the premises. He deducted this from his rent for May 2016, as repairs are the responsibility of the company. The repairs were not recorded. The rent for July 2016 was received and deposited during June 2016.
- I.** Advertising consists of a monthly contract with the local newspaper for the entire financial year. Advertising was paid for 11 months only. From 1 April 2016, the contract rate was decreased by R152 per month.
- J.** Net profit after tax is R504 000.

Use the following percentages to calculate certain missing figures:

- Operating profit on sales: 15%
- Income tax rate: 28% of net profit

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION**(75 marks; 45 minutes)**

- 4.1 Choose a term from COLUMN B that matches the description 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	Ability of the business to pay off all its debts	A	gearing
4.1.2	Ability of the business to pay off its short-term debts	B	return on equity
4.1.3	The benefit that shareholders receive for investing in the company	C	solvency
4.1.4	The extent to which a company is financed by loans	D	liquidity

(4 x 1)

(4)

4.2 **REID LTD**

You are provided with information relating to Reid Ltd for the financial year ended 30 June 2016.

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

REQUIRED:

- 4.2.1 Prepare the following notes to the Balance Sheet:

- Ordinary share capital (7)
- Retained income (9)

- 4.2.2 Calculate the following amounts for the Cash Flow Statement:

- Change in loan (2)
- Income tax paid (4)

- 4.2.3 Complete the extract from the Cash Flow Statement for cash and cash equivalents. (4)

- 4.2.4 Calculate the following financial indicators on 30 June 2016:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- % return on average shareholder's equity (ROSHE) (5)
- Net asset value per share (NAV) (3)

4.2.5 The liquidity of the company has improved. Quote THREE financial indicators to support this statement. (6)

4.2.6 Dividend policy:

- Provide calculations to show the change in the dividend pay-out policy. (4)
- Explain why the directors decided to change the policy. State ONE point with figures. (2)

4.2.7 Mary is the CEO of the company. Her shareholding is as follows:

NUMBER OF SHARES	DATE PURCHASED	% SHAREHOLDING
420 000	10 January 2015	46,7%

- (a) Calculate Mary's % shareholding on 1 October 2015 after the repurchase of shares. (4)
- (b) Explain how Mary has benefitted from the decision to repurchase the shares. (2)
- (c) The independent auditor discovered that Mary had made the decision to repurchase the shares without informing the board of directors.

Why should the independent auditor be concerned about this? (2)

4.2.8 The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.

- Name TWO major sources of funding for these fixed assets with figures (over R1 000 000 each). (4)
- State for EACH source whether it was a good or bad decision. Explain your choice. Quote relevant financial indicators/figures to support your opinion. (6)

INFORMATION:

A. Share capital and dividends:

- 900 000 shares were in issue on 1 July 2015.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10,70 per share on 1 October 2015.
- The company issued 125 000 ordinary shares at R10,80 per share on 1 April 2016.
- The 2016 Cash Flow Statement reflected dividends paid of R434 250.

B. Extract from Income Statement for the year ended 30 June 2016:

	R
Sales	5 220 000
Cost of sales	3 600 000
Operating profit	1 295 000
Income tax	190 500
Net profit after tax	444 500

C. Extract from Balance Sheet on 30 June:

	2016	2015
	R	R
Fixed assets (carrying value)	17 420 950	14 683 300
Fixed deposit: Ken Bank	250 000	380 000
Current assets	1 015 000	456 000
Inventories (only trading stock)	564 000	281 500
Trade and other receivables (debtors)	246 000	167 000
Cash and cash equivalents	205 000	7 500
Shareholders' equity	10 050 750	9 540 000
Ordinary share capital	?	9 180 000
Retained income	?	360 000
Loan: Barbie Bank	8 000 000	4 500 000
Current liabilities	635 200	1 479 300
Trade and other payables	420 000	683 400
Shareholders for dividends	209 000	162 000
SARS: Income tax	6 200	23 400
Bank overdraft	-	610 500

D. The following financial indicators were calculated on 30 June:

	2016	2015
Current ratio	1,6 : 1	0,3 : 1
Acid-test ratio	?	0,1 : 1
Stock turnover rate	8,5 times	10 times
Debtors' collection period	36 days	43 days
Creditors' payment period	63 days	63 days
Solvency ratio	2,2 : 1	2,6 : 1
Debt-equity ratio	?	0,5 : 1
Return on total capital employed (ROTCE)	8,2%	9,5%
Return on shareholders' equity (ROSHE)	?	6,2%
Earnings per share (EPS)	51 cents	58 cents
Dividends per share (DPS)	55 cents	35 cents
Net asset value per share (NAV)	?	1 060 cents
Market price	1 000 cents	1 030 cents
Interest rate on loans	12%	12%

QUESTION 5: INVENTORIES**(30 marks; 20 minutes)****5.1 INVENTORY VALUATION**

Matrix Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

REQUIRED:

5.1.1 Explain the following valuation methods:

- FIFO (2)
- Specific identification (2)

5.1.2 Calculate the cost price per laptop on hand on 1 October 2015. (2)

5.1.3 Calculate the value of the closing stock on 30 September 2016. (9)

INFORMATION:

The following information is in respect of the year ended 30 September 2016:

A. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2015	Lexus	118	?	R413 000

B. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
Dec. 2015	Granite	410	R3 750	R1 537 500
Mar. 2016	Vision	630	R4 650	R2 929 500
RETURNS:				
Mar. 2016	Vision	20	R4 650	(R93 000)
Net purchases				R4 374 000

C. Sales for the year:

MODEL	UNITS	AMOUNT
Lexus	118	R598 850
Granite	356	R2 229 375
Vision	502	R4 247 775
		R7 076 000

5.2 MANAGEMENT OF INVENTORIES

You are provided with information from the books of Kyle's Office Equipment for the year ended 29 February 2016. The business sells office desks, chairs and printers.

Kyle took certain decisions at the beginning of the 2016 financial year.

REQUIRED:

Provide relevant figures for ALL the questions below.

5.2.1 Desks:

- What decision did Kyle take regarding the selling price of the desks? (2)
- How has this decision affected the business? State TWO points. (4)

5.2.2 Chairs:

Was it a good idea for Kyle to change to a cheaper supplier of chairs? Explain TWO points. (5)

5.2.3 Printers:

Kyle significantly reduced the selling price of printers in the 2016 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to Kyle to improve the profit on printers in 2017. (4)

INFORMATION:

	DESKS		CHAIRS		PRINTERS	
	2016	2015	2016	2015	2016	2015
Orders received from customers	300	370	770	730	925	615
Gross units sold	300	365	770	730	725	615
Returns by customers	0	5	90	0	15	15
Selling price	R2 520	R1 920	R490	R714	R975	R1 326
Cost price	R1 400	R1 200	R350	R510	R780	R780
Mark-up %	80%	60%	40%	40%	25%	70%
Gross profit	R336 000	R259 200	R95 200	R148 920	R138 450	R327 600
Stock turnover rate	6,0	7,2	4,0	4,0	11,8	10,0

QUESTION 6: BUDGETING**(40 marks; 25 minutes)**

You are provided with information relating to Mayhem (Pty) Ltd.

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

6.1.1 Identify TWO items that the bookkeeper recorded incorrectly in the Cash Budget. (2)

6.1.2 Identify TWO items in the Cash Budget that would NOT appear in a Projected Income Statement. (2)

6.2 Complete the Debtors' Collection Schedule for October 2016. (9)

6.3 Calculate the missing amounts indicated by **(a)** to **(d)** in the Cash Budget. (18)

6.4 The directors compared the budgeted figures to the actual figures for September 2016.

	BUDGETED	ACTUAL
Sales	R288 000	R489 600
Salaries: Salespersons	R40 000	R12 000
Commission: Salespersons	R0	R66 150
Packing material	R14 400	R17 280

6.4.1 The directors changed the method of payment to the salespersons. Explain how this has benefitted the salespersons and the business. Quote figures. (4)

6.4.2 The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations. (5)

INFORMATION:**A. Projected Income Statement:**

Information extracted for the three months ended 31 October 2016:

	AUGUST	SEPTEMBER	OCTOBER
	R	R	R
Sales	252 000	288 000	?
Cost of sales	?	(160 000)	?
Rent income	?	?	12 960
Discount received	3 600	4 000	?
Depreciation	5 400	5 400	5 400
Bad debts	2 800	3 350	?
Interest on loan	6 875	6 875	?

B. Sales:

- Sales are expected to increase by 15% in October 2016.
- Credit sales comprise 60% of total sales.
- The mark-up percentage is 80% on cost.

C. Debtors' collection:

- 50% is collected in the month of sale.
- 40% is collected in the month following the month of sale.
- 7% is collected two months after the sale.
- 3% is written off as irrecoverable.

D. Purchases:

- All purchases of stock are on credit.
- Stock is replaced in the month of sale. A base stock is maintained.
- Creditors are paid two months after purchase, subject to a 4% discount.

E. Directors' fees:

- The business had three directors earning the same monthly fee.
- On 30 September 2016 one of the directors resigned.
- The remaining directors will receive an increase of 35% in their monthly fee from 1 October 2016.

F. Loan:

- The loan was reduced by R52 800 on 30 September 2016.
- Interest at 12,5% p.a. is payable every month and is not capitalised.

G. Extract from the Cash Budget prepared by the bookkeeper:

	SEPTEMBER 2016	OCTOBER 2016
	R	R
RECEIPTS		
Cash sales	(a)	132 480
Cash from debtors	155 280	?
Rent income	12 000	12 960
Discount received	3 600	5 600
Fixed deposit	56 000	0
PAYMENTS		
Payments to creditors	156 000	(b)
Directors' fees	216 000	(c)
Salaries of salespersons	40 000	40 000
Repayment of loan	52 800	0
Interest on loan	6 875	(d)
Delivery expenses	27 500	27 500
Audit fees	60 000	0
Bad debts	3 200	3 600
Depreciation	17 400	17 400